



Mastering the Latest in Accounting & Auditing **Lone Star HFMA Winter 2025 Conference**

Danielle Zimmerman, Partner



Learning Objectives



- 1 Develop an understanding of the current and upcoming accounting and financial reporting matters most significant to the healthcare industry
- 2 Gain insights and lessons learned from organizations tackling significant accounting and reporting matters including revenue recognition, lease accounting, cloud-based computing, and financial performance in the post-COVID era

- 3 Obtain an update of other matters impacting financial statement audits, single audits, and internal controls/risk management relevant to the accounting and reporting functions

Agenda

1. Key Accounting & Financial Reporting Updates
2. Single Audit Update
3. Other Finance & Financial Reporting Matters & Considerations



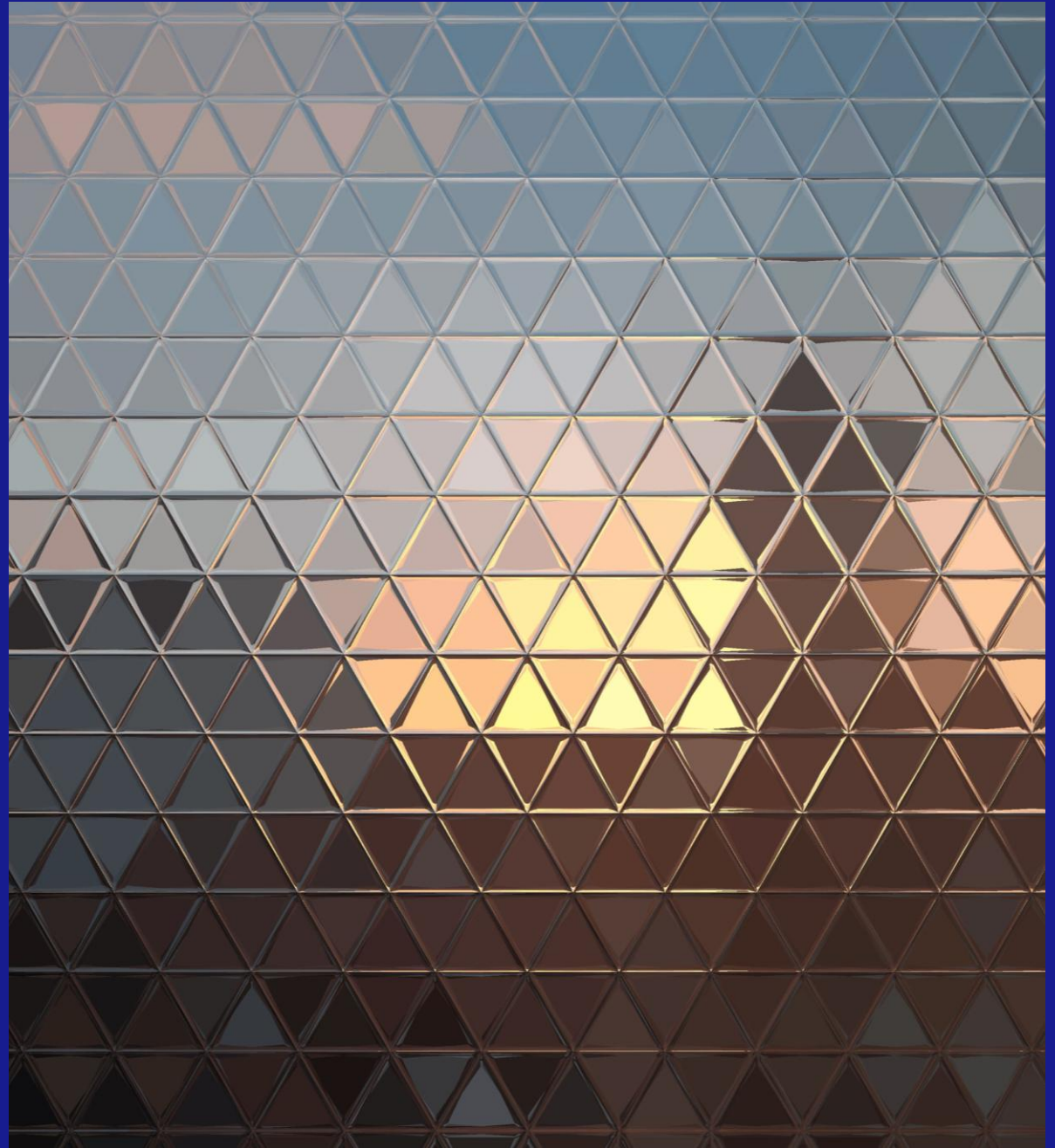
01

Key Accounting & Financial Reporting Updates



01.1

Current Expected Credit Loss (CECL)



ASU 2016-13, Financial Instruments

Credit Losses

- Introduced CECL: Current Expected Credit Loss
- More complex than the current model
- Very hot topic in other industries, *e.g.*, financial services
- Often overlooked or minimized in healthcare
- Summary concept:
 - Previous GAAP: Amount of probable loss based on events that have occurred to the measurement date
 - CECL Model: Current estimate of lifetime cash flows not expected to be collected, discounted at an effective rate
 - Considers not only historical information, but also current & future economic conditions & events over the life of the financial instrument



ASU 2016-13, Financial Instruments

Credit Losses

Financial Instruments in Scope

- Trade receivables
- Contract receivables
- Loan receivables
- Financial guarantees
- Reinsurance receivables
- Held-to-maturity debt securities
- Loan commitments
- Lease receivables

Financial Instruments Not in Scope

- Loans made to participants by defined contribution employee benefit plans
- Policy loan receivables of an insurance entity
- Pledges receivable of a not-for-profit entity
- Equity method investments & investments at fair value
- Loans & receivables between entities under common control
- Operating lease receivables
- Derivatives

