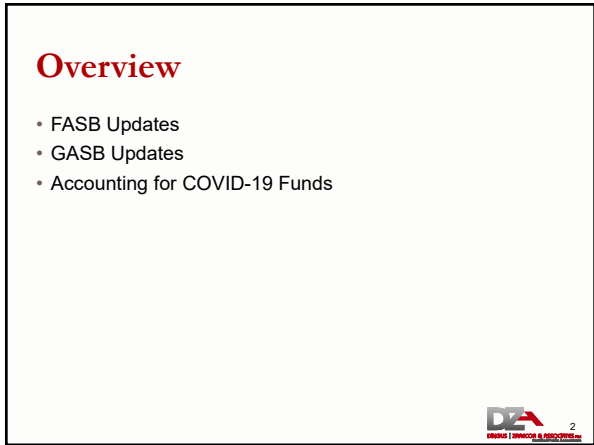


1



2



3

FASB Update— Effective Immediately (in 2019)

- Goodwill
 - For nonprofits only
 - Option to amortize over 10 years
 - Impairment test required if there is a triggering event



4

FASB Update— Effective in 2021-2022

- Implementation costs in a hosting arrangement (cloud computing)
 - Preliminary project stage – expense
 - Application development stage – capitalize as a prepaid expense, amortize over the term of the hosting arrangement
 - Excludes training and data conversion costs
 - Post-implementation and operation stage – expense



5

FASB Update— Effective for June 30, 2022

- Presentation and Disclosure of Contributed Nonfinancial Assets
 - Includes contributions of property, equipment, supplies, services, etc. (excludes cash and investments)
 - Present as a separate line item
 - Disclosures:
 - Amounts by type
 - Monetized vs. utilized
 - Restrictions
 - Valuation techniques




6



7

Polling Question 1


- What recent accounting changes or issues are you most concerned about?
 - a) New lease standard
 - b) Accounting for COVID-19 funds
 - c) Revenue recognition
 - d) Other / No concerns



8

Revenue from Contracts with Customers

- Effective in 2019 (delayed to 2020) – many have already implemented
- The new standard is more principles based, with fewer rules
- Greater judgment will be required



9

Revenue from Contracts with Customers

- A five-step process for recognizing revenue:
 1. Identify the contract with a customer
 2. Identify the performance obligations in the contract
 3. Determine the transaction price
 4. Allocate the transaction price to the performance obligations in the contract
 5. Recognize revenue when (or as) the entity satisfies a performance obligation



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Revenue from Contracts with Customers

- Revenue recognition for indigent and self-pay patients – difficulty in recognizing revenue associated with indigent and self-pay patients (a “collectibility” threshold for recognition)
- Contracts with Medicare/Medicaid – can use either “most likely amount” or “expected value” in estimating variable consideration, whichever is best predictor
- Little or no “bad debt” expense recognized
- Portfolio approach



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Revenue from Contracts with Customers

- Charity care – now called “explicit price concessions provided to patients who are financially unable to pay”
- Bad debt – now called “implicit price concessions provided to patients other than those unable to pay”
- Cost of “charity care” is disclosed in the notes. Amount of “bad debts” is not disclosed



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Revenue from Contracts with Customers

- Disclosures
 - Disaggregate revenue into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors, such as by payor
 - Significant judgements used
 - Methods to determine the transaction price
 - When performance obligations are satisfied
 - Significant payment terms



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Polling Question 2

- How are you implementing the new revenue recognition standard?
 - a) No changes
 - b) More detailed allowance calculation
 - c) Other



15

Leases

- Delayed to 2022 for nonpublic companies (2020 for public companies)
- Recognize lease assets and lease liabilities at the present value of the lease payments
- Still two types – must be separately presented
 - Finance – meets specific criteria
 - Operating – all other



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Leases

- Classified as a finance lease when it meets any of the following criteria:
 - Ownership of the underlying asset transfers to lessee by the end of the lease term
 - Lease grants lessee an option to purchase the underlying asset the lessee is reasonably certain to exercise
 - Lease term is the major part of the remaining economic life of the underlying asset
 - Present value of the sum of the lease payments and any residual value guarantees by the lessee equals or exceeds substantially all of the fair value of the underlying asset
 - The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term



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Leases

- Statement of Activities:
 - Finance
 - Depreciation expense (of right-of-use asset)
 - Interest expense
 - Operating
 - Single lease expense on the straight-line basis



18

Leases

- Lease Term
 - Noncancellable period of the lease, plus the following:
 - Periods covered by lessee's option to extend the lease *if it is reasonably certain, based on all relevant factors*, that the lessee will exercise the option
 - Periods covered by a lessee's option to terminate the lease *if it is reasonably certain, based on all relevant factors*, that the lessee will **not** exercise the option
 - Periods covered by a lessor's option to extend the lease *if it is reasonably certain, based on all relevant factors*, that the lessor will exercise the option
 - Periods covered by the lessor's option to terminate the lease *if it is reasonably certain, based on all relevant factors*, that the lessor will **not** exercise the option



