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CPE NETWORK

ACCOUNTING & AUDITING REPORT

NOVEMBER 2021

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Topics for future editions may include:

- Discount Rate for Lessees
- Auditing Sick Pay
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EXECUTIVE SUMMARY

PART 1. ACCOUNTING

Financial Statement Presentation of Leases 3

Russ Madray, CPA examines the financial presentation of leases under the new lease guidance in Topic 842. [*Running time: 34:45*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Identify how ROU leases should be presented on a classified balance sheet and where the guidance is located
- Identify how lessees need to present leases in the income statement and the statement of cash flows and where the guidance is located

PART 2. AUDITING

A. Provider Relief Funds and You: Part I 19

Lee Ann Watters, CPA reviews the Provider Relief Fund and what auditors need to know in terms of reporting, timing, and types of audit. [*Running time: 30:00*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Identify what legislation resulted in the Provider Relief Fund
- Identify when filings are due for Provider Relief Funds and when the portal opened
- Identify the trigger level of dollars that results in a need for filing through the portal
- Identify how many subcategories of G&A expenses can be claimed of costs attributable to the coronavirus

B. Provider Relief Funds and You: Part II25

Lee Ann Watters, CPA considers the criteria for Provider Relief Fund monies qualifying for an audit, SEFA filings, and special tests and provisions auditors may need to perform in audits of entities receiving these monies. [*Running time: 27:35*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Identify the Provider Relief Fund assistance listing number
- Identify how long providers had to agree to the terms of the grant or return funds
- Identify when auditors will need to begin testing portal submissions
- Identify special tests and provisions unique to Provider Relief Fund audits and common SEFA errors

ABOUT THE SPEAKERS

Russ Madray, CPA, CGFM, has more than 30 years of professional experience, including stints at two Big 4 accounting firms. Russ is a nationally-known accounting and auditing thought leader, writer, and advisor helping CPAs throughout the country understand and implement technical accounting and auditing issues.

Lee Ann Watters is a Principal with the accounting firm of MCM CPAs & Advisors, LLP. Ms. Watters has 30 years of experience performing governmental financial, compliance, and internal control audits. Previously, she served in the Cabinet for Human Resources, the Office of the Auditor of Public Accounts, and the office of the Attorney General for the Commonwealth of Kentucky. Ms. Watters has significant experience with the Single Audit Act and other laws and regulations governing federal grants. Additionally, she has worked extensively with local government in the implementation of new accounting standards, performing audits in accordance with Government Auditing Standards, and has additionally performed in a consulting capacity. She is a former Regional Vice President for the Southeastern Region of the Association of Government Accountants (AGA), a past President of the Central Kentucky Chapter of the AGA, and currently serves on the Board of Directors of the Kentucky Society of Certified Public Accountants.

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PART 1. ACCOUNTING

Financial Statement Presentation of Leases

While most of the larger projects have moved off of the FASB's agenda, it is continuing to address issues that crop up with implementation of the lease guidance. The changes with the new lease literature also have a dramatic impact on the look within the financial statements of an entity that engages in these arrangements.

For more on the financial statement presentation of leases under the new guidance, let's join Russ Madray, a CPA in Greenville, South Carolina, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk about the financial statement presentation of leases and ASC 842, which is the new lease guidance already effective for public companies, and it will be effective soon for everyone. Part of the implementation and ongoing application of this particular topic will require proper financial statement presentation, including the balance sheet, income statement and the statement of cash flows, of course. So let's start off with the balance sheet. Could you give us an overview of the presentation requirements for the balance sheet under this guidance?

Mr. Madray

Sure. And, that's a good place to start. As you mentioned, sometimes when we're talking about especially this new lease accounting guidance in Topic 842 we focus on you know, details of lease classification and calculating particular amounts and lease payments and discount rates. And while all those certainly are very, very important, we may forget that there are some issues and questions that arise related to where do we put the darn stuff on the financial statements themselves. Topic 842 has some specific guidance on several issues that it will be important for us to be aware of because they really are easy to kind of trip up on and run afoul of some of the presentation requirements.

