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AUDIT & ACCOUNTING UPDATE

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ANNUAL HEALTHCARE INDUSTRY CONFERENCE
9.21.20

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TODAY'S PRESENTERS

Jamie Bova, CPA

Senior Audit Manager

Jamie provides accounting, audit and advisory services to many of the Firm's healthcare, governmental hospitals and not-for-profit organizations, as well as their employee benefit plans.

Jamie is a member of the Healthcare Financial Management Association (HFMA), the American Institute of Certified Public Accountants (AICPA) and the New York State Society of Certified Public Accountants (NYSSCPA).

Jamie is a graduate of the State University of New York at Buffalo and resides in Camillus, NY.

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Senior Audit Manager

Mary Katherine provides accounting, audit and advisory services to many of the Firm's healthcare and not-for-profit organizations, as well as their employee benefit plans.

Mary Katherine is a member of the LiteracyCNY Board. She is also a member of the Healthcare Financial Management Association (HFMA), the American Institute of Certified Public Accountants (AICPA) and the New York State Society of Certified Public Accountants (NYSSCPA).

Mary Katherine is a graduate of Iona College and resides in East Syracuse, NY.

AGENDA

1) CARES Act

2) Yellow Book Revisions

3) Select Accounting Standard Updates

4) Questions

CARES Act

- The Coronavirus Aid, Relief, and Economic Security Act (“the CARES Act”)

- Signed into law on March 27, 2020

- Authorizes more than $2 trillion to battle COVID-19 and its economic effects

FEDERAL ASSISTANCE FOR COVID-19 RESPONSE

COVID-19 Response

FEMA PUBLIC ASSISTANCE
For eligible governments, institutions or organizations for emergency protective measures related to COVID-19

HHS – PROVIDERS RELIEF FUND
Fixed allocation to eligible healthcare providers to offset of COVID-19 response/protective measures

HHS – CDC SUPPLEMENTAL
Supplemental appropriation to CDC to offset costs associated with testing, vaccine development and pandemic tracing costs

INTERIOR – TRIBES & TERRITORIES
Additional grant opportunities for tribal and insular areas, specifically to support increased management with planning associated with COVID-19

CORONAVIRUS RELIEF FUND
Fixed allocation to State and Local Governments for increased costs incurred preparing for, protecting against or treating COVID-19 virus

HUD CDBG-CV; ESG; HOPWA
Supplemental appropriation to HUD entitlement grantees, specifically housing support, and supporting homeless and AIDS populations

EDUCATION – ESSERF;HEERF
Supplemental appropriation to existing DOE grantees specifically to address increased cost burdens associated with COVID-19 response

TRANSPORTATION - FTA
Supplemental appropriation for FTA grantees to offset incurred costs associated with preparing for or protecting against spread of COVID-19

COVID-19 Funding – 4 Largest New Programs

Paycheck Protection Program (>$600B)	Provider Relief (>$175B)	Coronavirus Relief Fund ($150B)	Educational Stabilization Fund ($30.75B)
• CFDA: 59.073 • Agency: SBA • For profits, NFPs • **<u>NOT</u>** Subject to single audit	• CFDA: 93.498 • Agency: HHS • For Profits, NFPs, Governmental Entities • **<u>Subject to</u>** single audit and expected to be included in OMB's Fall addendum to the 2020 Compliance Supplement	• CFDA: 21.019 • Agency: Treasury • Governmental Entities and Tribes • **<u>Subject to</u>** single audit and expected to be included in OMB's Fall addendum to the 2020 Compliance Supplement	• CFDA: 84.425 • Agency: Education • States, Schools, IHE • **<u>Subject to</u>** single audit and expected to be included in OMB's Fall addendum to the 2020 Compliance Supplement

ACCOUNTING CONSIDERATIONS FOR PPP LOANS

U.S. GAAP does not contain specific guidance on accounting for government assistance.

The following authoritative guidance in U.S. GAAP should be considered:

- ASC 470, accounting for debt
- ASC 958-605 – contribution accounting by not-for-profit entities, which excludes from its scope transfers of assets from a government entity to business entities.

