KPMG

Hot Topic: Coronavirus

Healthcare entities' accounting for government aid

April 23, 2020

KPMG addresses key accounting and financial reporting effects of various sources of government aid in response to COVID-19

Background

Healthcare entities are receiving COVID-19 government assistance from a number of different sources. The Coronavirus Aid, Relief, and Economic Security (CARES) Act (the 'Act') provides $100 billion to eligible healthcare providers to prevent, prepare for and respond to coronavirus. To alleviate further strain, the Centers for Medicare and Medicaid Services (CMS) is providing additional relief to healthcare entities, both through expansion of the Medicare Accelerated and Advance Payment Program and through certain provisions of the Act. Healthcare entities may also receive funds from the Federal Emergency Management Agency's (FEMA) Public Assistance program or directly through other state or local grants.

— **Medicare Accelerated and Advance Payment Program:** The expansion of this program will provide cash advances to many healthcare providers. The advances are offset against future Medicare claims after 120 days from receipt of the advance.

— **Medicare payment rate adjustments:** Several provisions are included in the Act to increase Medicare payments, including lifting of the 2% Medicare sequestration through the end of the year and providing hospitals treating COVID-19 patients with a 20% payment increase, among others.

— **$100 billion of CARES Act provider relief funding for eligible health care providers:** Available to hospitals and healthcare providers to support COVID-19 related expenses and lost revenue.

  – *General allocations*: Department of Health and Human Services (HHS) completed distribution of $30 billion of the provider relief funding appropriated in the Act on April 17, 2020. HHS announced on April 22, 2020 that it will begin distributing an additional $20 billion of the provider relief funding on a weekly, rolling basis beginning April 24, 2020.

  – *Targeted allocations*: HHS also announced on April 22, 2020 that it will distribute an additional $10 billion to hospitals in areas that have been particularly impacted by the pandemic (hot spots), $10 billion to rural hospitals and clinics, and $400 million to Indian Health Service facilities. HHS has announced that it will distribute additional funds to various healthcare entities that serve Medicaid patients and additional allocations of the provider relief funds will be made to reimburse healthcare providers for COVID-19 related treatment of the uninsured.

In this Hot Topic, we address the primary accounting and reporting impacts of the above-outlined programs and initiatives on entities reporting under FASB standards as we currently understand them, and provide guidance on the accounting for government grants in general.

The Act will also provide additional funds to combat the further spread of COVID-19 and prevent/manage potential future pandemics. This Hot Topic does not address the accounting considerations for those funds.

Healthcare entities may be eligible for other relief in the Act that is not specifically designated to healthcare providers (e.g. payroll tax incentives). KPMG's Hot Topic, Accounting and reporting impacts of the CARES Act, discusses other provisions of the Act and related accounting and reporting considerations.

Business interruption insurance could be another source of income as a result of the pandemic. See KPMG's Hot Topic, Potential accounting and disclosure impacts of COVID-19 on insurance recoveries.

Medicare payments

The Centers for Medicare and Medicaid Services (CMS) provides relief to healthcare entities, both through expansion of the Medicare Accelerated and Advance Payment Program and through certain provisions of the CARES Act. The payments are made for services a healthcare entity has provided or will provide to its Medicare patients who are the healthcare entity's customers. Therefore, they are accounted for under Topic 606.

It will be important for healthcare entities to isolate these payments from other funds received in lump sum payments (i.e. grant funds described below or other funds provided by the Act) to ensure the appropriate accounting is applied.

Medicare Accelerated and Advance Payment Program

CMS offers accelerated and advance payments in a number of circumstances, including in national emergencies to accelerate cash flow to the impacted healthcare providers and suppliers. CMS is authorized to provide accelerated or advance payments during the period of the public health emergency to any Medicare provider/supplier that submits a request to the appropriate Medicare Administrative Contractor (MAC) and meets the required qualifications.

This program was expanded on March 28, 2020 to a broader group of Medicare Part A providers and Part B suppliers to increase cash flow to providers of services and suppliers affected by the COVID-19 pandemic. The expansion of this program is only for the duration of the public health emergency.

Most providers and suppliers will be able to request up to 100% of the Medicare payment amount for a three-month period. Inpatient acute care hospitals, children's hospitals, and certain cancer hospitals can request up to 100% of the Medicare payment amount for a six-month period. Critical access hospitals can request up to 125% of their payment amount for a six-month period.