So as you, as you mentioned, balance sheet, let's start there. Starting with kind of the basics, Topic 842 requires lessees, and we are focusing on lessees in this discussion today, by the way. But it requires lessees to present the right of use assets or ROU assets that result from finance leases separately from those ROU assets that result from operating leases, and then also separately from any other assets. And that can be

accomplished, either by separating these items on the face of the balance sheet, or in the notes to the financial statements themselves. That same kind of separate presentation is also required for lease liabilities. In other words, we've got to separate the liabilities resulting from finance leases from the liabilities resulting from operating leases. And again, ASC 842 is very, very specific about that requirement.

Now that then begs the question of, what's the best way to do this, to make sure we get that right? And I would think that the simplest way to meet that requirement would be to create four new line items on the balance sheet to correspond to each of those four categories. In other words, you'd have a finance lease ROU asset then of course, if you have multiple finance leases, you can combine those as a separate operating lease ROU asset. Once again, if you have multiple operating leases, you can combine those as a separate finance lease liability line, and then a separate operating lease liability line. That may be the simplest way to do it and make sure no question you got it right, and no problems with it. But sometimes that may not be the best way to convey the information on the balance sheet.

So a lessee might decide to include these line items as a subcategory of a larger balance sheet classification. You think of the finance lease ROU assets and operating lease ROU assets, maybe part of a larger classification of property, plant, and equipment. If that was done, then the lessee would need to disclose the separate line items within that grouping along with the other components of the group. And we'll look at a couple of examples in a moment to illustrate this, but ultimately regardless of the approach that's used to do this, Topic 842 does specifically prohibit the finance and operating lease ROU asset and lease liabilities from being presented in the same line item. And I feel certain, folks, if they aren't careful with this, they're

going to overlook this and that's going to be a common issue in financial statements related to the presentation of these lease assets and lease liabilities.

And a side note here if the lessee decides to disclose the amounts in the notes separately that disclosure should also include a description of which line items the amounts are included in on that balance sheet. The rationale behind all this, FASB actually discussed this in the basis for conclusions. Basis of conclusions, by the way, are the best way to on any accounting standard update, ASU, that's issued to kind of figure out why we're doing what we're doing, because that's the whole purpose of that part of the kind of the appendix of the standard, if you will. In the basis for conclusions on the original lease ASU the FASB concluded that presenting the assets, liabilities that result from these two different types of transactions, operating lease versus finance lease, in the same line item would be misleading.

It would in a sense convey an economic similarity in these two that really doesn't exist. Obviously, both types of lease liabilities – operating lease and finance lease – are financial liabilities. The finance lease liabilities are more akin to debt. Whereas the operating lease liabilities are not debt like, but are more operating in nature. It'd be kind of like combining a note payable used to finance the purchase of an asset with some ongoing accrued liabilities in one line. And it just would be misleading to combine those kinds of things without some kind of at least disclosure and break out of what's included there. So I mentioned looking at a couple of examples, and that might be the best way to illustrate what were a couple of different approaches here.

So if you take a look at the slide first example shows finance and operating ROU assets as separate line items on the balance sheet which would then eliminate the need to disclose those line items separately in the notes to the financial statements, more specifically example one shows the finance and operating ROU assets as a component of property, plant, and equipment. Whereas example two we've got the finance ROU assets as a component of property, plant, and equipment but the operating ROU assets as a separate line item. Example two might align a bit more closely with that notion that we mentioned earlier that finance leases are more akin to the purchase of an asset, while the economic substance of an operating lease is quite different. So again, example one, you see under property, plant, and equipment, we have our operating lease right of use asset 10,000.

We've got our finance lease right of use asset 19,775, and then other property, plant, and equipment, and then a total of 150,525. In example, two, we have the operating lease right of use asset 10,000, the other property, plant, and equipment 140,525. Obviously, that includes the finance lease right of use asset. And in doing what we're showing there, in example two, we would need some disclosure, further disclosure that embedded within that 140,525, there are finance lease right of use assets of 19,775. So again, there is some leeway there on how lessees want to show this on the balance sheet, but it is important that in some way, shape, or form that those operating lease ROU assets, finance lease ROU assets, and same thing with the operating and finance lease liabilities, be separately shown and/or separately disclosed in the notes, so that the reader of the financial statements can clearly distinguish between those economically different types of assets and liabilities.

