



healthcare financial management association

## HFMA 2022-2023 AUDITED CONSOLIDATED FINANCIAL REPORT

### **A Note from HFMA's CFO**

After several years of unique challenges and uncertainty, FY2022-23 was a year of reestablishing our foundation, focusing on our core, and setting the path for the future.

Thanks to the support and commitment of our members, HFMA achieved monumental milestones during the FY2022-23 Fiscal year. Growth in our membership community soared and surpassed a record-breaking count of 100,000 HFMA members! Our Annual Conference in Denver set new performance records and reignited the excitement and importance of coming together to learn, exchange ideas and establish lasting relationships.

As we embark on a new fiscal year and the next chapter of HFMA's legacy, we look to not only lead the financial management of healthcare, but to bring value to the industry through innovative and transformative solutions. We look to you, our members, to be the driving force of change. In the words of our 2023-2024 Board Chair, Dennis Dahlen, "It's time to be biased towards action."

A handwritten signature in black ink, appearing to read "Steve S. Saldivar".

STEVE S. SALDIVAR, CPA  
*VP, Chief Financial Officer*

# **Healthcare Financial Management Association and Affiliates**

Consolidated Financial Report  
May 31, 2023

## Contents

---

Independent auditor's report	1-2
<hr/>	
Financial statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of cash flows	5
Notes to consolidated financial statements	6-18

---



RSM US LLP

## Independent Auditor's Report

Board of Directors  
Healthcare Financial Management Association

### Opinion

We have audited the consolidated financial statements of Healthcare Financial Management Association and Affiliates (the Association), which comprise the consolidated statements of financial position as of May 31, 2023 and 2022, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Association as of May 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Emphasis of Matter

As described in Note 1 to the financial statements, in fiscal year 2023, the Association adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases, (Topic 842)*. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*RSM US LLP*

Chicago, Illinois  
September 1, 2023

Healthcare Financial Management Association and Affiliates

Consolidated Statements of Financial Position  
May 31, 2023 and 2022

	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,465,835	\$ 7,371,319
Accounts receivable, less allowances for doubtful accounts of \$743,278 in 2023; \$627,866 in 2022	4,816,931	3,945,295
Prepaid expenses and other assets	2,283,086	2,292,178
<b>Total current assets</b>	<b>14,565,852</b>	<b>13,608,792</b>
Investments	32,113,328	32,272,595
Investments held for deferred compensation	692,764	1,200,564
Operating lease right-of-use asset, net	1,289,343	-
Furniture, equipment and software, net	1,836,960	1,551,082
Chapter-restricted funds	79,099	83,565
<b>Total assets</b>	<b>\$ 50,577,346</b>	<b>\$ 48,716,598</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,668,299	\$ 3,135,042
Deferred membership dues	7,466,657	7,845,566
Deferred registration, subscription and other revenue	10,504,091	7,645,688
Current portion of operating lease liability	138,686	-
<b>Total current liabilities</b>	<b>20,777,733</b>	<b>18,626,296</b>
Deferred lease obligation	-	35,765
Operating lease liability, less current portion	1,278,313	-
Deferred compensation liability	692,764	1,200,564
<b>Total liabilities</b>	<b>22,748,810</b>	<b>19,862,625</b>
Net assets without donor restrictions	27,825,649	28,851,168
Board-designated funds	2,887	2,805
<b>Total net assets without donor restrictions</b>	<b>27,828,536</b>	<b>28,853,973</b>
<b>Total liabilities and net assets</b>	<b>\$ 50,577,346</b>	<b>\$ 48,716,598</b>

See notes to consolidated financial statements.