CMS will begin recouping these advances 120 days after the advance payment was issued. Healthcare entities will receive payments on claims during the 120-day period as they normally would. Each subsequent claim after the 120-day period will be offset against the advance payment. The majority of hospitals will have one year to offset the advance with future claims. Some Part A providers and Part B suppliers will have 210 days to offset the advance with future claims. If there is a remaining balance owed after the respective recoupment period, the healthcare entity will be required to repay the remaining advance.

Topic 606 accounting considerations

The funds provided under this program represent advances on payments for future goods or services provided to Medicare patients. Therefore, healthcare entities will generally record the funds received under this program as a contract liability under Topic 606. This contract liability will be reduced over time as revenue is recognized for claims submitted for services provided after the 120-day period.

Although the advance payment is provided to support the cash flow needs of the healthcare entity, Topic 606 does not require an entity to account for a financing element when the timing of transfer of goods or services to the customer is at the discretion of the customer.

We expect that entities would initially record a contract liability but would subsequently reclassify any amounts expected to be repaid to CMS to a separate liability as a result of the entity providing insufficient Medicare services during the recoupment period. In these cases it would be appropriate to record the amounts to be repaid as a refund liability.

A public healthcare entity[1] is required to disclose the beginning and ending contract liability balances for the reporting period as well as the revenue that is recognized during the reporting period for amounts that were included in the contract liability balance at the beginning of the period. [606-10-50-8]

Medicare payment rate adjustments

The CARES Act provides relief to healthcare providers through several provisions that increase Medicare payments, including lifting the 2% Medicare sequestration through the end of the calendar year and providing hospitals treating COVID-19 patients with a 20% payment increase for all services provided.

Topic 606 accounting considerations

The Medicare adjustments, promulgated through the Act, represent payments made on behalf of patients for services provided and therefore will be presented as patient service revenue as an adjustment to the transaction price.

Healthcare entities generally estimate the transaction price, including the related contractual adjustments and implicit price concessions by using historical portfolios of data (e.g. by patient type, payor). Healthcare entities will need to consider how these Medicare rate adjustments affect their estimates. An entity's historical experience may not be an appropriate estimate for the transaction price it is expected to be entitled to for the services it provides to Medicare patients while the rate changes are in effect. Healthcare entities will need to evaluate these rate changes and how they interact with their revenue recognition model. [606-10-32-2, 606-10-32-8 through 32-11]

Government assistance for COVID-19 response

Healthcare entities are receiving COVID-19 government assistance from a number of different sources including $100 billion from the CARES Act Provider Relief Fund, FEMA assistance, and potential state and local government assistance. The accounting for government grants by non-governmental entities applying US GAAP may differ based on:

- whether any amounts received represent consideration from a contract with a customer in the scope of Topic 606 (revenue from contracts with customers), or
- if the amounts received do not represent consideration from a contract with a customer:
  - whether the entity is a not-for-profit entity and subject to the specific accounting guidance in Subtopic 958-605 (not-for-profit entities—revenue recognition); and/or
  - the accounting policy election a for-profit company has made to analogize to other guidance.

[1] A public business entity or not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

COVID-19 government assistance funding

The CARES Act provider relief funding

The CARES Act provides $100 billion to eligible healthcare providers[2] to prevent, prepare for and respond to COVID-19. The funds were appropriated to reimburse healthcare providers for healthcare related expenses or lost revenues that are attributable to COVID-19. The Act provides the Secretary of the Department of Health and Human Services (HHS) with discretion as to how the program will be implemented and the conditions imposed.

HHS delivered an initial $30 billion of the $100 billion over two days (April 10 and April 17, 2020) to healthcare entities based on their share of 2019 Medicare fee-for-service reimbursement. As announced on April 22, 2020, HHS will begin distributing an additional $20 billion to providers with a relatively small share of their revenue from Medicare fee-for-service (e.g. children's hospitals) based on their share of net patient revenue. These payments are to be distributed on a weekly, rolling basis as revenue information is validated beginning April 24, 2020. HHS will distribute additional targeted allocations to hospitals in 'hot spots', to rural hospitals and clinics, and to Indian Health Service facilities.

