WA-AK HFMA

Anchorage, Alaska

June 14, 2022





Roadmap

- 1. Understand new and recent updates to accounting guidance
 - Leases
 - CECL
- 2. Understand reimbursement/regulation issues



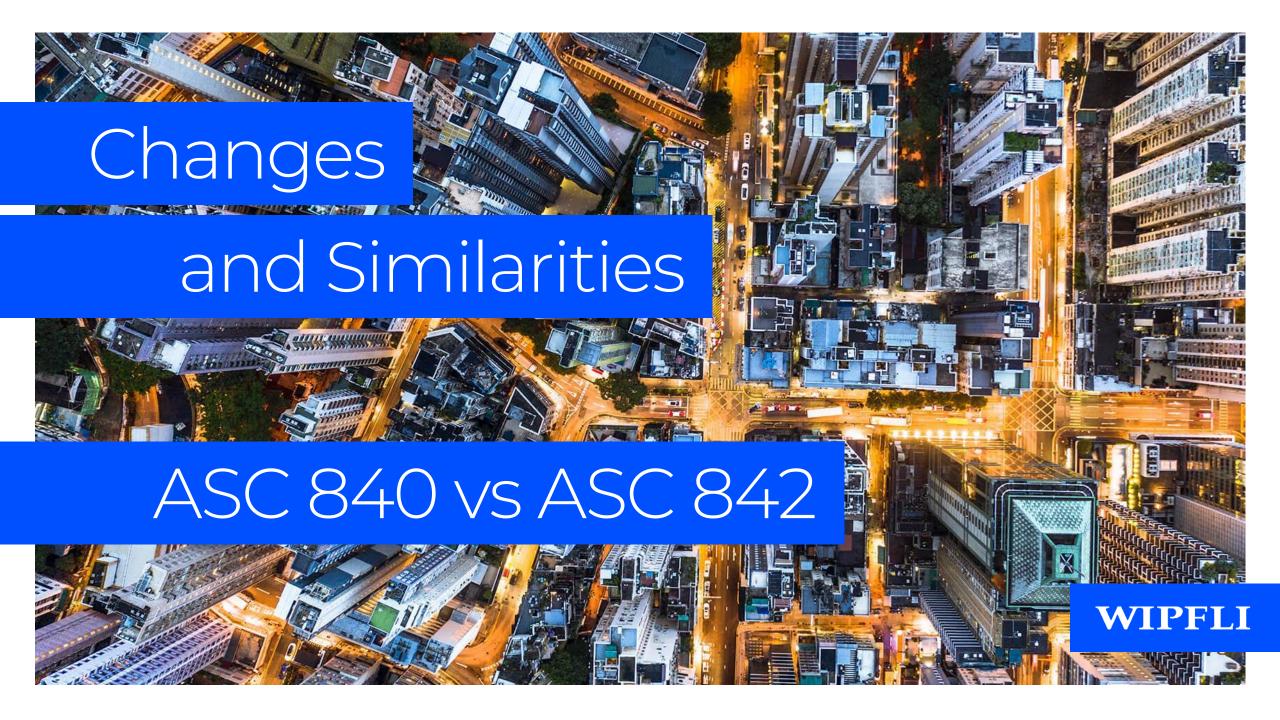
Leases Defined Under ASC 842

Definition of a lease under ASC 842

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration

- Identifiable asset
 - Physically distinct
 - No supplier substitution rights
- Control over the underlying asset
 - ► Right to obtain substantially all economic benefits
 - ► Right to direct the use of the asset

- Spans a period of time
 - Contract term
- Consideration
 - ► Payment for use of asset



Changes and Similarities – ASC 840 vs ASC 842

Definition of a lease:

- ► ASC 840 (Legacy GAAP)
 - "An agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets) usually for a stated period of time"
- ► ASC 842 (New GAAP)
 - "A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration"

Changes and Similarities – ASC 840 vs ASC 842

What's the difference?

840: An agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets) usually for a stated period of time

842: A contract, or part of a contract, that conveys the right to control the use of		
identified property, plant, or equipment (an identified asset) for a period of time in	Legacy	New
exchange for consideration	ASC 840	ASC 842
Contract or agreement		
Identifiable asset (explicit or implicit)		
Control over the underlying asset		
Contract spanning a period of time		
Element of consideration		

Changes and Similarities: ASC 840 vs ASC 842

So why do we care?

