

Accounting for CARES Act Program: Loans, Advance Payments and Other Types of COVID-19 Relief

June 2020

About this Resource

The COVID-19 pandemic and resulting economic consequences have spurred an unprecedented public health response from health entities as well as government stimulus and relief efforts, including the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), signed into law on March 27, 2020.

These circumstances and responses have created a number of accounting and financial reporting questions for healthcare providers and other healthcare entities. Some of those questions are addressed in this document. These are intended to highlight broad guidance and may not address specific facts and circumstances of each individual entity. Members are encouraged to consult with their advisors as they evaluate the appropriate accounting and financial reporting policies for their particular circumstances. Healthcare entities can also consider guidance released by the American Institute of CPAs (AICPA) or accounting firms that may offer more detail on these topics.

Expert Contributor: Brian Conner, Partner, Moss Adams, Stockton, California. Brian is a former chair and member of HFMA's Principles and Practices Board.

CARES Act provisions

Provider relief funds. Fifty billion dollars in payments from the Provider Relief Fund has been allocated for general distribution to healthcare entities across the U.S. health system (the General Distribution allocation). According to the Department of Health and Human Services (HHS), the general distribution payments are subject to legal terms and conditions, including restrictions on the use of the funds, conditions on interactions of these funds with other relief funds and claw back provisions.

For not-for-profit healthcare entities, because the general distribution payments are for the purpose of providing relief to the entities (rather than for the direct benefit of HHS), they would be accounted for as nonexchange transactions in accordance with the contributions received subsections of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities: Revenue Recognition*. The general distribution payments are conditioned upon having incurred healthcare-related expenses or lost revenues that are attributable to COVID-19 and subject to recoupment in the event of noncompliance. Consequently, the general distribution payments would be considered conditional contributions under FASB ASC 958-605. Contribution revenue would be recognized only to the extent that healthcare-related expenses or lost revenues have been incurred at that date which will not be reimbursed from other sources. A healthcare entity cannot factor in the likelihood that the condition will be met in determining whether a grant is conditional or unconditional.

Healthcare entities will need to evaluate their individual facts and circumstances in evaluating whether, when and the extent to which conditions have been substantially met at a given reporting date. Payment amounts received that exceed recognizable contribution revenue are reported as a refundable advance (i.e., a liability).

Because the general distribution payments can only be used to prevent, prepare for or respond to COVID-19, they would be considered donor-restricted. Due to the linkage of the conditions with the restrictions, restrictions will likely be satisfied simultaneously with meeting the conditions. In that case, a not-for-profit provider would recognize contribution revenue as an increase in donor-restricted net assets, along with a reclassification to net assets without donor restrictions to reflect the satisfaction of the restriction in their statement of operations and statement of changes in net assets. However, a not-for-profit provider that has elected a “simultaneous release” accounting policy would be permitted to report these restricted conditional contributions as if they were unrestricted contributions. Private companies would also account for general distribution payments as nonexchange transactions, as opposed to revenue from contracts with customers, under FASB ASC 606.

There is no explicit guidance within U.S. generally accepted accounting principles (GAAP) on the accounting for government grants to business entities. In the absence of explicit U.S. GAAP, entities should first look for guidance for a similar transaction within U.S. GAAP and consider applying that guidance by analogy, according to FASB ASC 105, *Generally Accepted Accounting Principles*. For example, if the government grant is deemed to be similar to a grant that a not-for-profit entity would account for under FASB ASC 958-605, a business entity would be permitted to apply the guidance in FASB ASC 958-605 by analogy. The gain contingency model under FASB ASC 450 might also be considered if the entity has applied that model to similar grants in the past.

In the absence of analogous U.S. GAAP, FASB ASC 105 states that an entity may consider non-authoritative guidance from other sources. A common model used in accounting for government by U.S. private companies is International Accounting Standards (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Under the IAS 20 framework, government grants cannot be recognized in income until there is reasonable assurance that a recipient will comply with the conditions associated with the grant and receive the grant. (As used in IAS 20, “reasonably assured” is a threshold generally considered analogous to “probable” in U.S. GAAP). The process and considerations for recognizing revenue and whether, when and to what extent conditions have been met under IAS 20 would be similar to the process described for evaluating conditions under FASB ASC 958-605.

For governmental healthcare entities, general distribution payments would be accounted for as voluntary nonexchange transactions in accordance with Governmental Accounting Standards Board (GASB) Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Non-Exchange Transactions*. According to GASB 33, revenue from voluntary nonexchange transactions should be recognized when all eligibility requirements established by enabling legislation or the resource provider have been met. The process and considerations for recognizing revenue and whether, when and to what extent eligibility criteria have been met under GASB 33 would be similar to the process described for evaluating conditions under FASB ASC 958-605 and IAS 20.