ASU 2016-13, Financial Instruments

Credit Losses

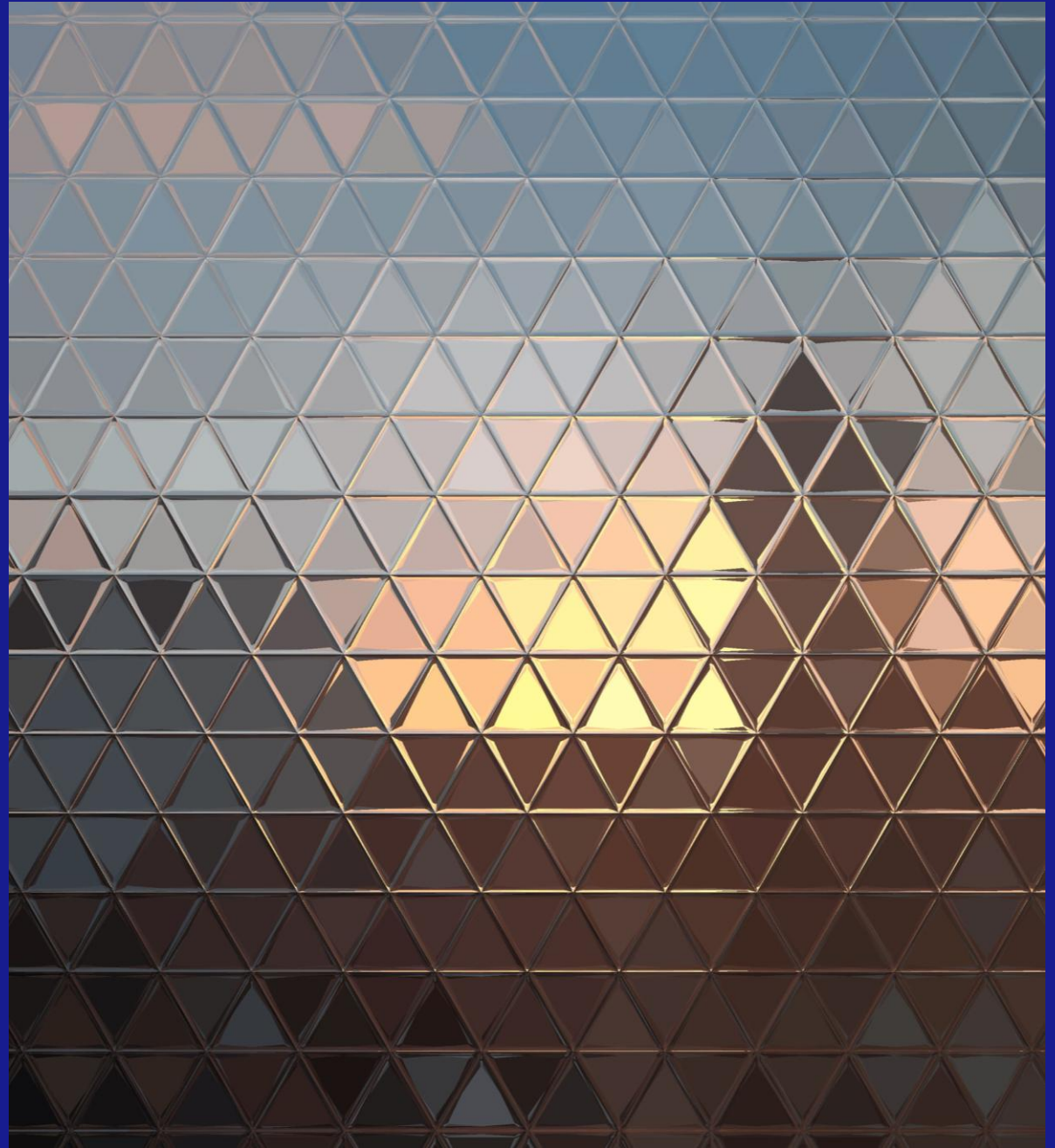
Common Healthcare Impacts

- Notes/loans receivable & physician receivables
- Held-to-maturity debt securities – for-profit only
- Investments measured at amortized cost
- Patient accounts receivable
- Sales type & financing leases
- Guarantees



01.2

Crypto Assets



Crypto Assets (ASU 2023-08) – Scope & Measurement

Effective Years Beginning After December 15, 2024 (FY 2025)

Scope: Crypto assets must meet **all** the following:

The definition of ***intangible asset*** as defined in Codification

Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets

Are created or reside on a distributed ledger based on blockchain or similar technology

Are secured through cryptography

Are fungible

Are not created or issued by the reporting entity or its related parties

Measurement

- Measure at fair value
- Increases & decreases recognized within the performance indicator (excess/deficiency in revenues over expenses)

Crypto Assets Presentation & Disclosure



Balance Sheet

Crypto assets separate from other intangible assets measured using other measurement bases



Income Statement (or Statement of Operations)

Gains & losses in net income separate from amortization & impairment of other intangible assets



Statement of Cash Flows

Classify cash flows from crypto assets received in ordinary course of business or as a contribution & converted nearly immediately into cash as operating activities*

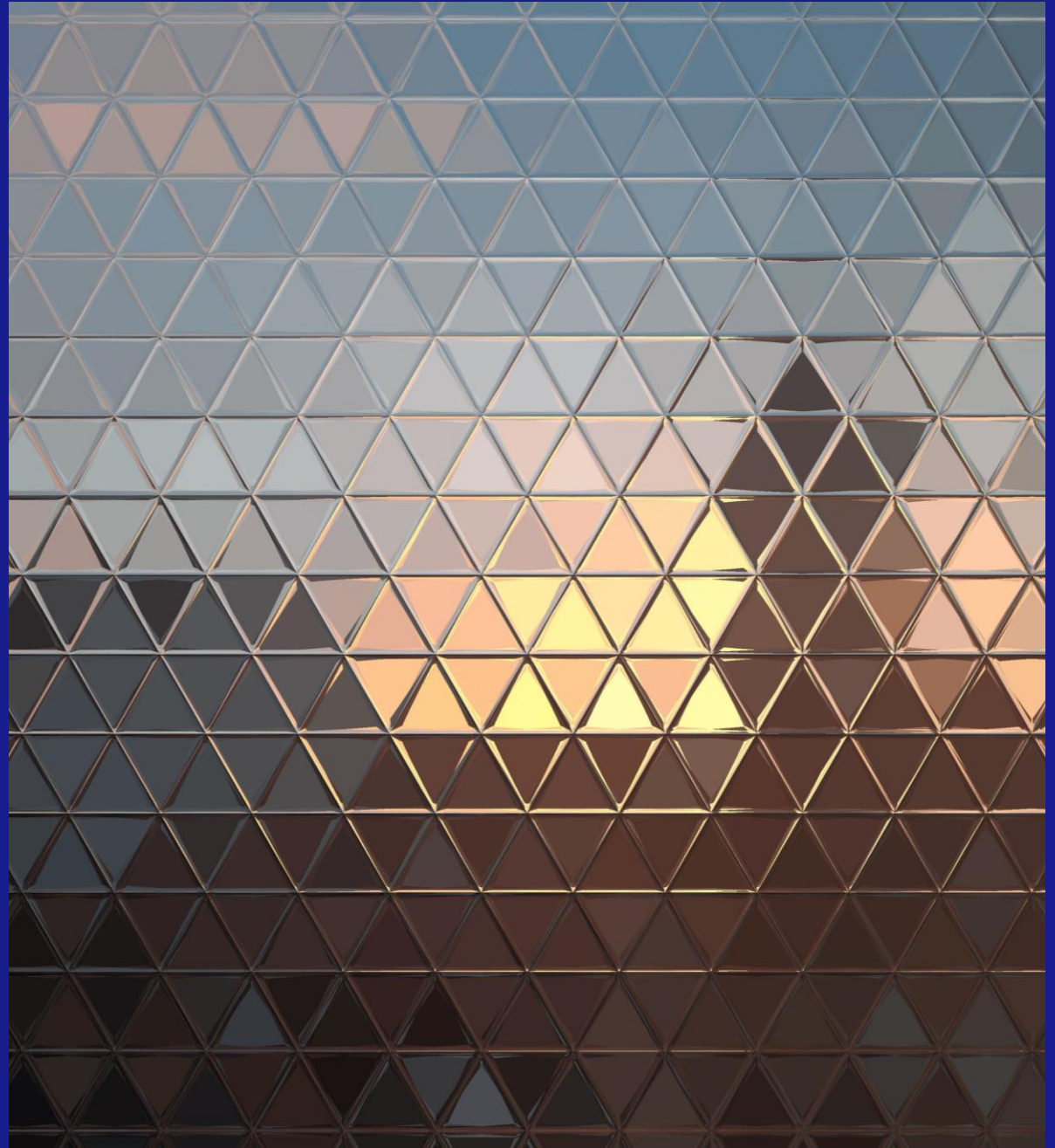
Disclosures

- Significant crypto asset holdings
- Restrictions on crypto assets held
- Reconciliation of activity between the beginning & end of the period
- Historical realized gains & losses

* The FASB clarified that an NFP that nearly immediately liquidates crypto assets received **with donor-imposed restrictions for long-term or capital use** would be required to classify the activity as cash flows from **financing activities**.

01.3

Leases



Update for Leases Under Common Control

Leases – Common Control (ASU 2023-01 issued March 2023), effective for years beginning after December 15, 2023, *i.e.*, 2024)

- Issue 1 (expedient) available to private companies & nonprofits but not available to nonprofits with conduit debt
 - Provide a practical expedient to use written terms to determine if a lease exists & if so, its classification & accounting
- Issue 2 available to all entities
 - Leasehold improvements amortized over the economic life of the improvements as long as lessee continues to use the underlying asset (rather than the shorter of life of asset or lease term)
 - If stopped using lease, it is a transfer between entities under common control