Ms. Grove Casey

Before I ask you this next question about the classified balance sheets, I just wanted to mention what you said about the basis for opinion. And so even if there is a standard that I'm looking at that, maybe it isn't something that per se pertains to something I'm currently doing, I like to look at the basis for opinion, because you see other issues that you might not have otherwise thought about, potentially addressed there. So it's always a benefit to read and see why the Board came up with a decision that it did. And I know that classified balance sheets are not necessarily required by U.S. GAAP, although there are a lot of entities that prepare a classified balance sheet where you have that separate classification of current assets and current liabilities. Does ASC 842 provide any guidance on that classification that you were talking about with the ROU assets and the lease liabilities?

Mr. Madray

Well, great question. And one that again, we're going to have to come up with. We've just seen we have to separate the operating lease, finance lease assets, liabilities and as you correctly mentioned, although not required most reporting entities do prepare a classified balance sheet. In looking for guidance on how to classify assets and liabilities on the balance sheet, we kind of start with Topic 210, which is the balance sheet that provides some kind of general guidance on classification of assets and liabilities as current or noncurrent, but it doesn't get very specific in that guidance, and then you asked specifically about

Topic 842. There is a particular paragraph in Topic 842 that indicates that right of use assets and lease liabilities are subject to the same considerations as other non-financial assets and financial liabilities in classifying them as current or noncurrent in a classified balance sheet.

So, Topic, 842 doesn't say explicitly they're current or noncurrent, but it says they should follow the same considerations that we use for other non-financial assets. Also for other financial liabilities going back to Topic 210 again, the concept of the nature of current assets in Topic 210 specifically states that that concept would contemplate the exclusion from current assets among other things, depreciable assets. So if you kind of extrapolate that, based on that wording in Topic 210, entities typically obviously do not include depreciating or amortizing assets, property, plant, equipment, intangibles, and so forth in current assets. So if you kind of keep connecting those dots under Topic 842, right of use assets are amortized and therefore would be similar to other amortizable assets.

So I think you can draw a conclusion and I think most would draw this conclusion that right of use assets should be presented as noncurrent assets in a classified balance sheet. Again, whether that's... operating lease right of use assets or finance lease right of use assets. The one exception there may be if you've got a right of use asset recorded for a lease that has an initial term of 12 months or less, then in that case, you would presumably classify that as current. Now, the only way that's going to happen, where you would have a right of use asset recorded for a lease with an initial term of 12 months or less is that you did not make that accounting policy election to not apply the lease recognition requirements to a short-term lease.

I think most folks would take advantage of that accounting policy election, and therefore, it would be unusual. I think rare to see a right of use asset for a lease with an initial term of 12 months or less. So you have to connect some dots there, Topic 842, doesn't say explicitly what to do in terms of classifying those assets and liabilities or specifically assets we just mentioned, but I think you can get to that conclusion that those right of use assets should be in most cases classified as noncurrent assets.

Ms. Grove Casey

Well, is there a particular method that should be used to determine the current and non-current portion of the lease liabilities?

Mr. Madray

Here, again, Topic 842, isn't going to give us explicit guidance on classifying, right? The lease liability is current and non-current but we can go back to Topic 210 again, and in Topic 210 on the balance sheet, in that case the concept of current liabilities would include estimated or accrued amounts that are expected to be required to cover expenditures within the year or known obligations. Therefore, I think you could conclude that lease liabilities, the same as other types of financial liabilities, need to be classified as current and non-current just like we do with debt—current portion of long-term debt and then the remaining portion. So if you do that and consider that lease liabilities are, essentially, amortizing loan balances, the same as a loan amortizes over time, then there are several methods to determine the current-noncurrent portions of these lease liabilities.

We have a slide that shows these. And again, to me, one is the simplest approach.... Any one of these three methods is acceptable to separate any kind of liability into a current and a non-current portion. So the first method that you will see in use is considering that since the overall lease liability is measured on a present value basis, that's how we got the number in the first place, then you could determine the current portion in the same way by applying the effective interest rate to the total contractual payments that are due within 12 months from the balance sheet date, that's one way. Another method, and to me the simplest, is to classify the total undiscounted lease payments that are due in the next 12 months as current, the remaining portion is non-current. Or a third method that you see in use is to classify the portion of the total lease payments that are attributable to principal in the loan amortization schedule as current. Again, you see all three of these approaches in practice. They lead to slightly different dollar amounts depending on which method is used, but they're all acceptable in terms of determining the current portion of the lease liability or any kind of a liability balance. Key here is, regardless of which method is used, that it should be applied consistently from period to period, so that you get consistent amounts with regard to those classifications.

