LBMC

Accounting Treatment of CARES Act Funds by Healthcare Companies

The Coronavirus Aid, Relief, and Economic Security Act ("CARES") Act was passed on March 27, 2020. While there are various ways to qualify for funding under this Act, there are three main sources of relief a healthcare facility can qualify for under CARES:

1) Paycheck Protection Program (Sections 1102 and 1106)
2) Public health and social services emergency fund (Division B Title VIII)
3) Medicare Advanced Payments (Section 3719)

While there are varying opinions on the accounting for governmental funds received by healthcare entities, the most prominent methodologies are discussed below:

1) Paycheck Protection Program ("PPP") - This program provides loans to small businesses that could be fully or partially forgiven tax-free. Recipients of the PPP loans will be eligible for loan forgiveness for certain costs incurred related to payroll, rent obligations, utility payments, and interest on mortgage obligations, all as defined in the CARES Act during the eight-week period commencing on the disbursement date of the PPP loan.

   PPP Loan Accounting - While there is no specific guidance in accounting principles generally accepted in the United States ("GAAP") that addresses the accounting of a forgivable loan from a government entity, Accounting Standards Codification ("ASC") 405-20-40-1 *Extinguishment of Liabilities* states that "a debtor shall derecognize a liability if and only if it has been extinguished." In accordance with ASC 405-20-40-1(b), the portion of the principal payments to be forgiven on these loans would be derecognized only when the "debtor is legally released from being the primary obligor under the liability." As such, it seems appropriate to record these funds as debt when received and then recognized as revenue at the time all criteria for loan forgiveness have been met. The revenue recognized related to this loan forgiveness should be recorded in a separate line item from patient services revenue and financial statement disclosures added describing this activity.

2) Public Health and Social Services Emergency Fund ("Relief Fund") - A piece of this fund is specifically reserved for healthcare providers to cover any unreimbursed healthcare related expenses or lost revenue attributable to the public health emergency resulting from COVID-19. These funds are payments and do not have to be paid back. It is unclear at this time if these payments will be taxable.

   Relief Fund Accounting - While there is no explicit guidance on the accounting for government grants to business entities, ASC 450-30 *Gain Contingencies* indicates that income from a conditional grant is viewed similarly as a gain contingency; therefore, recognition of the grant in the income statement is deferred until all uncertainties are resolved and the income is realizable. That is, an entity must meet all the conditions required for receiving the grant before recognizing income. We also note that the gain contingency guidance in ASC 450-30 is what many companies have previously used when recording grants in the past such as the Electronic Healthcare Records program under the American Recovery and Reinvestment Act of 2009. Not-for-profit entities should treat these funds as they do other grant revenue by following the guidance in ASC 958-605 *Not-for-Profit Entities – Revenue Recognition as well as, Accounting Standards Update 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*

3) Medicare Advanced Payments ("MAP") - This section of CARES allows CMS to pay advanced payments to eligible Medicare providers in amounts up to 125% of the providers' estimated 6-month Medicare payments (payment amounts vary based on the type of healthcare facility). These funds are advanced payments that will be repaid in the future in the form of recoupments. For the first 120 days following the provider's receipt of the advance payment, CMS will continue to make full payment on all claims submitted by the provider. Thereafter, CMS will recoup the amount of the advance payment by withholding payment on claims submitted by the provider.

   MAP Accounting - Under ASC 606 *Revenue from Contracts with Customers*, since these payments are made before the services are performed, the payments should be recorded as a liability (deferred revenue or due to third-party) by the healthcare provider until the healthcare provider determines the criteria are likely to be satisfied (as future services are performed) and the probability of having to pay back the funds would be unlikely. As the payment of future claims is withheld, the healthcare provider should debit the deferred revenue or the due to third-party account and credit the related patient accounts receivable balance.

Further guidance from standard setters and regulators are expected regarding the appropriate application of GAAP for the recipient's accounting for funds received from the CARES Act as well as the specific disclosures that should be made for recipients that obtain such funds. If you have any questions about this information or would like additional guidance related to the CARES Act, please contact your LBMC client service team or one of us:

Brian K. Tate, Shareholder
615-309-2287
Btate@lbmc.com

Michelle Schmidt, Senior Manager
615-309-2439
Mschmidt@lbmc.com