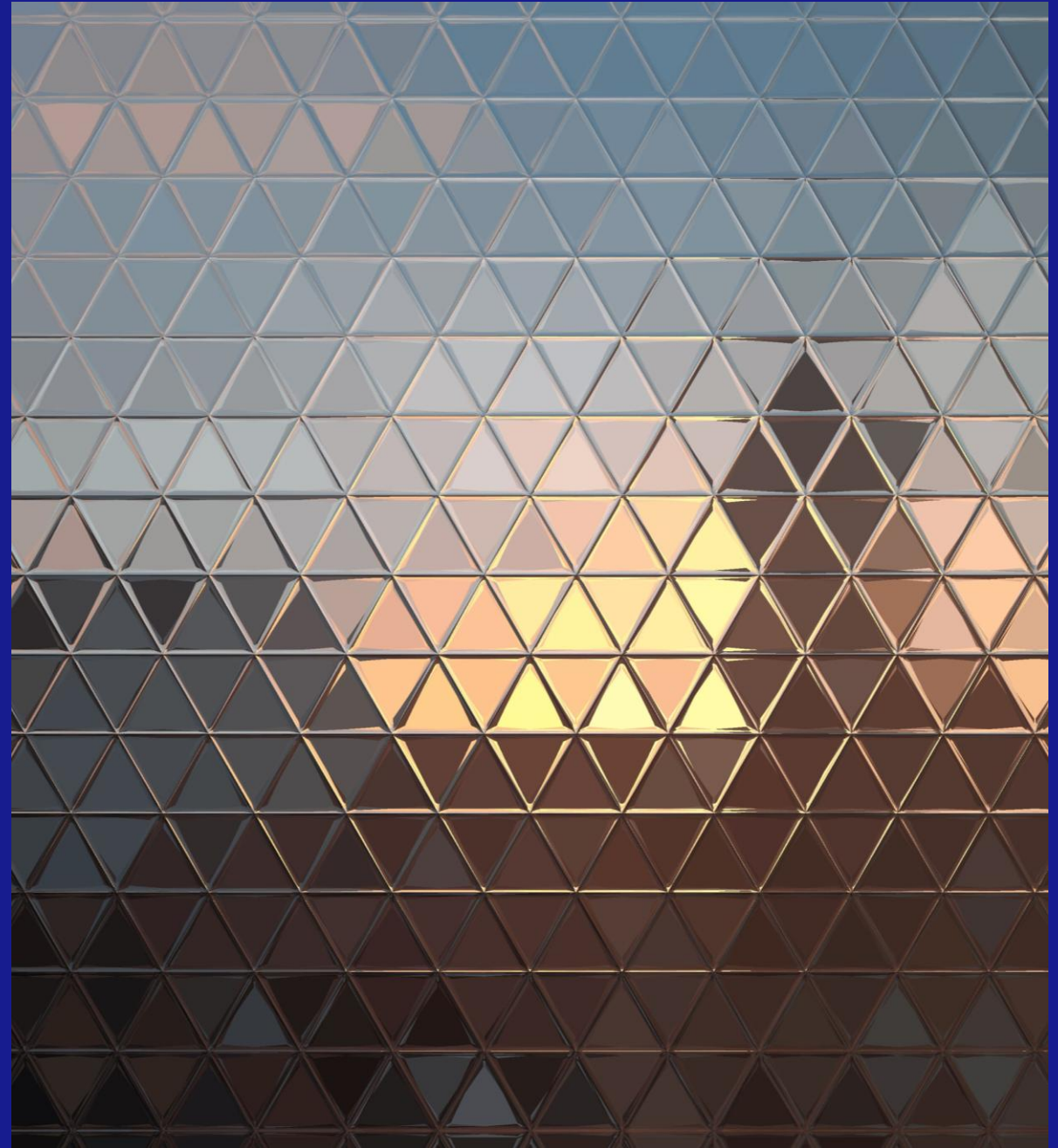
Best Practices & Reminders on Lease Accounting Maintenance

- Routine process during the year
 - Add new leases
 - Updates for extensions, renewals, modifications
 - Journal entries
- Discount rates & updates to incremental borrowing rate
- Follow lease capitalization policy
- Lease accounting policy elections
 - Separation of lease & nonlease component elections
 - Short-term leases (exclude or include)
- Completeness of population/controls over contracting
- Leverage examples & guidance in ASC 842



01.4

Software Costs & IT Projects



Software & IT Project Costs

Background – FASB (ASC 350-40)

Subscription Liability

- Software license fees liability, to the extent not paid in advance

Intangible Asset

- Acquired software costs
- Developed software costs
- Licenses & subscriptions
- Capitalizable implementation costs

Background – GASB (GASB 96)

Subscription Liability

- Present value of fixed subscription payments & certain other payments expected to be made during the subscription term

RTU Subscription Asset

- Initial liability +
- Upfront payments to the SBITA vendor +
- Capitalizable implementation costs

Software & IT Project Costs

Capitalizable

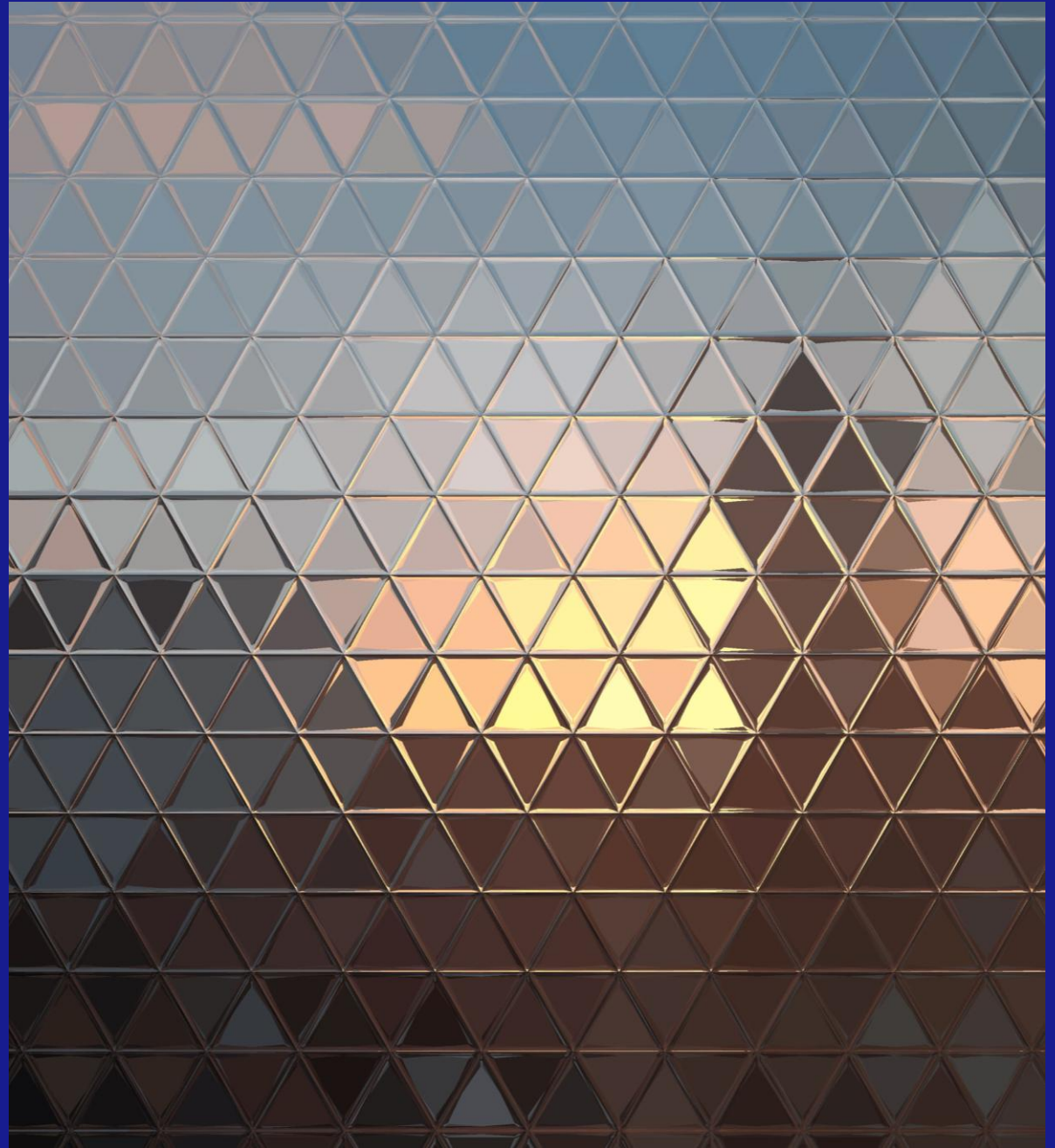
- Integration (developing interfaces between the hosted software & the organization's other systems)
- Customization, either of the organization's other systems or of the hosted software
- Configuration, either of the organization's other systems or of the hosted software, data conversion, or migration
- Installation
- Architecture & design
- Coding

Non-Capitalizable (Expense)

- Testing
- Training
- Business process reengineering
- Maintenance & routine upgrades not providing enhanced functionality

01.5

Impairment, Financing
& Debt Compliance,
Going Concern,
& Margin Pressures



Impairment, Financing & Debt Compliance, Going Concern, & Margin Pressures



Inflation, interest rates, workforce, purchased services, & supply chain issues severely impacting healthcare industry.