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Leases

- Short term leases:
 - Accounting policy election to not recognize lease assets and lease liabilities with a term of 12 months or less
 - Lease expense is generally recognized on a straight-line basis
 - Election needs to be consistently applied for similar leases



20

Leases – Financial Statements

- Statement of Financial Position

FASB Nonprofit Hospital
Schedule of Items Appearing on the Statement of Financial Position
December 31, 2021 and 2020

	2021	2020
<i>Property, Plant, and Equipment</i>		
Property, plant, and equipment	\$ 1,000,000	\$ 1,000,000
Less: accumulated depreciation	(200,000)	(100,000)
Property, plant, and equipment, net	800,000	900,000
Finance lease right-of-use assets	250,000	250,000
Less: accumulated depreciation - finance lease right-of-use assets	(200,000)	(100,000)
Operating lease right-of-use assets	40,000	60,000
Total property, plant, and equipment	1,690,000	2,010,000
<i>Current liabilities</i>		
Finance lease liability	\$ 100,000	\$ 100,000
Operating lease liability	20,000	20,000
<i>Noncurrent liabilities</i>		
Finance lease liability	-	50,000
Operating lease liability	20,000	40,000



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Leases – Financial Statements

• Statement of Activities

FASB Nonprofit Hospital
Schedule of Items Appearing on the Statements of Activities
and Changes in Net Assets
Years Ended December 31, 2021 and 2020

	December 31,	
	2021	2020
<i>Operating expenses:</i>		
Lease	\$ 20,000	\$ 20,000
Depreciation	100,000	100,000
Interest	9,000	10,000

Note: Lease expense would be applicable to operating leases



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Leases - Implementation

• Options with comparable statements:

- Apply statement retroactively by restating prior year financial statements
- Apply the standards at the adoption date and recognize a cumulative-effect adjustment to opening balance of net assets in the period of adoption
 - Materiality of cumulative-effect adjustment should be considered.
 - Not required if not material.

• Capitalization threshold

- Lease inventory – including contracts with lease and nonlease components – this should be the first step in implementation
- Work with lenders and others to revise contracts requiring certain financial ratio requirements



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Polling Question 3

- True/False – The first step we recommend you take in implementing the new lease standard is taking an inventory of your leases.
 - a) True
 - b) False



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GASB Updates



26

GASB Update Effective in 2020-2021

- Fiduciary activities
 - Key indicators
 - Separate entity (e.g. in a trust)
 - Financial burden (only applies to defined benefit plans)
 - Control
 - Include fiduciary component units in the financial statements
 - Subsequent pronouncements have made this only applicable to defined benefit plans and only if your board of trustees oversees the plan



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GASB Update Effective in 2021-2022

- Capitalized interest
 - Expense when incurred
 - For construction in progress at the time of implementation, begin expensing at the beginning of the fiscal year of implementation
 - Cost-based reimbursement will still follow current rules



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GASB Update Effective after mid-2021

- Subscription-based IT arrangements (cloud computing)
- Right-to-use asset and related liability (similar to lease standard)
 - Include implementation costs in the right-to-use asset if during the initial implementation phase



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Polling Question 4

- What accounting changes do you hope to see next?
 - a) Standardized terminology for all industries and all entities (i.e. Why not just call it "Balance Sheet" and "Income Statement"?)
 - b) Simplification of the investment fair value disclosures
 - c) Simplification of the defined benefit pension plan and other post-employment benefit plan accounting and disclosures
 - d) Other



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31

Leases

- Delayed to June 30, 2022 year end
- Recognize lease assets and lease liabilities



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Leases

- Statement of Activities:
 - Depreciation expense (of right-of-use asset)
 - Interest expense
- Initial Recognition:
 - Lease liability at the present value of the lease payments not yet paid, using the discount rate for the lease
 - Right-of-use asset
 - Same as how capital leases are recognized currently



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33

Leases

- Lease Term
 - Noncancellable period of the lease, plus the following:
 - Periods covered by lessee's option to extend the lease *if it is reasonably certain, based on all relevant factors*, that the lessee will exercise the option
 - Periods covered by a lessee's option to terminate the lease *if it is reasonably certain, based on all relevant factors*, that the lessee will **not** exercise the option
 - Periods covered by a lessor's option to extend the lease *if it is reasonably certain, based on all relevant factors*, that the lessor will exercise the option
 - Periods covered by the lessor's option to terminate the lease *if it is reasonably certain, based on all relevant factors*, that the lessor will **not** exercise the option



34

Leases

- Short term leases:
 - Accounting policy election to not recognize lease assets and lease liabilities with a term of 12 months or less
 - Lease expense is generally recognized on a straight-line basis
 - Election needs to be consistently applied for similar leases



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Leases – Financial Statements