**Healthcare Financial Management Association and Affiliates**

**Consolidated Statements of Activities  
Years Ended May 31, 2023 and 2022**

	2023	2022
Revenue:		
Membership dues and related revenue	\$ 12,551,263	\$ 11,549,080
<i>hfm</i> magazine	1,824,095	2,644,507
Annual conference registrations, exhibits and fees	3,690,655	1,914,069
Sponsorship	6,137,037	5,260,973
Benchmarking and metrics	1,653,755	1,726,125
Peer review	995,000	1,084,208
Education	125,117	128,669
Miscellaneous	324,320	412,900
Employee retention credit	-	516,843
Contributions	12,351	18,325
<b>Total revenue</b>	<b>27,313,593</b>	<b>25,255,699</b>
Expenses:		
Personnel and commissions	16,826,503	15,128,077
Professional services	2,401,955	2,429,677
Marketing	1,258,595	1,000,429
Travel and entertainment	2,205,571	1,455,029
Hotel and meeting costs	580,044	313,104
Information technology and equipment	1,742,782	1,355,640
Administrative and other	2,264,379	860,307
Occupancy	385,701	667,347
Tax expense	41,213	180,000
Depreciation and amortization	445,897	730,004
<b>Total expenses</b>	<b>28,152,640</b>	<b>24,119,614</b>
<b>Operating (loss) income</b>	<b>(839,047)</b>	<b>1,136,085</b>
Net investment loss	(186,390)	(1,812,381)
Gain on forgiveness of Paycheck Protection Program loan	-	1,901,680
<b>Change in net assets</b>	<b>(1,025,437)</b>	<b>1,225,384</b>
Net assets without donor restrictions, beginning of year	<b>28,853,973</b>	<b>27,628,589</b>
Net assets without donor restrictions, end of year	<b>\$ 27,828,536</b>	<b>\$ 28,853,973</b>

See notes to consolidated financial statements.

## Healthcare Financial Management Association and Affiliates

### Consolidated Statements of Cash Flows Years Ended May 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (1,025,437)	\$ 1,225,384
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	445,897	730,004
Provision for doubtful accounts	115,412	(53,677)
Decrease in deferred lease obligation	-	(123,589)
Net realized and unrealized loss on investments	931,946	2,366,834
Reduction in carrying amount of operating lease right-of-use asset	128,197	-
Cash paid for operating leases	(36,306)	-
Forgiveness of Paycheck Protection Program loan	-	(1,901,680)
Changes in assets and liabilities:		
Accounts receivable	(987,048)	(1,632,650)
Prepaid expenses and other assets	9,092	(1,217,199)
Accounts payable and accrued expenses	(466,743)	(165,403)
Deferred dues and other revenue	2,479,494	5,306,753
Deferred compensation liability	(507,800)	(45,266)
<b>Net cash provided by operating activities</b>	<b>1,086,704</b>	<b>4,489,511</b>
Cash flows from investing activities:		
Purchase of furniture, equipment and software	(1,272,413)	(884,356)
Proceeds from disposal of furniture, equipment and software	540,638	-
Proceeds from sale of investments	-	-
Purchase of investments	(772,679)	(594,328)
Proceeds from sale of investments held for deferred compensation	648,336	177,148
Purchase of investments held for deferred compensation	(140,536)	(131,882)
<b>Net cash used in investing activities</b>	<b>(996,654)</b>	<b>(1,433,418)</b>
<b>Increase in cash and cash equivalents and chapter-restricted funds</b>	<b>90,050</b>	<b>3,056,093</b>
Cash and cash equivalents and chapter-restricted funds:		
Beginning	7,454,884	4,398,791
Ending	<b>\$ 7,544,934</b>	<b>\$ 7,454,884</b>
Reconciliation of cash and cash equivalents and chapter-restricted funds:		
Cash and cash equivalents	\$ 7,465,835	\$ 7,371,319
Chapter-restricted funds	79,099	83,565
<b>Cash and cash equivalents and chapter-restricted funds</b>	<b>\$ 7,544,934</b>	<b>\$ 7,454,884</b>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 108,000	\$ 60,000
Supplemental disclosures of noncash activities:		
Additions to work In process included in accrued expenses	\$ -	\$ 255,600
Forgiveness of Paycheck Protection Program loan	\$ -	\$ 1,901,680

See notes to consolidated financial statements.



## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Organization and Significant Accounting Policies

Healthcare Financial Management Association (HFMA) is an association of health care financial management professionals with approximately 102,700 members. HFMA's operations include membership activities, meetings, publications and benchmarking and metrics. Operating support is derived primarily from membership dues, publication fees, meetings and benchmarking and metrics fees. HFMA is affiliated with Healthcare Financial Management Association Educational Foundation (the Foundation), a nonprofit entity, through common membership of their respective Boards of Directors and shared senior management. The Foundation provides cost-effective and accessible ways for health care financial management professionals to increase their professional knowledge through educational programs. Support for the Foundation is derived primarily from the annual conference, other live educational events, both virtual and in-person and investment income. HFMA Learning Solutions, Inc. (LSI), a wholly owned subsidiary of HFMA, is a for-profit corporation, which provides information on health care issues.

A summary of significant accounting policies follows.