Providers receiving a portion of the $50 billion of general Provider Relief Fund allocations must sign an attestation confirming receipt of the funds and agreeing to the terms and conditions of payment within 30 days of receiving the payment. HHS has announced that significant anti-fraud and auditing work will be performed by HHS. Noncompliance with any term or condition is grounds for the HHS Secretary to recoup some or all of the payment. Some of the terms and conditions as of April 22, 2020 of the HHS relief funds include[3]:

— the entity provides or provided after January 31, 2020 diagnoses, testing or care for individuals with possible or actual cases of COVID-19;

— the payment will only be used to prevent, prepare for and respond to coronavirus, and reimburse healthcare related expenses or lost revenues that are attributable to coronavirus;

— the payment cannot be used to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse;

— the entity will not seek to collect out-of-pocket expenses that exceed what the in-network payment would have been for all care for a presumptive or actual COVID-19 patient; and

— the entity will submit reports as the HHS Secretary determines are needed to ensure compliance with the conditions imposed and will maintain adequate records and cost documentation to substantiate the reimbursement under this award.

Entities should monitor the terms and conditions in effect for any funding they receive. The Act provides that the $100 billion in funds are available to reimburse healthcare related expenses that include the building or construction of temporary structures, leasing of properties, medical supplies and equipment including personal protective equipment and testing supplies, increased workforce and trainings, emergency operation centers, retrofitting facilities and surge resources. Lost revenues, however, are not defined in the Act or the HHS relief funding terms and conditions. It is not known at this time whether HHS will provide more guidance on the determination of lost revenues or if entities will need to use judgment and/or seek legal advice to determine what declines in revenue can be attributed to COVID-19.

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2 Public entities, Medicare or Medicaid enrolled suppliers and providers, and such for-profit entities and not-for-profit entities not otherwise described in this provision as the HHS Secretary may specify, within the United States (including territories), that provide diagnosis, testing, or care for individuals with possible or actual cases of COVID-19.

3 Department of Health & Human Services Relief Fund Payment Terms and Conditions (as of April 22, 2020)

Other sources of relief funding

Healthcare entities may receive assistance from multiple sources in addition to the provider relief in the Act. Certain not-for-profit healthcare entities may be eligible to receive assistance from the FEMA Public Assistance program to fund emergency protective measures including management, control and reduction of immediate threats to public health and safety; emergency medical care; and medical sheltering when existing facilities are reasonably expected to be unable to accommodate those needs. FEMA generally provides public assistance awards on the basis of actual costs incurred. For-profit healthcare entities may contract with city or county governments to potentially access such funds. Entities may also receive assistance directly from state or local governments.

Healthcare entities may also be eligible for other relief not specifically addressed in this Hot Topic (e.g. payroll tax incentives). KPMG's Hot Topic, Accounting and reporting impacts of the CARES Act, discusses other provisions of the CARES Act and related accounting and reporting considerations.

Not-for-profit healthcare entities – government grant accounting considerations

Subtopic 958-605, as amended by ASU 2018-08, stipulates that an exchange transaction is a reciprocal transaction where each party receives and sacrifices *commensurate value*, and that the public benefit of a government grant or the execution of the grantor's mission do not represent commensurate value.[4] After the amendments in ASU 2018-08, more transactions are considered to be contributions, accounted for under Subtopic 958-605, than were previously.

We believe the $30 billion CARES Act relief that was funded on April 10, 2020 and the forthcoming $20 billion of generally allocated provider relief CARES funds are not exchange transactions under Topic 606 and are instead contributions in the scope of Subtopic 958-605. However, entities should carefully evaluate the terms and conditions of other sources of funds, including subsequent funding under the Act and FEMA assistance, to determine whether any amounts represent consideration from a contract with a customer in the scope of Topic 606. For example, as discussed in the Medicare payments section above, certain funding represents payment for services provided to patients and therefore is not accounted for as a contribution under Subtopic 958-605.

Revenue from conditional contributions is recognized when the conditions on which the contribution depends are substantially met. Contributions are considered conditional if:

— the contributor has a right of return for the transferred assets (or reduced, settled or cancelled liabilities), or the promisor has a right of release from its obligation to transfer assets (or reduce, settle or cancel liabilities); and

— one or more barriers must be overcome before the recipient is entitled to the resources transferred or promised.

Subtopic 958-605 provides indicators that an agreement contains a barrier that must be overcome for the recipient to be entitled to the resources. Some agreements may contain multiple barriers that must be overcome before the entity is entitled to the contribution. Although trivial stipulations (e.g. a requirement to provide an annual report) are not considered barriers to entitlement, the ease with which a barrier may be met, or the entity's historical experience with meeting the barrier, are not factors to consider when determining whether the contribution is conditional.