- Statement of Net Position

GASB Hospital District
 Schedule of Items Appearing on the Statement of Net Position
 December 31, 2021 and 2020

	2021	2020
<i>Capital assets, net</i>		
Capital assets	\$ 1,000,000	\$ 1,000,000
Less: accumulated depreciation	(200,000)	(100,000)
Right-of-use assets	131,493	131,493
Less: accumulated amortization	(87,662)	(43,831)
Total capital assets, net	\$ 843,831	\$ 987,662
<i>Current liabilities</i>		
Lease liability	\$ 46,475	\$ 43,776
<i>Noncurrent liabilities</i>		
Lease liability	-	46,475



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Leases – Financial Statements

- Statement of Revenues, Expenses, and Changes in Net Position:

GASB Hospital District
Schedule of Items Appearing on the Statements of Revenues,
Expenses, and Changes in Net Position
Years Ended December 31, 2021 and 2020

	December 31,	
	2021	2020
Operating expenses:		
Lease	\$ 2,000	\$ 2,000
Depreciation	100,000	100,000
Amortization - Right-of-use asset	43,831	43,831
Interest	4,224	6,758

Note: Lease expense would be applicable to any short term leases of 12 months or less




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Leases - Implementation

- Options with comparable statements:
 - Apply statement retroactively by restating prior year financial statements
 - Apply the standards at the adoption date and recognize a cumulative-effect adjustment to opening balance of net position in the period of adoption
 - Materiality of cumulative-effect adjustment should be considered.
 - Not required if not material.
- Capitalization threshold
- Lease inventory – including contracts with lease and nonlease components
- Work with lenders and others to revise contracts requiring certain financial ratio requirements




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EXPERTS
WE'VE GOT A TALENT FOR EXPLAINING TOMORROW
WHY THE PREDICTIONS WE MADE YESTERDAY DIDN'T COME TRUE TODAY.

Motivational Message



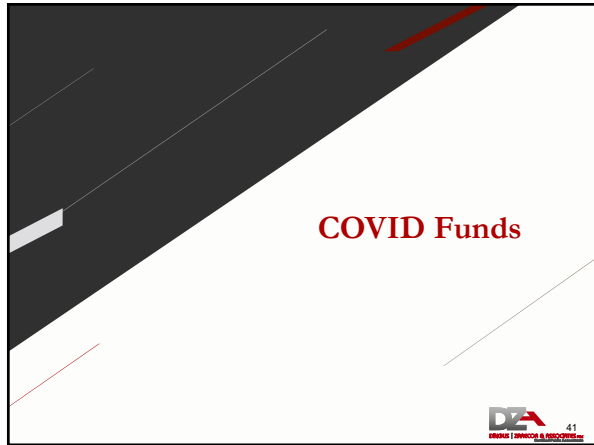
39

Polling Question 5

- How long do you expect it to take to implement the new lease standard for the first year?
 - a) 1 – 10 hours
 - b) 11 – 30 hours
 - c) 30+ hours



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COVID Funds

- Provider Relief Funds
- Paycheck Protection Program Loans
- Accelerated Payments



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Provider Relief Funds

- When received, should be recorded to deferred grant revenue
- When used for COVID-19 expenses or lost revenues, should be recorded as grant revenue
- For nongovernment entities (FASB) – Can be operating or nonoperating – DZA recommends operating to match the expenses and lost revenues
- For government entities (GASB) – Must be nonoperating revenue



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Provider Relief Funds

- Recognition
 - Expenses and lost revenues from 1/1/2020 – 6/30/2021
 - Healthcare-related expenses attributable to coronavirus, including "maintaining healthcare delivery capacity"
 - Mortgage/rent
 - Insurance
 - Utilities
 - Overhead – not very well defined
 - Lost revenues
 - Must use year over year comparison between 2019 and 2020
 - Net operating income related to patient care
 - First step is to figure out the expenses above and remove that and other COVID funding from the calculation



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Paycheck Protection Program Loans

- Two options for nongovernment entities
 - Conditional grant
 - Loan
- Must account for as a loan for government entities
- Loan
 - Accounting is the same as for other loans
 - Recognize as revenue when forgiveness is approved
 - Gain on forgiveness is a separate line on the financial statements apart from operating and nonoperating income



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Paycheck Protection Program Loans

- Conditional grant
 - Initially record as deferred grant revenue
 - Record as grant revenue as qualifying expenses are incurred (and reduce deferred grant revenue)
 - Can be operating or nonoperating – DZA recommends operating to match the expenses



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Accelerated Payments

- Should be recorded in a separate liability account (Medicare accelerated payments payable)
- Once recoupment starts, credit accounts receivable and debit liability (instead of cash) based on the remittance advice
 - Recording of the contractual adjustment on the remittance advice stays the same as before



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Polling Question 6

- What do you expect to be the final guidance from HHS on the provider relief funds?
 - a) Everybody gets to keep all the money!
 - b) Most of the money has to be paid back
 - c) Something in between



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