**Principles of consolidation:** The consolidated financial statements include the accounts and operations of HFMA, the Foundation, and LSI (collectively, the Association). Intercompany accounts and transactions are eliminated upon consolidation.

**Basis of presentation:** The consolidated financial statements have been prepared in accordance with accounting principles applicable to nonprofit organizations. For financial reporting purposes, the Association classifies its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions are reported as net assets without donor restrictions. Contributions are considered to be without donor restrictions and available for general use unless specifically restricted by the donor.

**Net assets with donor restrictions:** Net assets that are subject to donor-imposed restrictions are reported as net assets with donor restrictions.

All of the Association's net assets as of both May 31, 2023 and 2022, are considered to be without donor restrictions. Board-designated funds are to be utilized at the Board's discretion to honor and recognize past volunteer leaders.

**Accounting policies:** The Association follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial condition, results of activities and cash flows. References to accounting principles generally accepted in the United States of America in these disclosures are to the Accounting Standards Codification (ASC).

**Use of estimates:** The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash and cash equivalents:** Cash equivalents include highly liquid investments with an original maturity of three months or less when purchased. The Association maintains its cash balances in bank and money market accounts, which may exceed federally insured limits from time-to-time. The Association has not experienced any losses in such accounts and management believes the Association is not exposed to any significant credit risk related to cash.

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Accounts receivable:** Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

**Prepaid expenses and other assets:** Prepaid expenses and other assets mainly consist of payments made by the Association for programming events to be held in future periods, as well as payments related to rent and other items with service periods that will occur in the future. These items are expensed when the related event takes place or when the related service period commences.

**Investments:** Investments held by the Association are stated at fair value based on quoted market prices. Interest and dividends, as well as realized and unrealized gains and losses on investments, are included in the statements of activities and reported as net investment gain (loss). Net investment gain (loss) is presented net of any related investment fees.

The Association invests in equity, fixed income, convertible securities and absolute return funds. These investments are exposed to various risks, such as interest rate, market and credit risks. Because of these risks, it is possible that changes in the fair value of investments may occur and that such changes could materially affect the Association's consolidated financial statements.

**Furniture, equipment and software:** Furniture, equipment and software are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable furniture and equipment.

Amortization of leasehold improvements is computed on a straight-line basis over the shorter of the estimated useful life of the improvement or the term of the lease.

Software development costs incurred subsequent to the determination of technological feasibility and marketability of a software product are capitalized. Capitalization of costs ceases and amortization of capitalized software development costs commences when the products are available for general release. Capitalized software costs are amortized on a straight-line basis over five to seven-year useful lives.

Website development costs incurred in the planning stage of development are expensed as incurred. Costs incurred in the application and infrastructure stage, which involve developing software to operate the website, are capitalized. Capitalization of costs ceases and amortization of capitalized website development costs commences when the website becomes functional. Capitalized website costs are amortized on a straight-line basis over a five-year useful life.

Expenditures for maintenance and repairs are charged directly to expense; renewals and betterments which significantly extend the related useful lives are capitalized. Costs and accumulated depreciation and amortization on assets retired or disposed of are removed from the accounts and the resulting gain or loss, if any, is reflected in the statements of activities.

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Paycheck Protection Program loan payable:** The Association applied for and received a loan from the Paycheck Protection Program, a loan program administered through the Small Business Administration, in conjunction with the Coronavirus Aid, Relief, and Economy Security Act (CARES Act) in fiscal year 2021. The Association received notification of full forgiveness of the loan in March 2022. Revenue was recognized in the gain on forgiveness of Paycheck Protection Plan loan line, within the other changes in net assets section, of the consolidated statement of activities for fiscal year 2022 and the related liability was removed.

**Leases:** Prior to June 1, 2022, the Association followed the lease accounting guidance in FASB Accounting Standards Codification (ASC) Topic 840. Effective June 1, 2022, the Association follows the lease accounting guidance in FASB ASC Topic 842. The Association determines if an arrangement is a lease at inception of the contract. Under Topic 842, a lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Association's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the Association has the right to obtain substantially all of the economic benefits of the assets and has the ability to direct how and for what purpose the assets are used during the lease term.