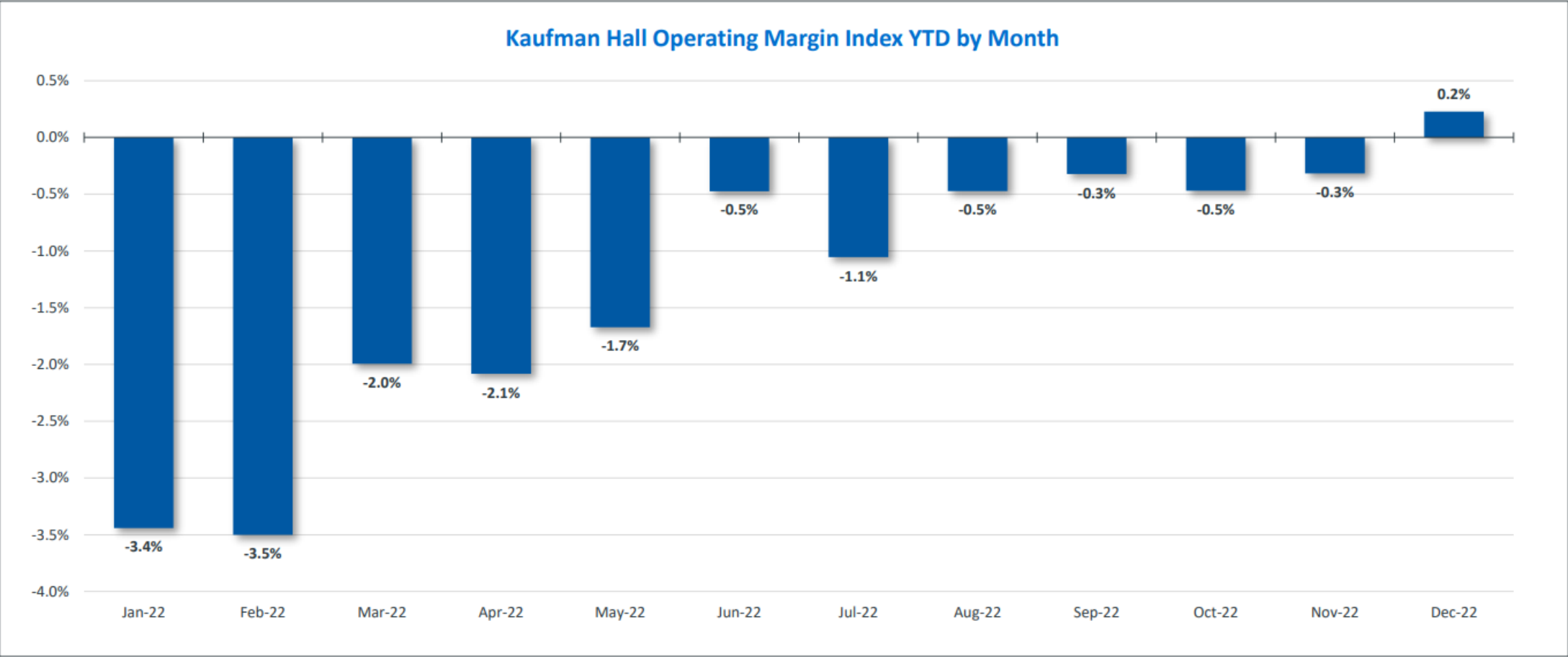


A record number of healthcare organizations had negative operating margins for 2022 and/or 2023 as expenses outpaced growth in revenue.



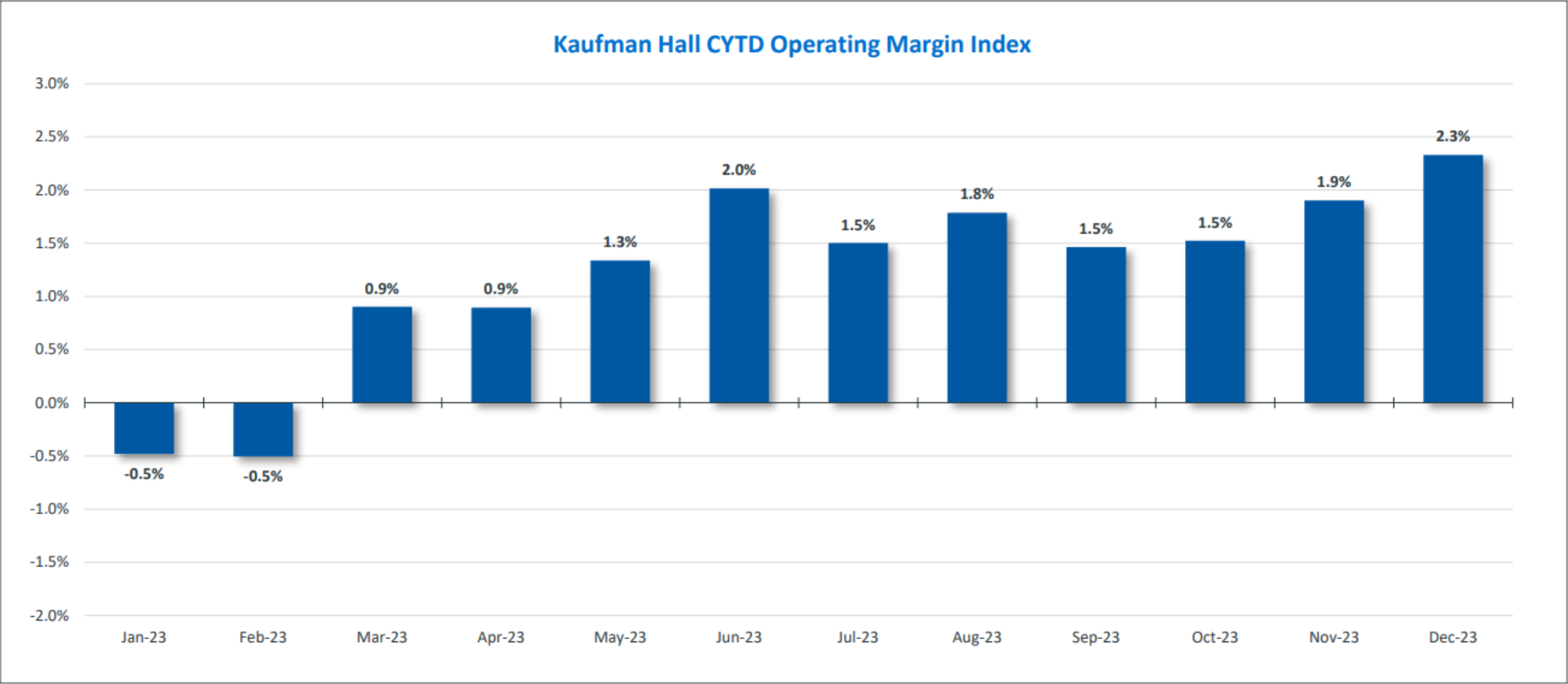
Operating margins have recently begun to improve; however, still well below historical norms with room for improvements.

Impairment, Financing & Debt Compliance, Going Concern, & Margin Pressures



Kaufman Hall, National Hospital Flash Report (January 2023)

Impairment, Financing & Debt Compliance, Going Concern, & Margin Pressures



Kaufman Hall, National Hospital Flash Report (December 2023)

Impairment, Financing & Debt Compliance, Going Concern, & Margin Pressures

- Be mindful of debt covenant compliance
- What remediation is required?