Main impact of ASC 842 is to present ALL leases as defined by the new standard on the balance sheet

- Finance Leases (capital lease under 840)
 - Already on the balance sheet
 - New terminology = ROU Asset Finance Lease and Lease Liability Finance Lease
- Operating Leases
 - Will need to be presented on the financial statements
 - Shown as ROU Asset Operating Lease and Lease Liability Operating Lease

Changes and Similarities: ASC 840 vs ASC 842

Impact on operating leases

- Under ASC 840, operating leases are not presented on balance sheet
- Expensed as incurred
- Under ASC 842, all operating leases will be presented on the balance sheet
- Balance sheet will include a ROU asset and lease liability for each operating lease
- Requirement to present operating lease assets and liabilities emphasizes embedded lease element



Accounting Impact – Classification

Classification

- Finance leases have four similar criteria as capital leases under ASC 840, with an additional criterion to consider:
 - 1. Transfer of ownership
 - 2. Purchase option reasonably certain to exercise (generally, less than FV)
 - 3. Majority of the useful life (no longer 75%)
 - 4. PV of future minimum lease payments is substantially all of the FV (no longer 90%)
 - 5. Specialized nature

Accounting Impact – Measurement

Lease Liability

- Liability is measured first, and consists of:
 - ▶ The present value of the lease payments not yet paid, discounted using the discount rate for the lease
 - ► Variable rent (variable payments) are not included, unless there is a required minimum
- Discount rate is the rate implicit in the lease
 - ▶ If the rate implicit in the lease is unknown, the lessee should use its incremental borrowing rate for a comparable amount for a comparable term
 - That is, you cannot use the borrowing rate on a 12-month LOC as a discount rate on a 5 year equipment lease
 - A 5-year lease should use the rate for a 5-year loan
 - A 15-year building lease, should use the rate for a 15-year loan rate
 - ► Risk-free rate is an allowable expedient most nonpublic entities will elect
 - Still needs to be for a comparable period (but US Treasury provides relevant info)

Accounting Impact – Measurement

Right-of-Use Asset

ROU assets are measured starting with the lease liability



- ▶ Initial direct costs are costs directly attributable to negotiating and arranging the lease that would not have been incurred had the lease not been executed (commissions, payments to an existing tenant to incentivize that tenant to terminate its lease, etc.)
- ▶ Prepaid lease payments prepaid rent on the books will be subsumed into the ROU asset
- Lease incentives include both payments made by the lessor to or on behalf of the lessee (tenant improvement allowances, for example) and any losses incurred by the lessor as a result of assuming a lessee's preexisting lease with a third party



Effective Dates:

- ASC 842
 - ► Fiscal years beginning *after* 12/15/2021

- GASB No. 87
 - ► Fiscal years beginning *after* 6/15/2021

Reporting Model:

- ASC 842
 - Leases are classified as either 'operating' or 'finance' leases
 - Both types of leases result in recognition of assets and liabilities (with few exceptions, eg, short term leases)

- GASB No. 87
 - ➤ Singular All leases are 'finance leases'
 - Exception Financed purchases are not leases

Transition:

- ASC 842
 - ▶ Option 1 Modified Retrospective Comparative Period Method
 - Essentially the same as GASB 87
 - ▶ Option 2 Modified Retrospective Effective Date Method
 - Prospective, no need to restate
 - Prior periods presented according to ASC 840 guidance

- GASB No. 87
 - ► Full retrospective
 - All prior period financial statements need to be restated
 - Exception: Unless it is not practicable to restate

Discount rate:

- ASC 842
 - Risk free rate allowed to be used as a practical expedient
 - This is a policy election applied by class of underlying asset during transition year implementation
 - Most likely US Treasuries with similar terms as the lease contract

- GASB No. 87
 - Risk free rate is not allowed
 - Use guidance from GASB No. 62 to impute an interest rate

Related Party Leases:

- ASC 842
 - ► Form over substance
 - Accounting is based on the enforceable terms of the lease contract

- GASB No. 87
 - Substance over Form
 - Accounting based on if the lease contract was executed at arm'slength