Leases are classified as either operating or finance. The Association currently has only operating leases. For operating leases, the Association recognizes a lease liability equal to the present value of the remaining lease payments, and a right-of-use (ROU) asset equal to the lease liability, subject to certain adjustments, such as for prepaid rents and other lease incentives. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Association will exercise such option. When the rate implicit in the lease is not readily determinable, the Association has made a policy election to use a risk-free rate, based on the United States Treasury rates, to determine the present value of the lease payments for all classes of assets.

The Association defines a short-term lease as any lease arrangement with an original lease term of twelve months or less that does not include an option to purchase the underlying asset. The Association has made a policy election to not recognize ROU assets and lease liabilities for short-term leases. As a result, short-term lease payments are recognized as expense on a straight-line basis over the lease term, and variable lease payments are recognized in the period in which the obligation is incurred.

For lease arrangements with lease and non-lease components, the Association has made a policy election to account for lease and non-lease components, separately, for all classes of assets.

Certain of the Association's leases also include variable lease costs. These variable payments typically represent additional rental charges, such as utilities and other building operational costs and these are recorded as an expense in the period incurred. The Association's lease agreements do not contain any residual value guarantees or restrictive covenants.

**Revenue:** Revenue from contracts with customers is derived primarily from membership dues and fees, publications, educational programming and benchmarking and metrics fees.

Membership options for the Association include traditional individual memberships, as well as "Enterprise Solution" corporate memberships. This second membership option is available to provider organizations, physician practices and business partners. These organizations are able to partner with the Association to offer membership services to their employees.

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The Association's membership periods are concurrent with each members' individual membership anniversary date. Membership dues and related rebates to chapters, for both types of memberships, are billed at the beginning of the individual membership period and are recognized ratably over that membership period to which they apply. Member benefits are typically provided evenly over the term of the membership. Membership grants access to various benefits including: the ability to earn certain credentials, subscriptions to certain publications, access to members-only content and reduced fees for the Association's continuing educational programs and e-learning offerings, including the Annual Conference. Dues received in advance of the related membership period are deferred. Historically, the Association participated in a membership rebate program with their local chapters. The chapter rebate program was discontinued during fiscal year 2022 and re-purposed to a new initiative allowing the Association and local chapters to work together on aligning goals and initiatives across all chapters and regions.

Publication revenue is recognized as revenue when publications are shipped and subscription revenue is recognized over the term of the subscription. Amounts received in advance of the shipment date or for future periods are deferred. Publication and subscriptions are invoiced in the month of publication.

Fees for educational programs, including the Annual Conference, and related sponsorships are recognized as revenue when the programs are conducted. Program fees are typically invoiced prior to the start of the program.

Benchmarking and metrics revenue, as well as peer review revenue, are recognized in accordance with the related contract (over time). Funds received in advance of services provided or events held are deferred until the related service period commences or the related event takes place. Benchmarking and metrics activity is typically invoiced in the month prior to the related service period.

The Association also received Employee Retention Credits under the CARES Act in fiscal year 2022. These payroll tax credits were issued in order to encourage organizations to retain employees on their payroll. The Employee Retention Credit is a fully refundable tax credit for employers, equal to 50-70% of qualified wages that eligible employers pay their employees. The related revenue, for fiscal year 2022, is included within the employee retention credit revenue line item on the related statements of activities. No such credits were received in fiscal year 2023.

The Association did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining contracts and no significant financing components. Payment terms for a majority of the Association's contracts are 30 days. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

**Functional allocation of expenses:** The costs of providing the various programs and other activities have been summarized by natural classification in the statements of activities and are presented in greater detail, including breakout by function, in Note 6. If an expense can be identified with a specific program or administrative function, it will be charged directly to that category. In some circumstances, an expense can be attributable to one or more programs or supporting services of the Association, which are allocated, based on department headcount.

**Chapter-restricted funds:** Chapter-restricted funds represent amounts held by the Foundation designated to be used for certain local HFMA chapters.

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Income taxes:** HFMA is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code (IRC), and the Foundation is exempt under Section 501(c)(3) of the IRC. HFMA is subject to taxes on unrelated business income (UBI), which is generally HFMA's advertising revenue. HFMA had approximately \$1,824,000 and \$2,645,000 in gross advertising revenue for the years ended May 31, 2023 and 2022, respectively. Income tax expense (refunds) associated with UBI are reflected within tax expense (benefit) on the consolidated statements of activities.