As noted above, there are conditions (or barriers to be overcome) attached to the funding from the Act and the terms and conditions specify that funds are subject to return if the terms and conditions are violated. As such, we believe the funding represents conditional contributions that are recognized when the conditions on which the contributions depend are substantially met. An entity cannot factor in the likelihood that the condition will be met.

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4 ASU No 2018-08, Not-for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

The funds will generally be revenue related to activities that are part of a healthcare entity's ongoing major and central operations. As such, the funds will be recognized initially as a liability and generally included within other operating revenues when the conditions are met. Likewise, the cash received would be presented as cash flows from operating activities. [230-10-45-16(c)]

An entity may receive a portion of the funding from HHS for which it does not believe it will ultimately meet the conditions. This could occur, for example, because the $30 billion in initial payments were generally distributed based on an entity's 2019 Medicare activity which may not correlate to the entity's specific COVID-19 need. Entities that do not expect to earn grant revenue, i.e. meet the conditions, should consider the appropriate financial statement presentation for the funds received and provide adequate disclosure about the nature and potential disposition of these amounts.

For-profit healthcare entities – government grant accounting considerations

US GAAP does not provide guidance on the accounting for government grants by for-profit healthcare entities and the scope of Subtopic 985-605 excludes transfers of assets from governmental entities to business entities. The lack of guidance has historically resulted in diversity in practice that we expect may continue to exist.

Entities should first carefully evaluate the terms and conditions of the government assistance to determine whether any amounts represent consideration from a contract with a customer in the scope of Topic 606. As discussed in the not-for-profit section above, we believe the $30 billion CARES Act relief that was funded on April 10, 2020 and the forthcoming $20 billion of generally allocated provider relief CARES funds as described above do not represent an arrangement with a customer and therefore Topic 606 would not apply. For additional funds, entities should make an assessment of whether Topic 606 applies based on the nature of the funding and conditions of payment. For example, see Medicare payment section above. FEMA assistance may represent a grant but certain assistance could represent payment for services under a service concession arrangement.

When the government assistance is not in the scope of Topic 606, a for-profit healthcare entity should consider its historical accounting policies and practices in determining appropriate guidance to apply by analogy. Some of the analogies that are applied in practice are discussed below.

For-profit healthcare entities that have not previously received government grants may need to develop new accounting policies and procedures, and significant judgment may be required to account for newly implemented government programs such as those arising from the Act.

Subtopic 958-605, not-for-profit entities – revenue recognition

For-profit entities may analogize to Subtopic 958-605. The guidance on contribution accounting in Subtopic 958-605 excludes government grants to business entities. However, the FASB staff have noted that business entities are not prohibited from analogizing to that guidance[5].

See additional discussion on the accounting under Subtopic 958-605 in the not-for-profit healthcare entities section above.

IAS 20, Accounting for Government Grants and Disclosure of Government Assistance

Some for-profit healthcare entities account for grants by analogizing to International Accounting Standard No. 20, Accounting for Government Grants and Disclosure of Government Assistance (IAS 20).

Under IAS 20, grants are defined broadly and an entity recognizes a government grant when it has reasonable assurance that (1) it will comply with the relevant conditions and (2) the grant will be received. Judgment may be required, particularly if the grant program's requirements are unclear or require additional regulatory interpretation, or where there is little established practice for assessing whether the entity will meet the conditions to receive the grant.

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[5] April 17, 2020 Private Company Council meeting

We understand that as of April 22, 2020, HHS provided examples of certain costs that would be eligible for reimbursement under the initial $50 billion funding, but did not provide examples of how to determine lost revenues.

If conditions (1) and (2) are met, then the entity recognizes the grant in profit or loss on a systematic basis in line with its recognition of the expenses or loss of revenues that the grants are intended to compensate. Entities need to consider the conditions associated with the grant carefully to determine whether it compensates for expenses already incurred or future costs or lost revenues.

Measurement and presentation of government grants depend on the nature of the grant and the company's accounting policies. IAS 20 defines two types of grants: *grants related to assets* and *grants related to income*.

- For grants related to assets - grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets, a company can elect to either:
  - deduct the grant from the cost of the asset (net presentation); or
  - present the grant separately as deferred income to be amortized over the useful life of the asset (gross presentation).
- For grants related to income - grants other than those related to assets, a company can elect to either:
  - offset the grant against the related expenditure; or
  - include it in other income.