Accounting as debt under ASC 470, *Debt,* is appropriate as PPP loan is considered legal-form debt. However; NFPs may apply ASC 958-605, *Contributions*

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ACCOUNTING FOR PPP LOANS
DEBT ACCOUNTING

In accordance with ASC 405-20-40, a liability is derecognized only if either of the following is met:

- The debtor pays the creditor and is relieved of its obligation
- The debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor

PPP loan would only be derecognized upon repayment or upon the receipt of legal confirmation of forgiveness from SBA.

Forgiveness would be presented as a non-cash financing activity on the statement of cash flows.

Interest imputation under ASC 835-30-15-3(e) is not required, even if interest rate is below market.

ACCOUNTING FOR PPP LOANS
GOVERNMENT GRANT

Alternatively, for-profit business entities may choose to analogize to the accounting under IAS 20, *Accounting for Government Grants and Disclosures of Government Assistance.*

Analogy is **only acceptable if** the company (For-profit only) has:

- Demonstrated eligibility for the PPP loan
- Demonstrated that forgiveness is probable (75%-80% likely)
- For example, analogy might be acceptable when the loan meets the SBA's safe harbor (under $2 million)

Not-for-profit entities are prohibited from analogizing to IAS 20 and should apply the guidance in ASC 958-605.

Demonstrated eligibility for the PPP loan
Demonstrated that conditions for forgiveness have been substantially met

DISCLOSURE

Reporting entities should disclose the applicable accounting policy in the footnotes and where the loan/liabilities amounts are presented in the financial statements.

Other things to consider based on facts and circumstances:

- Uncertainties about forgiveness
- MD&A and liquidity disclosures should discuss intent and ability to repay the PPP loan
- If operations are only viable due to the receipt of the PPP loan, that fact should be disclosed.

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ACCOUNTING FOR PROVIDER RELIEF FUNDS - NFP

- ➢Relief Fund payments are approximately 6.2% of a provider's 2019 Medicare fee-for-service payments (not including Medicare Advantage)
- ➢Payments are only to "prevent, prepare for and respond to coronavirus." Further, "non-compliance with any term or condition is grounds for the Secretary to recoup some or all of the payment made from the Relief Fund." This funding may be considered conditional under ASC 958 as it can be interpreted to contain a barrier and a right of return in a non-exchange transaction.
  - Revenue should be recognized only to the extent conditions have been met (e.g. qualifying expenses incurred or lost revenues).

ACCOUNTING FOR PROVIDER RELIEF FUNDS - NFP

- CARES Act contains further stipulations on how funds may be spent in the terms and conditions.
    - Revenue may be considered restricted. The nature of the conditions and restrictions are similar, and restrictions may be satisfied simultaneously with meeting the conditions.
- PRF revenue should be reported on the financial statements as operating revenues, separate from an entity's net patient service revenue.
- Providers need to consider that PRF payments in aggregate cannot reimburse losses that have already been reimbursed or recovered from other sources.
- Amounts received in excess of a Providers COVID-19 needs should be recorded as a liability
- Subsequent events
- Single Audit Requirement

ACCOUNTING FOR MEDICARE ADVANCE PAYMENTS

- Advance payments must be repaid to CMS
- Amounts that must be repaid should be recorded as a contract liability under Topic 606 as a payment received prior to performing services and satisfying performance obligations
- Once recoupment begins, the contract liability would be reduced by the amount of revenue recognized for claims submitted

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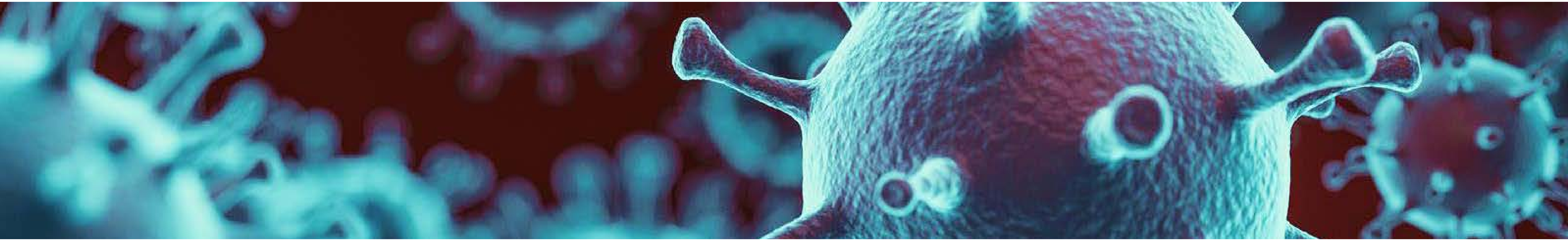
OTHER COVID-19 CONSIDERATIONS