LSI is a taxable entity. This entity uses the asset and liability method to record income taxes. Accordingly, deferred tax assets and liabilities are recorded based on differences between the financial accounting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured based on the currently enacted tax rate expected to apply to taxable income in the year in which the deferred tax asset or liability is expected to be settled or realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

LSI had a net operating loss (NOL) carryforward of approximately \$436,700 and \$1,937,000 at May 31, 2023 and 2022, respectively. The NOL began to expire in fiscal year 2022, as it was not previously utilized. No deferred tax asset has been recognized, as management has established a full valuation allowance at both May 31, 2023 and 2022.

The Association follows the provisions of the Accounting for Uncertainty in Income Taxes section of the Income Taxes topic of the ASC, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Association and various positions related to the potential sources of UBI. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. This guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

As of May 31, 2023 and 2022, the Association has no liability for unrecognized tax benefits.

The Association and the Foundation file Forms 990 in the U.S. federal jurisdiction and the Foundation does so in the state of Illinois. LSI files tax returns in all appropriate jurisdictions, which include a federal and an Illinois tax return.

**Marketing costs and future meeting commitments:** HFMA expenses the production costs of marketing the general benefits of membership in HFMA, or purchasing products other than educational events, the first time the marketing takes place. Marketing expenses incurred to promote attendance at specific educational events, which include program content and registration materials, are considered direct-response marketing and are deferred until the date that the educational events take place. As of May 31, 2023 and 2022, deferred marketing expenses totaled approximately \$131,000 and \$85,000, respectively, and are included in prepaid expenses and other assets on the consolidated statements of financial position.

The Association contracts for future educational meetings in advance. Future meeting commitments as of May 31, 2023 are approximately \$12,000,000 consisting of contracted convention space, hotel accommodations and food and beverage. The Association is currently contracted through June of 2028 for its Annual Conference.

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Intercompany transactions:** The Association provides all management services to the Foundation for which it receives a management fee. The management fee expense was \$4,107,487 and \$4,025,000 for the years ended May 31, 2023 and 2022, respectively, and is eliminated upon consolidation.

**Adopted accounting pronouncement:** The FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in FASB ASC Topic 840, *Leases*, which is intended to increase transparency and comparability among organizations related to their leasing arrangements. The new lease standard, including all the related amendments subsequent to its issuance, supersedes the current guidance for lease accounting and requires lessees to recognize a ROU asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term for substantially all leases, as well as disclose key quantitative and qualitative information about leasing arrangements.

The Association adopted ASU 2016-02 on June 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior period financial statements. Under this transition provision, the Association has applied ASU 2016-02 to reporting periods beginning on June 1, 2022, while prior periods continue to be reported and disclosed in accordance with the legacy guidance under ASC Topic 840, *Leases*, (ASC 840). The adoption did not result in a cumulative-effect adjustment to the opening balance of net assets.

In addition to policy election choices, FASB ASC Topic 842 includes practical expedient choices. The Association elected the package of practical expedients available in the standard and as a result, did not reassess the lease classification of existing leases, whether a preexisting contract is deemed to be or to include a lease or the initial direct costs associated with existing leases. The Association did not elect the hindsight practical expedient, and so did not re-evaluate lease terms for existing leases and will measure the ROU asset and lease liability using the remaining portion of the lease term at adoption on June 1, 2022.

Adoption of the new lease standard resulted in the recording of an operating lease ROU asset of approximately \$1,417,000 and an operating lease liability of approximately \$1,433,000 as of June 1, 2022.

**Reclassification:** Certain fiscal year 2022 balances have been reclassified to conform to the current year presentation, without any effect on previously reported total net assets or total changes in net assets.

**Subsequent events:** Subsequent to year-end, the Association executed a Simple Agreement for Future Equity (SAFE agreement) with Vale Health, Inc. (Vale) to participate in the Vale Health platform. Pursuant to the SAFE agreement, the Association will invest \$500,000 in the platform and if there is a Consortium Financing event before the expiration or termination of this SAFE agreement, Vale, will automatically issue to the Association, a certain agreed upon number of shares, of Standard Preferred Stock.

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 2. Investments and Fair Value Disclosures

**Fair value measurements:** The Fair Value Measurements topic of the ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Fair Value Measurements topic as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the Fair Value Measurements topic are described below:

**Level 1:** Quoted market prices in active markets, such as the New York Stock Exchange, for identical assets or liabilities.