Scenarios: Debt Classification With a Covenant Violation	Current	Non-Current
No waiver & no grace period	●	
No waiver, with a grace period & it is probable the violation will be cured within the grace period		●
No waiver, with a grace period & it is not probable the violation will be cured within the grace period	●	
Waiver obtained after the balance sheet date; covenant not required to be met within one year from the balance sheet date		●
Waiver obtained after the balance sheet date, it is probable the interim & annual covenant requirements will be met within one year from the balance sheet date		●
Waiver obtained after the balance sheet date, it is not probable the interim & annual covenant requirements will be met within one year from the balance sheet date	●	

Impairment, Financing & Debt Compliance, Going Concern, & Margin Pressures



Going Concern consideration under ASC 205-40 – one year from date of AFS report issuance, not balance sheet date



Possible need for cash flow projections for 12 months from date of report issuance



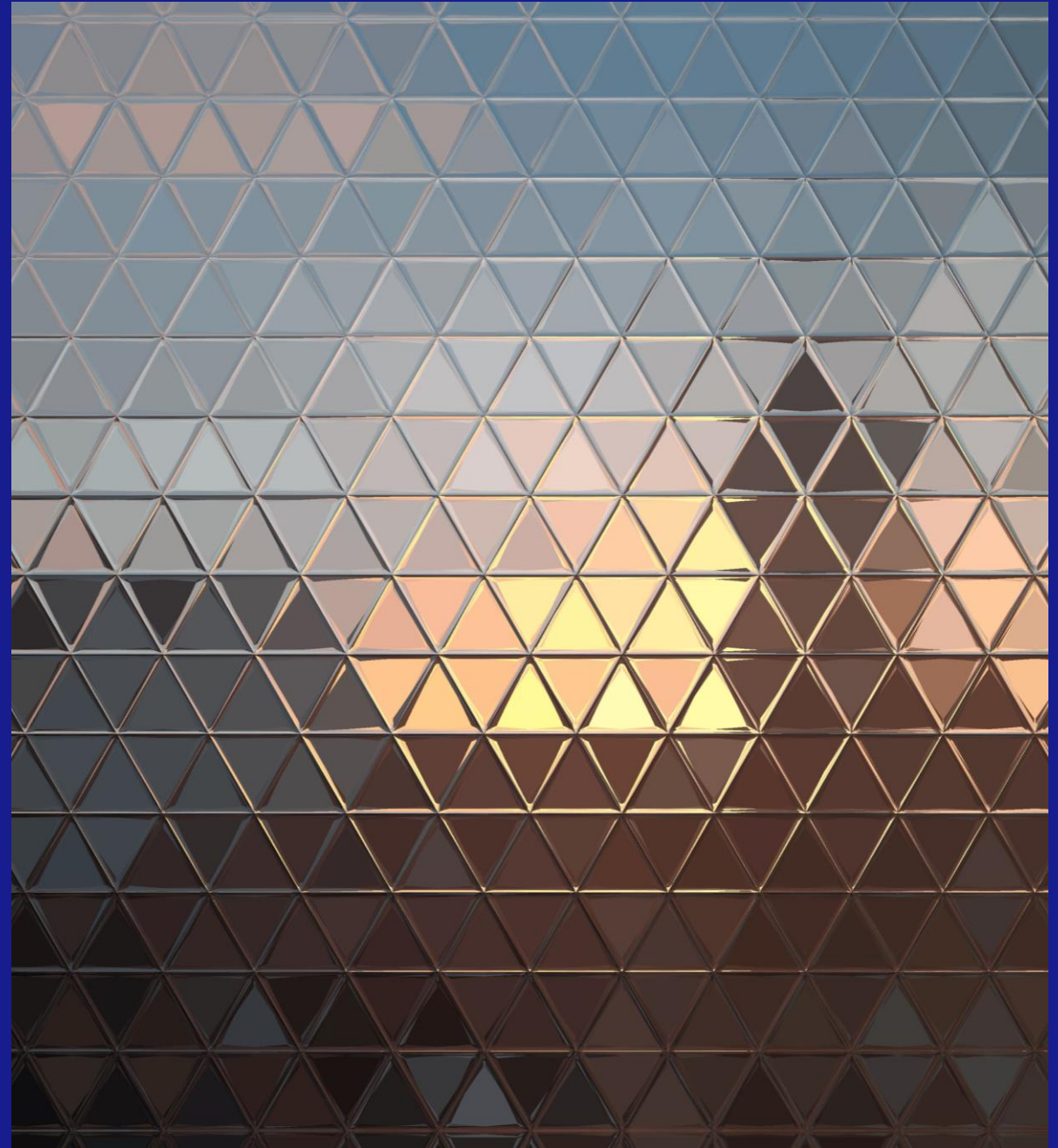
Cash liquidity considerations



All of this takes time – need to monitor & take action in advance

01.6

Upcoming & Future Standards & Projects



Upcoming & Future Standards & Projects

FASB

- Accounting/Disclosure of Software Costs
- Accounting for Environmental Credit Programs
- Accounting for Governmental Grants
- Improvements to Income Tax Disclosures
- Conversion of Convertible Debt Instruments
- Derivative Refinements & Hedge Accounting Improvements
- Disaggregation of Income Statement Expenses
- Targeted Improvements to Cash Flows

GASB

- Accounting Changes & Error Corrections
- Compensated Absences
- Certain Risk Disclosures
- Going Concern & Severe Financial Stress
- Financial Reporting Model
- Revenue & Expense Recognition
- Classification of Nonfinancial Assets
- Subsequent Events