Contracts that Transfer Ownership:

- ASC 842
 - ► Finance lease

- GASB No. 87
 - ► Financed purchases, not leases under this guidance
 - Contracts must convey ownership
 - Presence of a bargain purchase option does not constitute transfer of ownership, regardless of the certainty of which it will be exercised

Embedded Leases:

- ASC 842
 - ► Separating lease and non-lease component is an accounting policy election
 - ► Lease and non-lease components can be combined and capitalized as a single lease component

- GASB No. 87
 - Generally, must identify and separate lease and non-lease components

Required Disclosures:

ASC 842

- ► Maturities Five years, then "thereafter"
- ▶ Other payments Residual value guarantees, termination penalties, etc. are not required to be disclosed. Finance lease costs, operating lease costs, and others are; however required to be disclosed
- ► Impairment Not required to identify the related change to the lease liability

• GASB No. 87

- Maturities Five years, then five-year brackets until maturity
- ► Other payments Residual value guarantees, termination penalties, etc. are required to be disclosed
- ► Impairment Impairment losses and change in the lease liability must be disclosed.

GASB No. 96 – Accounting for your EHR and EMR payments

GASB Statement No. 96 – Subscription-Based Information Technology Arrangements – Effective fiscal year-end December
 31, 2023 for governmental entities:

Definition: a SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-likel transaction.

- ► There is a 3-tiered approach for assessing charges not related to subscription payments: *Preliminary Project Stage* Expensed as incurred; *Initial Implementation Stage* Generally, will be capitalized as a part of the subscription asset; *Operation and Additional Implementation Stage* - Generally expensed as incurred, unless they increase functionality or efficiency
- The GASB determined that a subscription liability, measured at the present value of expected subscription payments to be made during the subscription term.
 - The subscription payments should be discounted using either the rate the SBITA vendor charges, or, if not readily determinable, the government's incremental borrowing rate.
- Similarly, a subscription asset should be recorded to equal the subscription liability, less any vendor incentives received.
- The asset should be amortized over the shorter of the term or useful life of the underlying IT assets. © 2020 Wipfli LLP. All rights reserved.



- Part of ASU 2016-13 (ASC 326) Effective this year for most entities
- CECL stands for "Current Expected Credit Losses"
- New standard for measuring impairment / credit losses for most financial assets measured at amortized cost
 - ► ASC 326 also provides updated guidance for securities available for sale
- Recognize an allowance for "lifetime" expected credit losses
 - Currently recognize an allowance for losses incurred to date

- Legacy GAAP Incurred loss model
 - ► Under the incurred loss model, impairment is recognized for credit losses that have been incurred as of the reporting date
 - Sometimes this loss is evaluated on an individual asset (e.g., impaired loan)
 - Sometimes this loss is evaluated on a pool of assets (e.g., accounts receivable)
 - ► The loss that is recognized is based on the estimated credit losses at the reporting date even if the loss has not been realized, but it does not include losses that may happen in the future

- ASU 2016-13 Current Expected Credit Loss (CECL) model
 - ► Recognize an estimate for credit losses that have occurred and are expected to occur in the future
 - Does not include losses on assets that have not been recognized yet
 - ► New ASC 326 Two impairment models
 - Financial assets measured at amortized cost
 - Financial assets measured at fair value through OCI
 - (Does not apply to assets measured at fair value through net income)

What is CECL?