- Deferred payroll taxes (current and long-term classification)
- Single Audit control environment
- Debt covenants, going concern, liquidity, and cash flow projection considerations



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YELLOW BOOK REVISIONS

- In New York State (NYS), Yellow Book audits are required based on grant contract; but typically required if an organization expends $750,000 or more in total annual payments from NYS.

- The 2018 Yellow Book Revision is effective for financial audits of financial statements for periods ending on or after June 30, 2020.

- Key changes from the 2011 Yellow Book include the following:
  - Format of the guidance
  - Requirements for auditors (such as independence, CPE, peer review requirements)
  - Introduces the concept of waste and abuse

DELAY OF EFFECTIVE DATES FOR CERTAIN ACCOUNTING STANDARDS

- FASB ASU 2020-05
  - Issued by the FASB in June 2020
  - Delays the effective dates for certain entities for the following significant accounting standards:
    - Revenue from Contracts with Customers (Topic 606)
    - Leases (Topic 842)
- GASB Statement No. 95
  - Issued by the GASB in May 2020
  - Delays the effective dates for several pronouncements, most significantly Statement No. 87 Leases

REVENUE RECOGNITION (TOPIC 606) RELEVANT UPDATES

- Not-for-profit entities may (but are not required to) delay adoption of Topic 606 by one year, to fiscal years beginning after December 15, 2019.
- Most healthcare entities have adopted this standard with no significant changes to the operating indicator.
- On September 2, 2020 CMS released the 2021 Inpatient Prospective Payment Service (IPPS) final rule Regarding FASB Topic 606. CMS revised its initial proposal to specify that for cost reporting periods beginning before October 1, 2020, Medicare bad debts must not be written off to a contractual allowance account but must be charged to an expense account for uncollectible accounts. For cost reporting periods beginning on or after October 1, 2020, Medicare bad debts must not be written off to a contractual allowance account but must be charged to an uncollectible receivables account that results in a reduction in revenue.

LEASES – EFFECTIVE DATES

Effective Dates as amended by ASU 2020-05 and GASB 95 (early adoption permitted)	Public NFP Entities	All Other Private For-Profits and Nonprofit Entities	Governmental Entities
	Fiscal years beginning after 12/15/2019	Fiscal Years beginning after 12/15/2021	Fiscal Years beginning after 6/15/2021

LEASES TOPIC 842 – IDENTIFYING A LEASE

- Lease contracts in the scope of Topic 842 involve
  - An identified asset
    - That is explicitly or implicitly specified
    - Supplier has no practical ability to substitute and would not economically benefit from substituting the asset
  - The right to control the use during the lease term
    - Decision-making authority over the use of the asset
    - The ability to obtain substantially all economic benefits from the use of the asset

LEASES TOPIC 842 – FINANCIAL STATEMENT IMPACT SUMMARY

The following table summarizes lessee accounting for finance and operating leases with a lease term greater than one year:

FINANCIAL STATEMENT	FINANCE LEASE	OPERATING LEASE
BALANCE SHEET	Recognize right of use (ROU) asset and lease liability, initially measured at the present value of the lease payments. Include initial direct costs in the initial measurement of the ROU asset.	Recognize ROU asset and lease liability, initially measured at the present value of the lease payments. Include initial direct costs in the initial measurement of the ROU asset.
INCOME STATEMENT	Recognize interest on the lease liability separately from amortization of the ROU asset.	Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis.
CASH FLOWS	Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities.	Classify all cash payments for leases within operating activities.

LEASES TOPIC 842 – IMPLEMENTATION

Inventory of leases

What's out there? Know your leases. Need to determine if there are embedded leases.

Materiality

How modern is your capitalization policy?

Debt covenants

To what extent will capitalizing your operating leases affect covenants based on leverage ratios?

QUESTIONS

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