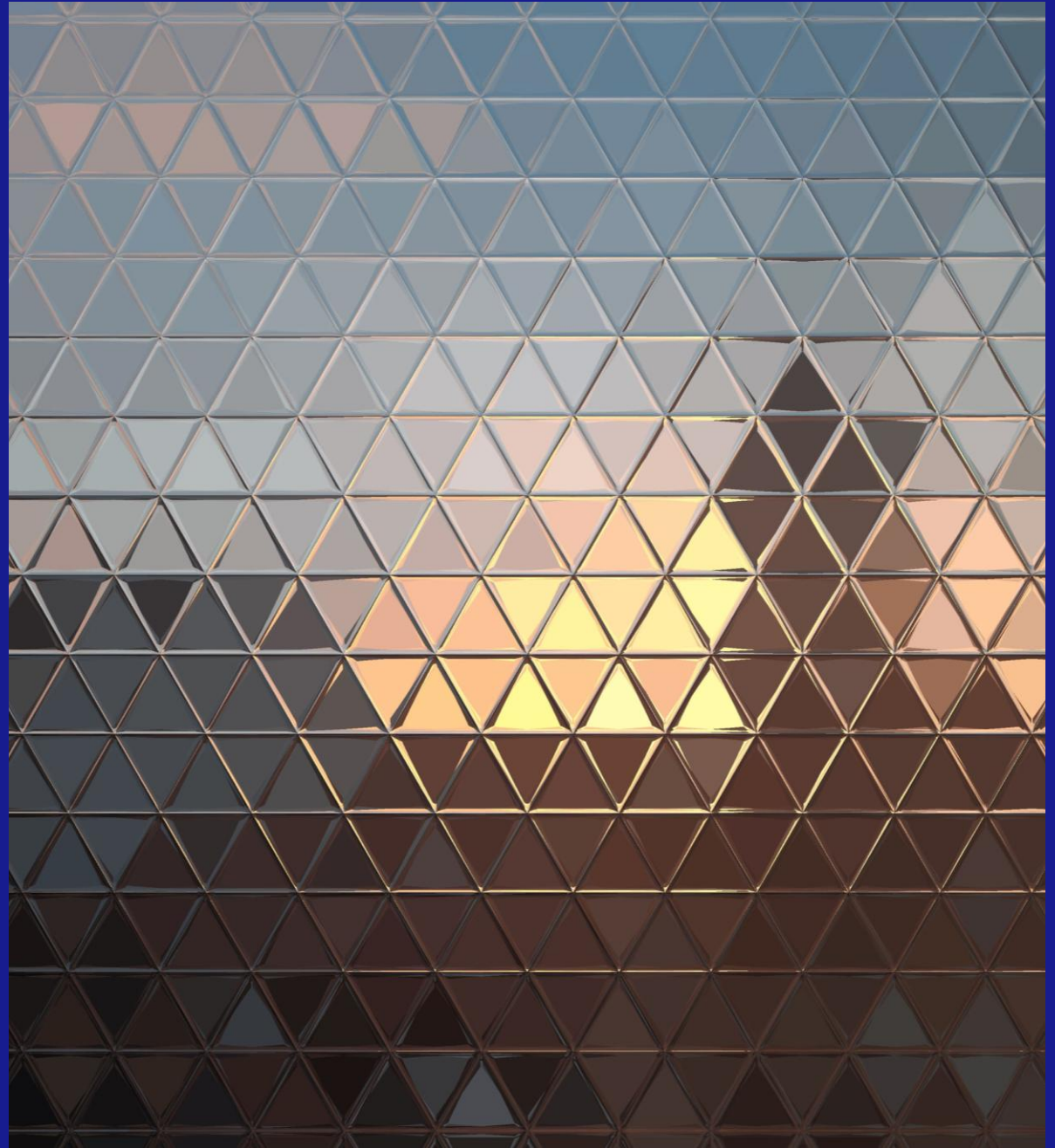
02

Single Audit Update



02.1

Changes for 2024 Compliance Requirements



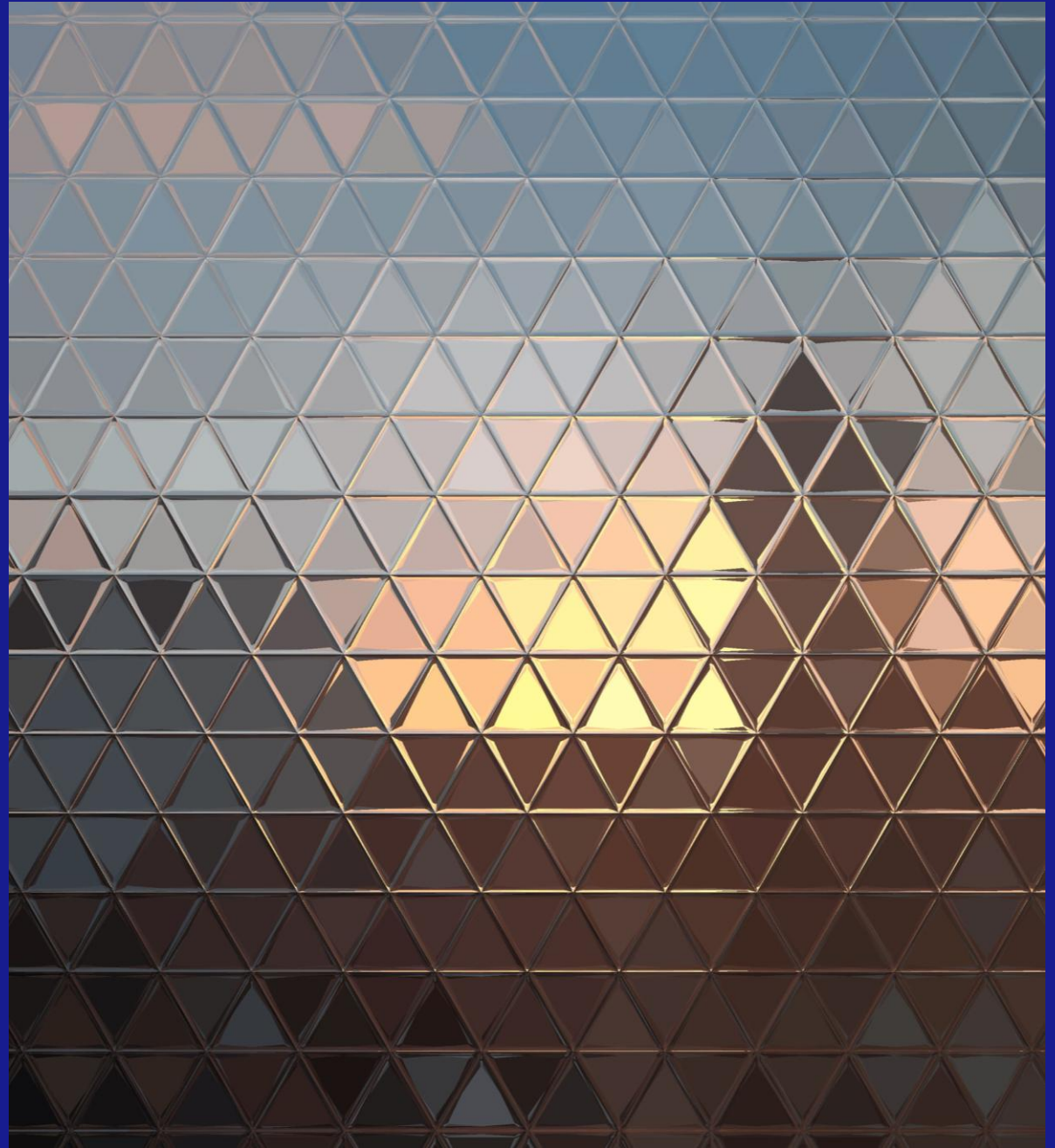
OMB Updates to 2 CFR 200, Uniform Guidance

Area	Previous Threshold/Rate	New Threshold/Rate
Single Audit or Program Specific Audit	\$750,000	\$1,000,000
Type A threshold for entities expending awards from \$1M to \$34M	\$750,000	\$1,000,000
Equipment that may be retained, sold, or otherwise disposed of with no further responsibility to the federal agency	\$5,000	\$10,000
Unused supplies required to be sold at the end of a grant award period	\$5,000	\$10,000
De Minimis Indirect Rate	10%	15%
Amount of subawards recipients can apply to the indirect rate	\$25,000	\$50,000

- Cognizant agency can now provide extensions on single audits

02.2

COVID-19 Pandemic Funding & Compliance: Government Agency Audits (OIG & HRSA)



HHS-OIG New Single Audit Web Page



- Intended to help stakeholders strengthen their understanding of the scope of single audits & to improve audit quality.
- The new page includes a section on [HHS OIG oversight activities](#), which details the OIG efforts around performing quality control reviews & desk reviews.
- It also includes summaries of [common quality deficiencies](#) in HHS desk reviews & common quality deficiencies noted in [HHS quality control reviews](#).
- **You can access the HHS-OIG Web Page [here](#).**

OIG PRF Audit Focus Areas



Impacts of the pandemic on the organization



Process & controls over PRF reporting



Other funding completeness/ no double counting



Org structure, acquisitions/ divestitures and/or transfers



Lost revenue option selection & calculation support



Personnel costs including entity, title of EE, salary total, fringe rate, support



Fixed asset & procurement process



HRSA Audits

- Contracted auditors
- Lost revenue focus
 - Understanding how revenue was recorded
 - How bad debts & contractual allowances were determined on a monthly & quarterly basis for cutoff
 - Support for settlements/one-time adjustments in a specific month or quarter
- Expenses
 - Support for incremental expenses
 - Controls over not “double dipping”
- Audit period – Up to 3 years from each portal submission period