Incurred Loss Model Expected
Future Losses

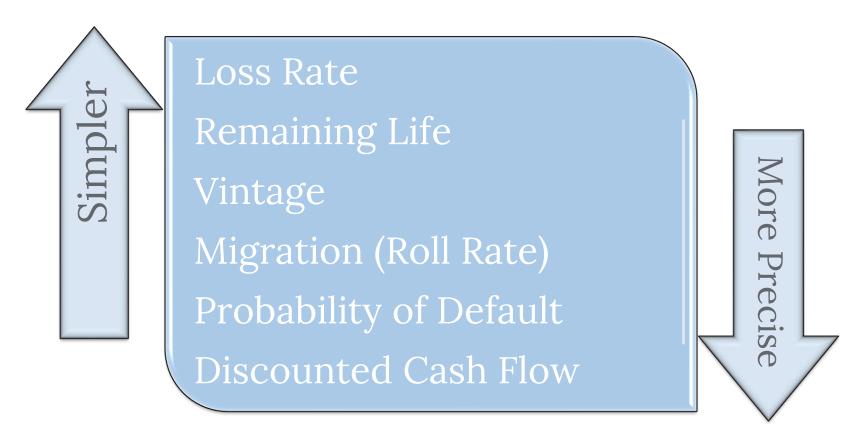
Current
Conditions

Historical Loss Experience **CECL**



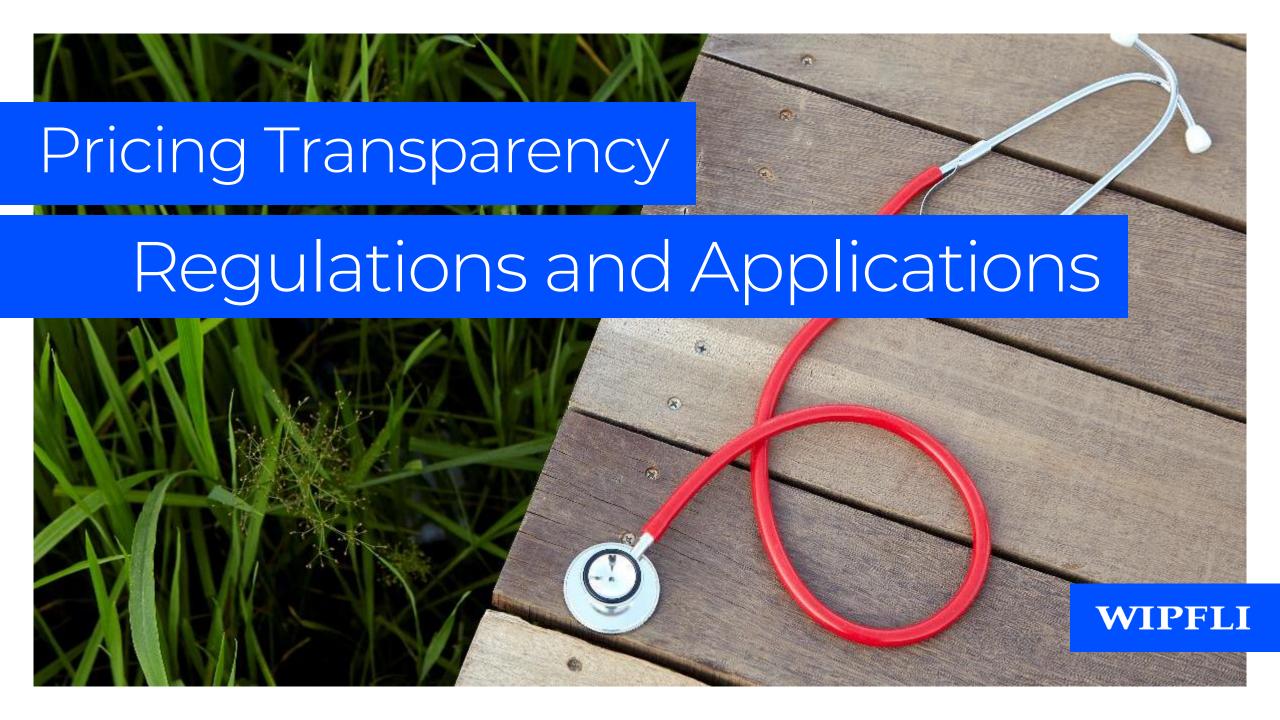
Preparing for CECL

A number of methodologies may be utilized



Observations from the Adoption of CECL

- FASB feedback from nonbanks that adopted CECL entities did not see a material change to their allowance
 - Spent a lot of time and internal resources to implement CECL
 - ► Built upon existing models and accounting practices (minimal external costs)



Overview

On November 15, 2019, CMS finalized its expanded interpretations of section 2718 of the Public Health Service Act. The final rule requires all hospitals to make a list of gross charges, negotiated charges, a self-pay "walk-in rate" and a minimum and maximum negotiated charge for all services in the hospital charge description master (CDM) publicly available in a machine-readable format.

