

Accounting & Auditing Standards Update for Health Care Organizations

Introductions



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Key Take-Aways

- Identify new standards that will impact health care organizations
- Obtain a general understanding of the new standards & the effective dates
- Gain understanding of what is needed to prepare your organization for the new standards
- Discuss the accounting for COVID-19-related revenues & expenses

FASB & GASB Updates

- Revenue Recognition
- Leases
- Cash Flow – Restricted Cash



- Leases
- Accounting for Interest Costs during Construction
- Fiduciary Activities
- Disclosures Related to Debt



FASB Updates

FASB ASC Topic 606 – Revenue Recognition

Adoption Methods

- Full Retrospective Method
 - Retrospectively to all periods presented
 - Practical expedients for adoption year
- Modified Retrospective Method
 - Retrospectively with cumulative effect – change in accounting principle at date of adoption
 - Additional disclosures required for comparability

Effective Dates

- Public Entities, including conduit debt obligors
 - Already adopted
- All Other Entities Extended
 - Annual reporting periods beginning after December 15, 2019, & interim reporting periods within annual reporting periods after December 15, 2020

New Revenue Recognition Process

#1

- Identify contract(s) with customer

#2

- Identify performance obligations

#3

- Determine transaction price

#4

- Allocate transaction price to the performance obligation

#5

- Recognize revenue when/as performance obligations are satisfied

FASB ASC Topic 842 (ASU 2016-02) - Leases

FASB's Reason for New Standard

- Increase comparability & transparency among entities
- Significantly reduce off-balance-sheet risk
- More reflective of true substance of leasing transactions

Core Principle – Right-of Use Model

A lessee should recognize the assets & liabilities that arise from right-of-use (ROU) assets. All leases create an asset & a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, &, therefore, recognition of those lease assets & lease liabilities represents an improvement over previous GAAP, which did not require lease assets & lease liabilities to be recognized for most leases.

Comparison of Lessee Accounting Models

Finance Lease

- **Balance sheet**
- Right-of-use (ROU) asset
- Lease liability

- **Income statement**
- Interest expense (on lease liability)
- Amortization expense (on ROU asset)

- **Cash flow**
- Cash paid for principal payments (financing activities)
- Cash paid for interest payments & for variable lease payments (operating activities)

Operating Lease

- **Balance sheet**
- Right-of-use (ROU) asset
- Lease liability

- **Income statement**
- Lease/rent expense (straight-line)

- **Cash flow**
- Cash paid for lease payments (generally operating)

Effective Dates

- NFP conduit debt obligors
 - Annual & interim reporting periods, beginning after December 15, 2019
- All Other Entities
 - Annual reporting periods beginning after December 15, 2021, & interim reporting periods within annual reporting periods after December 15, 2022

Lessee Balance Sheet Presentation

The below table shows acceptable and unacceptable ways to present these balances on the lessee's balance sheet (note that for simplicity this is an unclassified balance sheet).

Separate Presentation <i>Acceptable</i>	Presentation with Other Assets and Liabilities and Disclosed Separately <i>Acceptable</i>	Combined Presentation <i>Not Acceptable</i>
Balance Sheet Period Ended December 31, 20X1	Balance Sheet Period Ended December 31, 20X1	Balance Sheet Period Ended December 31, 20X1
ROU assets – operating leases 25,000	ROU assets – operating leases 25,000	ROU assets 25,900
ROU assets – finance leases 900	Property, plant and equipment 2,000	Property, plant and equipment 1,100
Property, plant and equipment 1,100		
Operating lease liabilities 25,150	Operating lease liabilities 25,150	Lease liabilities 26,000
Finance lease liabilities 850	Other liabilities 1,850	Other liabilities 1,000
Other liabilities 1,000		
	<u>Disclosure</u>	
	For the period ended December 31, 20X1, right-of-use assets from finance leases of \$900 are included as part of property, plant and equipment.	
	For the period ended December 31, 20X1, lease liabilities from finance leases of \$850 are included as part of other liabilities.	