**Level 2:** Observable market-based inputs or unobservable inputs that are corroborated by market data.

**Level 3:** Unobservable inputs that are not corroborated by market data.

For the years ended May 31, 2023 and 2022, the application of valuation techniques applied to similar assets and liabilities has been consistent. In determining the appropriate levels, the Association performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurements topic. The Association's investments and investments held for deferred compensation are the only assets or liabilities that are measured at fair value on a recurring basis.

The following tables disclose the fair value hierarchy of the Association's investment assets, as well as investment assets held for deferred compensation, at fair value at May 31, 2023 and 2022. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	At May 31, 2023			
	Level 1	Level 2	Level 3	Total Fair Value
Association investments				
Equity mutual funds:				
International equity funds	\$ 4,161,952	\$ -	\$ -	\$ 4,161,952
Large-cap equity funds	9,168,810	-	-	9,168,810
Small-cap equity funds	3,123,214	-	-	3,123,214
Fixed-income mutual funds	15,659,352	-	-	15,659,352
	<u>32,113,328</u>	<u>-</u>	<u>-</u>	<u>32,113,328</u>
Investments held for deferred compensation				
Equity mutual funds	534,077	-	-	534,077
Fixed-income mutual funds	40,138	-	-	40,138
Fixed account	-	-	118,549	118,549
	<u>574,215</u>	<u>-</u>	<u>118,549</u>	<u>692,764</u>
	<u>\$ 32,687,543</u>	<u>\$ -</u>	<u>\$ 118,549</u>	<u>\$ 32,806,092</u>

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

#### Note 2. Investments and Fair Value Disclosures (Continued)

	At May 31, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
Association investments				
Equity mutual funds:				
International equity funds	\$ 4,280,280	\$ -	\$ -	\$ 4,280,280
Large-cap equity funds	8,912,453	-	-	8,912,453
Small-cap equity funds	3,305,220	-	-	3,305,220
Fixed-income mutual funds	15,774,642	-	-	15,774,642
	<u>32,272,595</u>	-	-	<u>32,272,595</u>
Investments held for deferred compensation				
Equity mutual funds	790,566	-	-	790,566
Fixed-income mutual funds	272,438	-	-	272,438
Fixed account	-	-	137,560	137,560
	<u>1,063,004</u>	-	<u>137,560</u>	<u>1,200,564</u>
	<u>\$ 33,335,599</u>	<u>\$ -</u>	<u>\$ 137,560</u>	<u>\$ 33,473,159</u>

**Fair value—association investments:** The Association's investments traded on national securities exchanges and are stated at the last reported sales price on the day of valuation and are, therefore, categorized as Level 1 in the fair value hierarchy.

**Fair value—investments held for deferred compensation:** The investments held for deferred compensation are valued as follows:

Investments in the equity and fixed income mutual funds, reflected as Level 1, are funds which are traded on national securities exchanges and are stated at the last reported sales price on the day of valuation.

Investments in the fixed account are valued by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. The account includes certain interest rate guarantees. Guarantees are valued based on the claims-paying ability of the issuer and not on the value of the securities in the insurer's general account. As this investment includes unobservable inputs, it is classified as Level 3 in the fair value hierarchy. There were no changes in these assets classified in Level 3 of the fair value hierarchy during the years ended May 31, 2023 and 2022 related to purchases, issues or other transfers.



## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 3. Furniture, Equipment and Software

Details of furniture, equipment and software at May 31, 2023 and 2022, are as follows:

	2023	2022
Furniture and equipment	\$ 195,309	\$ 2,282,842
Leasehold improvements	526,928	372,501
Software and website	3,328,632	2,846,309
Work in process	21,970	1,139,956
	<u>4,072,839</u>	<u>6,641,608</u>
Less accumulated depreciation and amortization	(2,235,879)	(5,090,526)
	<u>\$ 1,836,960</u>	<u>\$ 1,551,082</u>

The work in process amount above, for fiscal year 2022, related to leasehold improvements for the new office space and expenses incurred to develop software. The amortization of these costs began in fiscal year 2023; when the leasehold improvements were placed into service and when the software became available for general use.

During fiscal year 2023, approximately \$3,132,500, of gross furniture and equipment and website related costs that were fully depreciated were written off and removed from the accounting records of the Association.

#### Note 4. Line of Credit

The Association has a line of credit agreement. The lendable available credit is \$3,000,000 (reduced from \$5,000,000 at May 31, 2022). Interest is payable at a rate equal to the one month adjusted secured overnight financing rate (SOFR), plus 1.75%, totaling 6.93% at May 31, 2023. The Association drew \$500,000 on this note in March of 2023 and the draw was paid back, in full, before May 31, 2023. There was no outstanding balance at May 31, 2023. The agreement was renewed in November 2022 through November 2023.