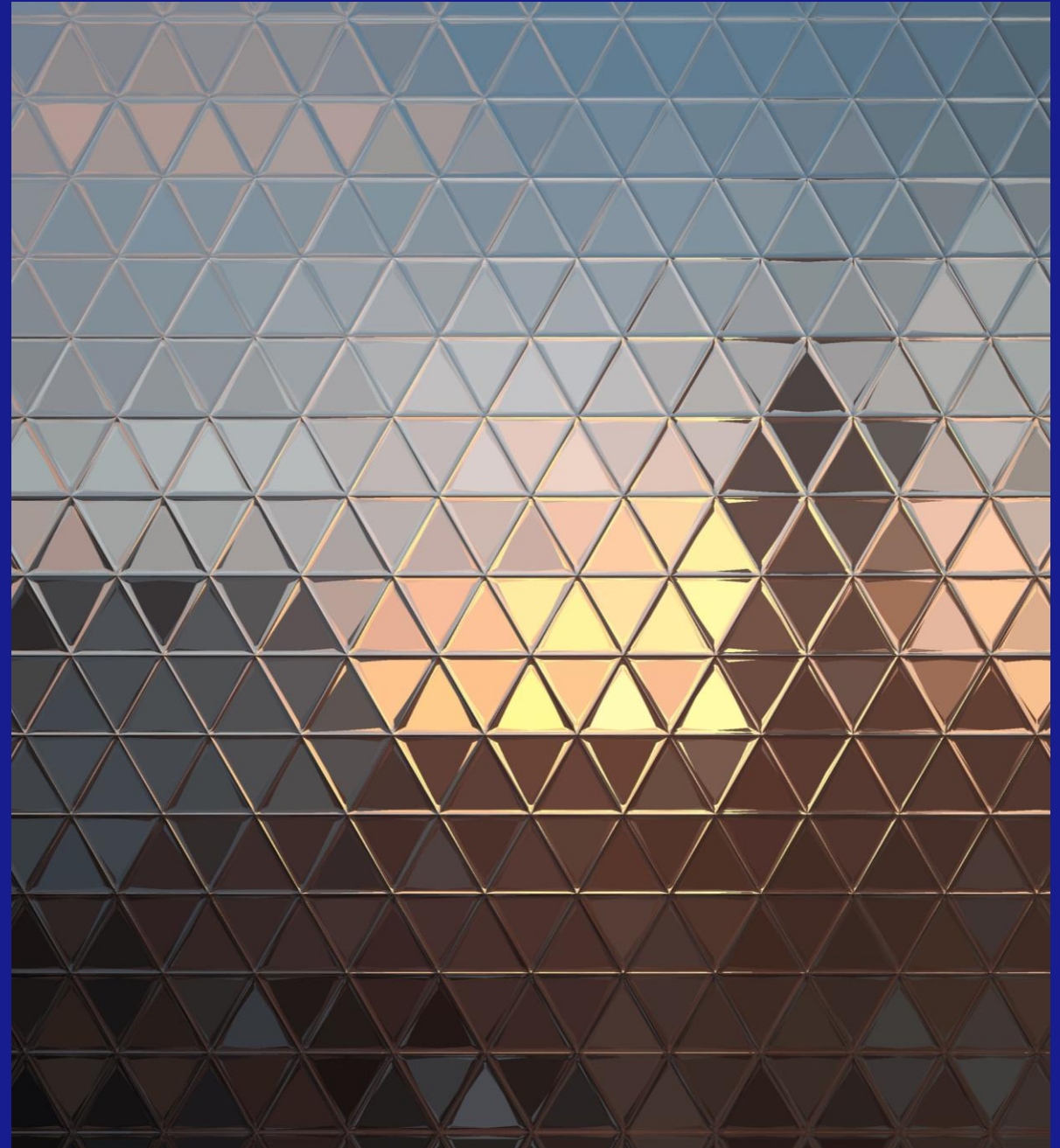
03

Other Finance & Financial Reporting Matters & Considerations



03.1

Managing Receivables: Managed Care Contracts & Denials



Managing Receivable Managed Care Contracts & Denials

Revenue Recognition Reminders on Portfolios & Collection Rates

- Portfolio approach to estimating revenues & receivables
- Healthcare organizations generally include some combination of characteristics when estimating their portfolios, such as:
 - Type of service, *e.g.*, inpatient, outpatient, skilled nursing, home health
 - Type of payors, *e.g.*, commercial insurance, Medicaid & Medicaid Managed Care, Medicare & Medicare Managed Care, self-pay

Portfolio Considerations			
Service Type		Payor Type	
Current	Considerations	Current	Considerations
Inpatient	Inpatient	Medicare	Medicare
Outpatient	Outpatient	Medicaid	Medicare Advantage (Managed Care)
	Emergency	Medicaid Pending	Medicaid
	Elective	Medicare Managed Care	Medicaid Managed Care
	Sub-type (Lab)	Commercial	Medicaid Pending
	IP Rehab	Self-Pay	Major Commercial Payor 1
	IP Psych	Other	Major Commercial Payor 2
	IP SNF		Major Commercial Payor 3
			Other Commercial
			Patient Responsibility (Deductibles & Co-Insurance)
			Uninsured Self-Pay
			Charity

Managing Receivable Managed Care Contracts & Denials

Revenue Recognition Reminders on Portfolios & Collection Rates

- The growing rate of denials has caused receivables to age & grow.
- Receivable calculations & models are impacted by the time it takes from bills dropping to receipt of payment.
- Historical zero balance account reports (ZBA) may skew receivables higher or lower than the amounts ultimately expected to be collected.
- Healthcare providers using contract rates may realize reimbursements don't always come in at the contract rates & may need to consider additional reserves on top of the contractual discount rate for other issues.
- Leverage information learned in the receivable calculation process to help drive revenue & the organization forward.
- Increasing number of providers leveraging the information in contract negotiations.

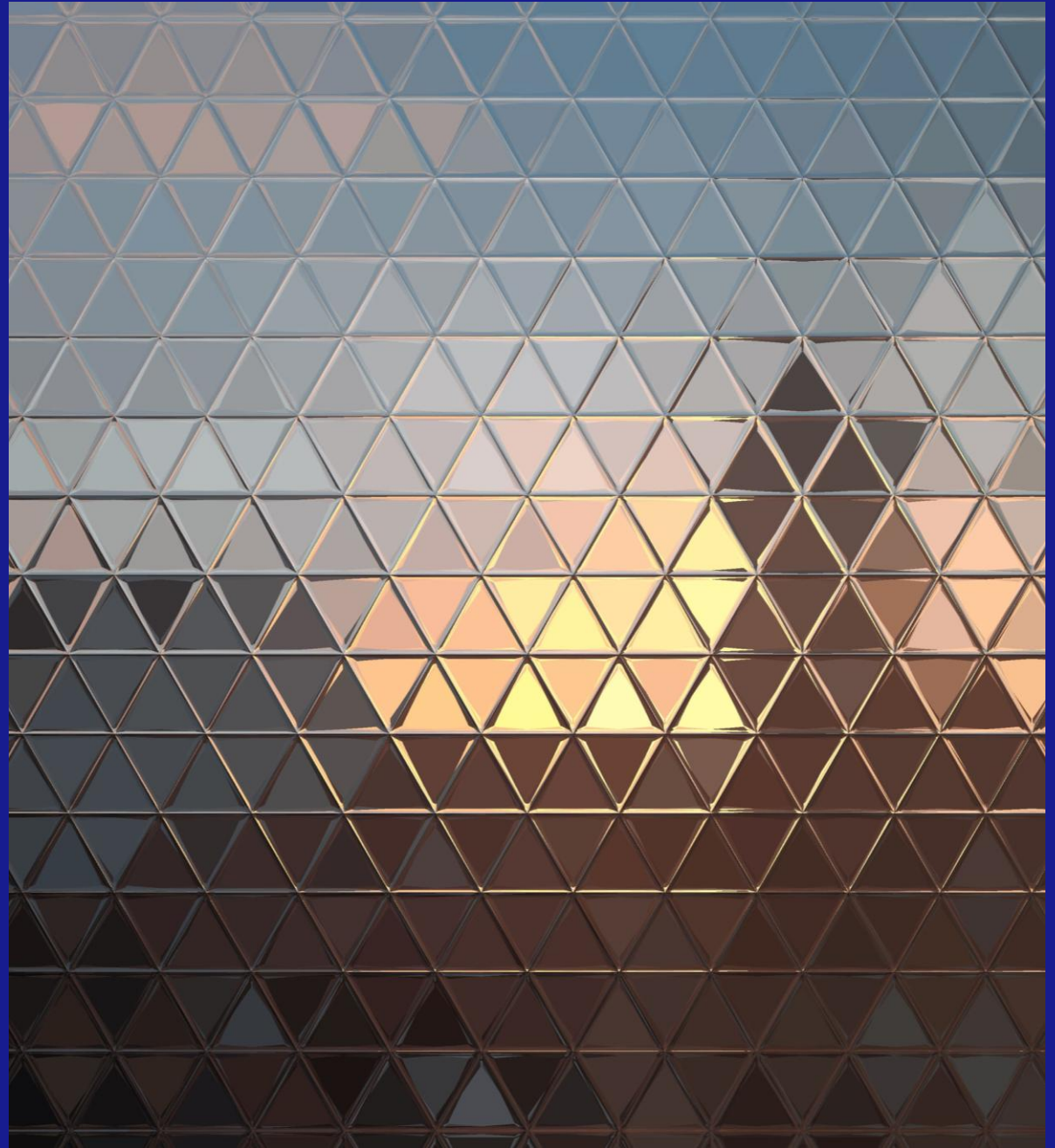
Contract Benchmark Matrix

Site of Service	Payor A	Payor B	Payor C	Payor D
Outpatient Hospital	24.0%	45.0%	58.0%	78.0%
Inpatient Hospital	79.0%	30.0%	14.0%	63.0%
Emergency Hospital	61.0%	82.0%	85.0%	15.0%
ASC	44.0%	42.0%	54.0%	47.0%
Ancillaries	46.0%	70.0%	85.0%	66.0%
Weighted Average	47.9%	51.4%	56.5%	58.8%