Implications

- Bond or loan covenants (definitions of lease or debt)
- Financial statement ratios
- Borrowing capacity
- Rating agency impacts
- Implementation time & resources
- Policies, processes, controls, systems & people

FASB ASC Topic 230 (ASU 2016-18) – Restricted Cash

Key Topics

- Beginning/ending cash reconciliation: restricted cash & restricted cash equivalents included with cash & cash equivalents
- Internal transfers: no longer reported on statement of cash flows
- Cash receipts/payments: reported within operating, investing or financing activities

Implications

- Certain cash balances included within limited use assets on the balance sheet now included within changes reported in the investment activities section of the statement of cash flows
- An entity should disclose information about the *nature of restrictions* on its cash accounts
- When cash accounts are presented in *more than one line item within balance sheet*, entity should provide in a narrative or tabular format a reconciliation between unrestricted & restricted cash & total amount of cash accounts at the end of period in statement of cash flows
 - Presented on either face of statement of cash flows or disclosed in notes to financial statements

GASB Updates

GASB Statement No. 87 - Leases

GASB v. FASB – Key Differences

Topic	GASB	FASB
Definition	Exchange or exchange-like transaction	In exchange for consideration
Lease classification	No classification	Classify as operating or financing
Multiple components	Must separate – best estimate	Policy election not to separate
Initial direct costs – lessee	Expense or capitalize consistent with capital assets & debt issuance	Capitalize
Initial direct costs – lessor	Expense when incurred	Expense or capitalize, depending on type of lease

Effective Dates

- Effective for periods beginning after June 15, 2021

GASB Statement No. 89 – Accounting for Interest Costs Incurred Before The End of a Construction Period

Key Topics

- GASB determined interest incurred prior to construction completion does not meet the definition of an asset in Concepts Statement 4; therefore, should be *expensed*
- Prospective from beginning of the period implemented
 - No need to back out previously capitalized interest

Effective Dates

- Effective for periods beginning after December 15, 2020
 - Early implementation is encouraged

GASB Statement No. 84 – Fiduciary Activities

Key Topics

- Defines fiduciary activity
- Report fiduciary funds
 - Trust funds
 - Custodial funds

When Should a Government Report Assets in a Fiduciary Fund?

Four paths to the determination

- 1) Component units that provide postemployment benefits
- 2) Component units that do not provide postemployment benefits
- 3) Postemployment benefit arrangements that are not component units
- 4) All other activities

Effective Dates

- Effective for periods beginning after December 15, 2019

GASB Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings & Direct Placements

Background

- Concerns raised about debt arrangements entered into by governments that could pose additional risks to their credit profile
 - Inconsistency in disclosures, therefore, difficult to assess the risks
- Clarity needed as to which long-term liabilities constitute *debt* for disclosure purposes

New Debt Disclosures

- Statement 88 requirements are in addition to previous required note disclosures for debt
- Debt-related items to be included in notes to financial statements (*if applicable*)
 - Amount of unused lines of credit
 - Assets pledged as collateral for debt
 - Terms specified in debt agreements related to significant
 - Subjective acceleration clauses
 - Events of default with finance-related consequences
 - Termination events with finance-related consequences

New Debt Disclosures, Contd.

- Information about direct borrowings & direct placements should be separate from other debt
 - Changes in long-term debt
 - Repayment schedules
 - Assets pledged as collateral for debt
 - Events of default with finance-related consequences
 - Termination events with finance-related consequences
 - Subjective acceleration clauses

Effective Dates

- Effective for periods beginning after June 15, 2019
- Earlier application is encouraged
- Applied to notes to financial statements of all periods presented

COVID-19 Accounting Topics

Paycheck Protection Program

- Audited by SBA if funds received > \$2,000,000
- Record as a loan until it is forgiven
- Subsequent events don't trigger adjusting financial statements
- Also an option for not-for-profits to record as a grant
- Not included in single audit

HHS Provider Relief Funds

- Lost revenue calculations
 - Budget to actual
 - Prior year revenues
 - Other means
 - Consider any adjustments needed
- Record as deferred revenue any amounts not used
- Potential for payback

Medicare Accelerated Payments

- Book as a liability
- Monitor the amounts taken back by the MAC

GASB vs. FASB Recording

- GASB
 - PPP funds – non-operating income
 - HHS funds
 - Lost revenue & COVID-related expenses – non – operating
 - Claims billed for patients without payment method – operating
- FASB
 - PPP funds – operating
 - HHS funds – operating

Single Audit

- PPP funds are not subject to single audit & are not included on the SEFA (Schedule of Expenses of Federal Awards)
- HHS funds will be subject to single audit
 - However, compliance supplement has not been released
- Internal controls are extremely important (policies, procedures, etc.)
 - Also, did controls change due to changes in operations, people working at home, etc?
- Timing of reports – dual dates?

Reimbursement

- HHS funds & PPP funds will not be offset on the Medicare cost report

Deferral of Federal Tax Payments

- Organizations can defer some federal tax payments
- Record as a payable on the financial statements

Questions?

Thank You!



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