#### Note 5. Leases

The Association has entered into contracts to lease real estate and various equipment. The Association's most significant lease is an office lease with an initial lease term expiring during fiscal year 2033. Certain leases include renewal or termination options. Under FASB ASC Topic 842, the lease term at the lease commencement date is determined based on the non-cancellable period for which the Association has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Association is reasonably certain to exercise that option, periods covered by an option to terminate the lease if the Association is reasonably certain not to exercise that option, and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor. The Association considered a number of factors when evaluating whether the options in its lease contracts were reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial lease term, importance of the lease to overall operations, costs to negotiate a new lease, and any contractual or economic penalties.

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 5. Leases (Continued)

FASB ASC Topic 842 includes a number of reassessment and re-measurement requirements for lessees based on certain triggering events or conditions, including whether a contract is or contains a lease, assessment of lease term and purchase options, measurement of lease payments, assessment of lease classification and assessment of the applicable discount rate. The Association reviewed the reassessment and re-measurement requirements and did not identify any events or conditions during fiscal year 2023, that required a reassessment or re-measurement. In addition, there were no impairment indicators identified during fiscal year 2023 that required an impairment test for the Association's ROU assets or other long-lived assets in accordance with ASC 360-10.

The components of lease expense and supplemental cash flow information related to leases for fiscal year 2023, are as follows:

	<u>2023</u>
Operating lease cost	\$ 240,059
Short-term lease cost	33,190
Variable lease cost	<u>32,773</u>
Total lease cost	<u>\$ 306,022</u>

Rent expense recognized in fiscal year 2022, under previous guidance, FASB ASC Topic 840, Leases, was approximately \$546,730.

Other lease-related information as of and for the fiscal year ended May 31, 2023, is as follows:

	<u>2023</u>
Cash paid for amounts included in the measurement of operating lease liabilities:	
Operating cash flows from operating lease	\$ 36,306
Remaining lease term on operating lease	9.9 years
Discount rate for operating lease	2.94%

As of May 31, 2023, maturities of the Association's lease liabilities are as follows:

Fiscal years ending May 31:	
2024	\$ 147,003
2025	150,813
2026	154,623
2027	158,433
2028	162,243
Thereafter	<u>852,964</u>
Total lease payments	1,626,079
Less imputed interest	<u>(209,080)</u>
Total lease obligations	<u>\$ 1,416,999</u>

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

#### Note 5. Leases (Continued)

As previously reported, as of May 31, 2022, the Association's future minimum lease commitments, under previous leasing guidance, FASB ASC Topic 840, Leases, were:

Years ending May 31:	
2024	\$ 147,003
2025	150,813
2026	154,623
2027	158,433
2028	-
Thereafter	1,015,206
	<u>\$ 1,626,078</u>

The Association also subleases office space in Washington, D.C. on a month-to-month basis. The lease agreement provides for monthly payments of base rent. The Association has elected to account for this lease as a short-term lease and therefore will not recognize a related ROU asset or lease liability related to this lease. Related lease payments are recognized as expense on a straight-line basis as they are incurred.

#### Note 6. Functional Expenses

The following tables set forth expenses, including tax expense, incurred by function of the Association for the years ended May 31, 2023 and 2022:

	2023						
	Program Services						
	Education Products, Services and Events	Publications	Membership	Benchmarking and Metrics/ Peer Review	Total	Management and General	Total
Personnel and commissions	\$ 6,079,801	\$ 1,123,480	\$ 2,445,230	\$ 658,752	\$ 10,307,263	\$ 6,519,240	\$ 16,826,503
Professional services	431,106	269,475	83,864	173,440	957,885	1,444,070	2,401,955
Marketing	201,328	516,335	469,513	42,833	1,230,009	28,586	1,258,595
Travel and entertainment	1,236,789	12,780	484,069	48,467	1,782,105	423,466	2,205,571
Hotel and meetings cost	528,519	2,145	7,798	2,582	541,044	39,000	580,044
Information technology and equipment	902,438	1,974	366,035	147,285	1,417,732	325,050	1,742,782
Administrative and other	104,946	65,751	136,219	4,311	311,227	1,953,152	2,264,379
Occupancy	152,220	32,047	105,296	18,312	307,875	77,826	385,701
Tax expense	-	41,213	-	-	41,213	-	41,213
Depreciation and amortization	125,223	33,714	110,774	94,310	364,021	81,876	445,897
Total expense by function	<u>\$ 9,762,370</u>	<u>\$ 2,098,914</u>	<u>\$ 4,208,798</u>	<u>\$ 1,190,292</u>	<u>\$ 17,260,374</u>	<u>\$ 10,892,266</u>	<u>\$ 28,152,640</u>
	2022						
	Program Services						
	Education Products, Services and Events	Publications	Membership	Benchmarking and Metrics/ Peer Review	Total	Management and General	Total
Personnel and commissions	\$ 5,759,028	\$ 1,099,298	\$ 2,087,709	\$ 432,366	\$ 9,378,401	\$ 5,749,676	\$ 15,128,077
Professional services	668,684	105,436	58,859	200,179	1,033,158	1,396,519	2,429,677
Marketing	126,994	418,603	410,107	29,081	984,785	15,644	1,000,429
Travel and entertainment	710,727	7,205	404,703	27,636	1,150,271	304,758	1,455,029
Hotel and meetings cost	263,530	3,151	25,876	2,547	295,104	18,000	313,104
Information technology and equipment	691,693	1,561	312,554	58,677	1,064,485	291,155	1,355,640
Administrative and other	79,312	7,494	42,314	492	129,612	730,695	860,307
Occupancy	284,084	54,752	172,077	15,643	526,556	140,791	667,347
Tax expense	-	180,000	-	-	180,000	-	180,000
Depreciation and amortization	253,068	68,133	214,134	19,467	554,802	175,202	730,004
Total expense by function	<u>\$ 8,837,120</u>	<u>\$ 1,945,633</u>	<u>\$ 3,728,333</u>	<u>\$ 786,088</u>	<u>\$ 15,297,174</u>	<u>\$ 8,822,440</u>	<u>\$ 24,119,614</u>

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 7. Employee Benefit Plans

The Association sponsors a defined contribution pension plan, which covers substantially all the Association's employees who complete one year of employment. Contributions are based upon a percentage of participants' earnings, less forfeitures. The Association's contributions for the years ended May 31, 2023 and 2022, were \$588,708 and \$523,240, respectively.

The Association also maintains multiple deferred compensation plans, all established under IRC Section 457, for certain key employees, which provide that a certain percentage of the key employees' salary be accrued for the benefit of the participants. The Association recorded expense of \$323,731 and \$231,417 for the years ended May 31, 2023 and 2022, respectively, for contributions to the plans on behalf of the key employees.

#### Note 8. Availability and Liquidity

The Association strives to maintain liquid financial assets sufficient to cover thirty days of general expenditures. Cash balances are reviewed on an ongoing basis and any excess funds are invested in short-term money market accounts.

The following table reflects the Association's financial assets as of May 31, 2023 and 2022, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statements of financial position dates due to contractual restrictions or internal board designations. In the event the need arises to utilize board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

	2023	2022
Cash and cash equivalents	\$ 7,465,835	\$ 7,371,319
Accounts receivable	4,816,931	3,945,295
Investments and investments held for deferred compensation	32,806,092	33,473,159
Chapter-restricted funds	79,099	83,565
Total financial assets	<u>45,167,957</u>	<u>44,873,338</u>
Investments held for deferred compensation	(692,764)	(1,200,564)
Board-designated funds	(2,887)	(2,805)
Chapter-restricted funds	(79,099)	(83,565)
	<u>(774,750)</u>	<u>(1,286,934)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 44,393,207</u>	<u>\$ 43,586,404</u>

## Healthcare Financial Management Association and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 9. Chapters of HFMA (Unaudited)

Chapters of HFMA may be established by charter subject to the approval of the Board of Directors of HFMA, pursuant to the provisions of the bylaws and regulations governing membership, organization, procedures and financial relations with HFMA. Should a chapter cease to function or its charter be revoked by HFMA, all funds and records held by the chapter become the property of HFMA. The financial position and the operations of these chapters are not included in HFMA's financial statements.

The most recent summary financial data of the chapters is as follows:

	As of and for the Years Ended May 31,	
	2023	2022
Number of chapters	62	63
Total assets, primarily cash	\$ 11,120,021	\$ 12,017,361
Total revenue	9,673,001	8,310,313
(Decrease) increase in net assets	(915,671)	20,456