- Since 2019, hospitals were required to post charges (chargemaster posting). This
 ruling expanded the price transparency disclosures significantly.
- The American Hospital Association (AHA) challenged this regulation on behalf of its member hospitals. On June 23, 2020, a federal judge ruled against the American Hospital Association in its lawsuit attempting to block this ruling.

Penalties

Increased enforcement and penalty increases.

- Monitoring Evaluation of complaints, CMS initiated audits, noncompliance is very easy to audit.
- Notice and Corrective Actions Written notice, correction opportunity, possible corrective action plan. Civil penalties for noncompliance.
- Current Penalty \$300 per day maximum per Hospital, CMS public posting of noncompliance Hospitals.

Penalties

- Proposed Penalty increased penalty using a scaling factor based upon bed count
 - Hospital with more than 550 beds = \$5,500 daily penalty
 - Hospital with 31 to 550 beds = \$10 per day per bed
 - Hospitals with less than 30 beds = \$300 per day
- Large Hospital Penalty Increased from \$109,500 to \$2,007,500!

What Now?

Two datasets are required to be made available to supplement the current chargemaster posting:

- All Service Dataset chargemaster including gross charges, negotiated charges, a self-pay "walk-in rate" and a minimum and maximum negotiated charge for all services in the hospital charge description master (CDM) publicly available in a machine-readable format.
- Shoppable Service Dataset a list of 300 shoppable services to be made publicly available in a searchable, consumer-friendly format.

Shoppable Service Dataset:

CMS requires hospitals to report at least 300 shoppable services. 70 commonly shoppable services are listed in the regulation, with the balance to be provided by each hospital based on that hospital's common services provided.

Sample Display of Shoppable Services

Hospital XYZ Medical Center Prices Posted and Effective [month/day/year] Notes: [insert any clarifying notes or disclaimers]

Shoppable Service	Primary Service and Ancillary Services	CPT/ HCPCS Code	[Standard Charge for Plan X]
Colonoscopy	Primary Diagnostic Procedure	45378	\$750
	Anesthesia (Medication Only)	[Code(s)]	\$122
	Physician Services	Not provided by hospital (may be billed separately) Not provided by hospital (may be billed separately)	
	Pathology/Interpretation of Results		
	Facility Fee	[Code(s)]	\$500

Office Visit	New Patient Outpatient Visit, 30 Min	99203	\$54
•			

	Primary Procedure	59400	[\$]
	Hospital Services	[Code(s)]	[\$]
	Physician Services	Not provided by hospital (may be billed separately)	
Vaginal Delivery	General Anesthesia	Not provided by hospital (may be billed separately)	
	Pain Control	Not provided by hospital (may be billed separately)	
	Two Day Hospital Stay	[Code(s)]	[\$]
	Monitoring After Delivery	[Code(s)]	[\$]

How to Select Shoppable Services:

- Need to report on the 70 services as required or list the service and indicate that your hospital does not provide these services – list the 70!
- Identify remaining shoppable services to achieve the full 300 service requirement
- Flexibility to report services that are "commonly provided" in your hospital
- Start with top inpatient cases required DRGs (and vaginal deliveries which are required based on professional CPT code 59400 which is listed as a shoppable service)
 - Need to review at the claim level to determine of some DRGs may need to be further refined (i.e. DRG 460 hip, knee, ankle replacement all fall into DRG 460)
 - Need to review at the claim level to determine if some required services such as vaginal delivery CPT 59400 are included in more than one DRG using diagnosis codes

How to Select Shoppable Services:

- Review outpatient only claims to determine top service bundles (ED visits, outpatient surgeries, imaging with contrast etc.)
- Next, identify individual outpatient CPT codes that would be considered shoppable such as a specific lab test or a specific evaluation and management service.
- Strategies:
 - Keep the number of service bundles to a minimum as they will be more complex to report
 - If you are on % of charge contracts, you will want to consider applicable claims for each shoppable service as defined to report a possible range of values (high, low, midpoint etc.)
 - Eliminate "unbelievable" claims that may have gotten billed incorrectly etc.
 - You have some flexibility on reporting of shoppable services

Where is your hospital in this process?

We have seen hospitals develop these files internally or seek outside assistance to comply. What ever direction you take, you will need to understand at a high level, the data and process that will be required to comply.

The detailed data capture and analysis work is significant....