However, the statement of revenues, expenses and changes in net position for governmental entities under GASB differentiates operating revenues and expenses from nonoperating revenues and expenses based on a framework that considers how the underlying transactions are classified in the statement of cash flows. As a result, when classifying transactions as operating or nonoperating, governmental healthcare entities are subject to guidance that is more prescriptive than the guidance applied by not-for-profit and private sector entities (which both have flexibility in determining what transactions would be included in or excluded from an operating income subtotal). For governmental healthcare entities, nonexchange grants or subsidies that are not intended for capital purposes are classified as noncapital financing activity in the statement of cash flows. Thus, the grant revenue associated with the general distribution payments would be classified as nonoperating in the statement of revenues, expenses and changes in net position for governmental healthcare entities.

Determination of which entities would receive general distribution payments, and in what amounts, did not take place until after March 31, 2020. For quarterly or annual financial statements issued for the period ended March 31, 2020, the general distribution payments would be considered a nonrecognized subsequent event with consideration given to the need for disclosure of receipt of the grants as a subsequent event.

HHS has recently released guidance that indicates that general distribution payments would be subject to the Office of Management and Budget’s (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Not-for-profit and government healthcare entities receiving such funds (and private healthcare entities with program-specific requirements) will want to coordinate closely with their auditors and track lost revenue, expenses and other funding sources closely to satisfy single audit requirements.

Medicare Accelerated and Advance Payment Program. The CARES Act provided for an expansion of the Medicare Accelerated and Advance Payment Program for patient services temporarily before suspending and then eliminating the expansion. Under the program, healthcare entities can apply for Medicare advance payments. Prior to the beginning of the recoupment period (which begins 120 days after an advance payment is issued), the provider or supplier continues to bill for services provided to Medicare patients and is paid by CMS, as usual. Once the recoupment period begins, amounts billed to CMS for services provided will be offset against the advance payment until the advance is fully recouped. The majority of hospitals will have one year to offset future claims against the advance; other healthcare entities and suppliers will have 210 days. If the advance has not been entirely offset by claims at the end of this period, the healthcare entity will be required to repay the remaining amount. The funds provided under this program represent advances on payments for future goods or services to be provided to Medicare patients. Healthcare entities will generally reflect the advances received as a liability. The liability will be reduced over time as revenue is recognized for claims submitted for services provided after the recoupment period begins.

Temporary increases in Medicare and Medicaid payments and uninsured pool payments.

The CARES Act attempts to alleviate some of the financial strain on hospitals, physicians and other healthcare entities through a series of new policies that temporarily boost Medicare and Medicaid payments and allow for added flexibility. Payments under those policies that are, in substance, additional reimbursement for the provision of services to patients by the healthcare entity would be accounted as patient service revenue under the entity's existing revenue recognition policies. Those policies would include increases in the Medicare inpatient payment rate by 20% for treating COVID-19 patients, delays to the annual 2% cut (sequester) in Medicare payments, reductions or delays in cuts in Medicaid disproportionate share hospital (DSH) funding and payments to healthcare providers for treatment of uninsured COVID-19 patients administered by the federal government's Health Resources & Services Administration.

Payback Protection Program (PPP) loans. Loans from the PPP should be treated as debt instruments when funded. Healthcare entity borrowers would apply the interest method in FASB ASC 835, which should take into consideration the payment deferrals allowed for these loans. However, additional interest should not be imputed on these loans even though the stated interest rate may be considered below market as the PPP loans would not be within the scope of interest imputation guidance. The healthcare entity should derecognize the loan liability only when it has been determined that it has been legally released from being the primary obligor under the liability, at which time the healthcare entity would recognize a gain on debt extinguishment.

FEMA public assistance payments to not-for-profit and government hospitals

Through its Public Assistance (PA) program, the Federal Emergency Management Agency (FEMA) provides assistance to governments and certain not-for-profit entities in responding to major disasters or emergencies. Governmental and not-for-profit hospitals may be eligible for reimbursement of "extraordinary" costs associated with operating emergency rooms and providing temporary facilities for

emergency medical care or expanding existing medical care capacity during the declared COVID-19 public health emergency.

Grants made to healthcare entities under FEMA's PA program are for the purpose of reimbursing certain specific costs incurred by healthcare entities in connection with the public health emergency and would be accounted for as nonexchange transactions for governmental and not-for-profit healthcare entities, similar to the general distribution payments under the Provider Relief Fund of the CARES Act discussed earlier. These grants would be subject to single audit requirements of the OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Similar to the general distribution payments from the Provider Relief Fund, FEMA awards should be reported as nonoperating revenue by governmental entities unless the transaction meets the criteria for classification as "extraordinary." Although FEMA describes the nature of the reimbursable expenses as extraordinary, that term refers to its meaning in the context of general usage, which differs from its meaning as prescribed in GAAP.

Premium deficiency consideration. Because of the pandemic and prohibition or cessation of elective procedures and the reduction in utilization for services not related to COVID-19, it's possible that expenses and incurred-but-not reported (IBNR) reserves for health plans and other provider prepaid healthcare service contracts have gone down substantially in the second quarter of 2020. This may lead to higher utilization in the third and fourth quarters as services and procedures deferred or delayed early in the pandemic are provided.

Health plans and providers of prepaid healthcare service contracts should consider whether expenses for existing, noncancelable contracts may exceed premium revenue for the duration of the contracts after the end of a reporting period, such as June 30. If so, those expected losses should be accrued as premium deficiency liabilities during the reporting period.