Image Source: Forvis Mazars sample client data, anonymized for confidentiality

03.2

Alternative Payment Models



Understanding Alternative Payment Models

- Generally, risk-sharing arrangements in the health sector are contracts in which a healthcare entity receives payment in exchange for assuming an obligation to provide, and/or become financially responsible for, healthcare services to specified, qualified beneficiaries
- When the arrangement exposes a healthcare entity to the uncertainty of financial gain or loss, it is generally referred to as a risk arrangement
- Examples of entities that may enter into risk arrangements:

Managed Care
Organizations (MCOs)

Health Maintenance
Organizations (HMOs)

Accountable Care
Organizations (ACOs)

Medicare Advantage
Health Plans

Medical Groups &
Hospitals

Physician
Practices

Primary Care
Organizations

Examples of Alternative Payment Models



Bundled Payments

- Providers receive a payment for an episode of care versus each service.



Capitation or Prepaid Healthcare Services

- Providers receive a per member per month (PMPM) fee regardless of the actual amount of services provided.



Pay-for-Performance

- Providers are rewarded financially for achieving certain quality standards.
- The arrangement is generally in addition to a standard fee-for-service arrangement.



Shared Savings/ Shared Losses

- Providers share with the payor a percentage of the savings or losses, calculated by comparing costs of delivering healthcare to certain benchmarks.
- The arrangement can be in addition to a fee-for-service arrangement or a capitation arrangement.



Risk Pools

- Both favorable & unfavorable financial experience are shared among providers, e.g., between the prepaid healthcare plan, physicians, & the hospital.

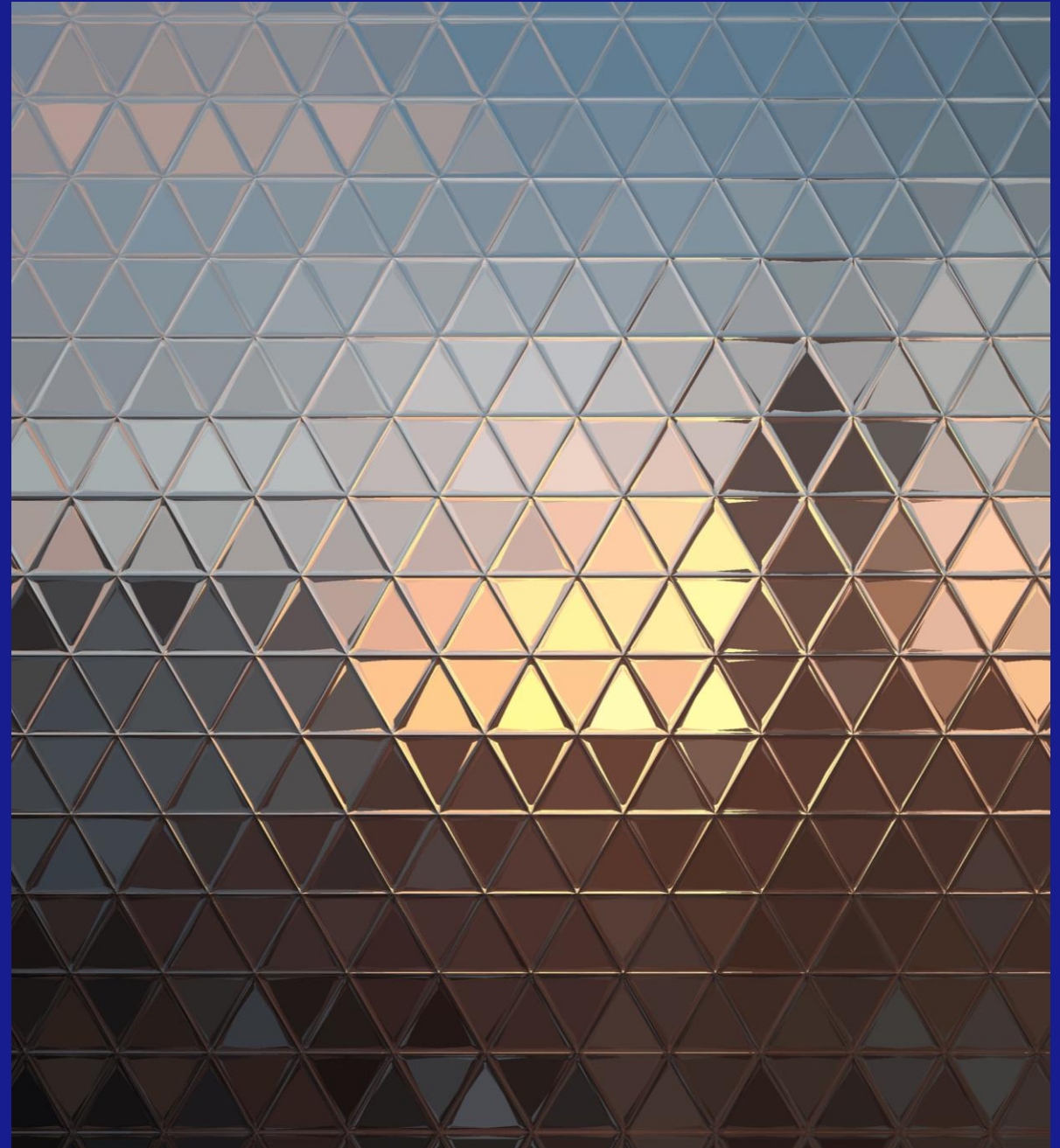
Accounting for Alternative Payment Models & Risk-Share

The guidance provided below is not intended to be comprehensive of all accounting matters that an entity may have to consider

- Because of the complex nature of many risk arrangements, *e.g.*, multiple parties, various financial risk-sharing components, determining which accounting guidance to apply can be challenging & vary significantly depending on the specific arrangement.
- An entity must first determine which framework should be applied, *e.g.*, ASC 815, Derivatives and Hedging; ASC 460, Guarantees; ASC 606, Revenue from Contracts with Customers.
- Don't assume all of an entity's risk arrangements are accounted for in the same way, *i.e.*, the analysis discussed herein must be done at the contract level.
- Conclusions can vary contract-by-contract, *e.g.*, for the same entity, certain arrangements may be accounted for under ASC 460 & others under ASC 606. There could be more than one conclusion per contract.

03.3

Other Industry Hot Topics Impacting Finances & Assurance Efforts



Other Healthcare Industry Hot Topics & Considerations

Costs for Responding to Workforce Shortages & Succession Planning

Decreased Reimbursement/Leveraging Opportunities With Alternative Payment & Reimbursement Models

Reimbursement Settlement Reserves & Maximizing Opportunities, *i.e.*, With Cost Report Filings

340B & Optimizing Opportunities

Capturing & Retaining Volume Through Telehealth

Cybersecurity & Business Continuity

Evolving Reporting Requirements, *e.g.*, Environmental, Social, & Governance

Internal Controls & Oversight of Contract Staff & Remote Workers

Board Oversight Topics

Contact

Forvis Mazars

Danielle Zimmerman, CPA

Partner

P: 972.361.3740

danielle.zimmerman@us.forvismazars.com

The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by Forvis Mazars or the author(s) as to any individual situation as situations are fact-specific. The reader should perform their own analysis and form their own conclusions regarding any specific situation. Further, the author(s)' conclusions may be revised without notice with or without changes in industry information and legal authorities.