Entities should evaluate the nature of each grant (e.g. FEMA, state or local, subsequent CARES Act funds) to determine the appropriate accounting and related financial statement presentation. The funds will generally initially be deferred on the balance sheet and recognized as an operating activity on a systematic basis in line with recognition of the expenses (or lost revenue) that the grants are intended to compensate.

For-profit healthcare entities will need to evaluate whether they have reasonable assurance that the conditions for the grant will be met before recognizing income. We believe reasonable assurance can be equated to probable in US GAAP. A careful evaluation of the expenses (or lost revenue) that the grants are intended to compensate is necessary to determine the correct reporting period in which to record income once reasonable assurance is obtained. Entities are not able to use payments from one source to reimburse expenses or losses that have already been or are obligated to be reimbursed from another source. Entities receiving grants from a number of sources will need to closely track the program from which funds are received and the specific costs the funds are being used to reimburse.

An entity may believe it will ultimately not meet the conditions for a portion of the funding from HHS. This could occur because the $30 billion in initial payments were generally distributed based on an entity's 2019 Medicare activity, which may not correlate to the entity's specific COVID-19 need. Entities that do not expect to earn grant revenue—i.e. meet the conditions—should consider the appropriate financial statement presentation for the funds received and provide adequate disclosure about the nature and potential disposition of these amounts.

Topic 450, Contingencies

Some entities have historically applied gain contingency accounting under Topic 450. Under this approach, an entity does not recognize income related to the grant consideration until it is realized or realizable. In other words, the grant is recognized when the contingencies and conditions related to the grant are resolved and the grant funds are not subject to refund. A careful evaluation of all of the terms and conditions of each grant is necessary and judgment is applied in determining what terms represent a contingency and when that contingency is resolved.

See IAS 20 section above for additional discussion of financial statement presentation.

Subsequent events

For **December 31, 2019 financial statements** that are issued after March 27, 2020 (the date the CARES Act became law), financial reporting impacts of the Act will be limited to nonrecognized subsequent events that should be disclosed. Each entity may be affected differently by different provisions of the Act and should adjust its disclosures accordingly.

For **March 31, 2020 reporting periods**: While the Act was passed into legislation in March 2020 and included a provision for healthcare entities to receive $100 billion, it did not provide guidance on how those funds were going to be distributed to healthcare entities or the specific conditions required to receive those funds. The HHS Secretary was provided discretion as to how to implement the program. It was not until April 2020 that the first $50 billion of the $100 billion funds was distributed to healthcare entities or announced with clarifying terms and conditions. We believe that this transaction is a Type II nonrecognized subsequent event as the Act required subsequent action by the HHS Secretary. Accordingly, we believe that such amounts should not be included in the March 31, 2020 financial statements. However, entities should consider their disclosures related to any funds received in the notes to the March 31, 2020 financial statements.

Later periods. The effect of the targeted allocations and remaining relief provisions of the $100 billion are still to be determined. Healthcare entities should not recognize amounts related to the remaining funds until the reporting period in which the grant conditions are clarified by HHS or other legislation. Entities should closely monitor subsequent events to determine which aspects of the Act can be recognized at the reporting date – i.e. which ones provide additional evidence about conditions that existed at the reporting date. Understanding the nature and conditions of the relief and the applicable guidance is key in this analysis.

Although Topic 855 generally requires quantitative disclosure of the effect of subsequent events, entities should exercise care when communicating potential contingent gains expected from the Act, to avoid misleading implications about the likelihood of realization. [450-30-50-1, 855-10-50-2]

For more detail on reporting subsequent events see KPMG's Hot Topic, Coronavirus - Subsequent events, going concern, and risks and uncertainties disclosures.

Evolving information

The potential global and economic impacts of the coronavirus continue to evolve rapidly, and healthcare entities should monitor the situation. The conditions and allocation of funds related to the remaining aid under the Act is still yet to be determined and questions remain about the process and conditions related to the $30 billion already distributed and the $20 billion announced by HHS as forthcoming. Healthcare entities should monitor HHS communications regularly for additional guidance on the current and future disbursements. Entities are encouraged to maintain close communications with their board of directors, external auditors, legal counsel and other service providers as the circumstances progress. Stay informed at read.kpmg.us/coronavirus. Visit our COVID-19 institute for additional industry insights from our Healthcare Advisory professionals and learn how they can assist healthcare entities meet the unprecedented challenges of this rapidly changing landscape.

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