Ms. Grove Casey

Well, let's move on to the income statement. Are there particular presentation requirements for this statement?

Mr. Madray

Again, there are in Topic 842. We've got some specific requirements related to the income statement presentation. If you take a look at the slide here, you notice a lessee needs to present each of these things on the income statement, first, the amount of interest expense on the lease liability, as well as the amortization of the right of use asset for a finance lease. And then, also, the amount of lease expense recognized for an operating lease that would need to be shown in the lessee's income from continuing operations.

Now a side note here is that lease related interest expense and lease related amortization expense are not required to be presented as individual line items. In other words, lease related interest expense can be combined with other interest expense, lease related amortization can be combined with the other amortization of other intangibles, for example. The key thing to remember is that lease related amortization and lease related interest expense cannot be combined in the same line item in the income statement. So once again, an issue to be careful with, because Topic 842 is explicit about that.

Now, while generally what we just mentioned is fairly straightforward. There have been questions about the proper income statement presentation of variable lease payments. Remember that Topic 842 indicates that lease payments do not include variable lease payments that do not depend on an index or a rate and therefore those variable lease payments are not included in the initial measurement of the lease liability or right of use asset. Ultimately though for variable lease payments based on the achievement of a specified target, a lessee will record the cost associated with the variable lease payments when the lessee believes it's probable that the triggering event will occur as a result of variable lease costs in what for a lessee that's recognized in any period is going to be the amount of variable lease payments that have been paid or are probable of being paid.

That then leads to a question about how variable lease costs in finance leases should be recognized. Remember finance lease, we have separate presentation of amortization and interest expense. So if you have a finance lease with variable lease payments, and you're recognizing those variable lease payments in a period that they're paid, for example, or probable to be paid, probable of being paid, how do you classify the variable portion? Do you classify it as amortization expense? Do you classify it as interest expense, or do you classify it

as lease expense like you would, if it were an operating lease? Once again, Topic 842 doesn't address this particular classification question that comes up. But as we've said before, we can find an indication of what the proper approach may be by looking at the basis for conclusions where the FASB did discuss the fact that cash flows from operating leases and variable lease payments that are not included in the lease liability would be classified as operating activities in a statement of cash flows because the corresponding lease cost, if they were recognized in a statement of comprehensive income would be presented in income from continuing operations.

So if you take that discussion and kind of connect some dots it would appear that variable lease payments need to be recognized in income from continuing operations in a manner similar to operating lease expense. That's the conclusion I would come to, I think others have come to. But with that said, I think you could make an argument for those variable lease payments that, again, were not included in the initial measurement of the lease liability in a finance lease that they could be, when they're made, treated as some portion of amortization or some portion of interest. And I don't think technically that would be wrong. That's probably not going to be the most common approach used there, but I think it could be.

Ms. Grove Casey

Well, we also need to take a look at the statement of cash flows. So what does ASC 842 require for that statement?

Mr. Madray

Got a little bit more specific there but there's still some questions as we'll see in a moment once a lessee adopts Topic 842 and, of course, in the commencement of any new lease after that date. The lessee is going to record a right of use asset and a lease liability. As we've said before in Topic 230, which is our guidance for the statement of cash flows, Topic 230 identifies obtaining a right of use asset in exchange for a lease liability as an example of a non-cash investing and financing activity that needs to be disclosed. Therefore, we know specifically obtaining a right of use asset in exchange for a lease liability is clearly defined as a non-cash investing and financing activity.

It would need to be disclosed on the face of the statement of cash flows or in the notes it could be, and it could also be some other, excuse me non-cash

disclosures as a result of some other non-cash changes to lease balances. Like if we had a lease modification or a re-measurement event that could also lead to some need to disclose non-cash activity there. Then taking it further, if you look on the slide, you'll see Topic 842 specifically indicates how some things should be classified on the statement of cash flows. You see the repayments of the principal portion of the lease liability from finance leases will be classified within financing activities as a financing cash outflow, interest on the lease liability that comes from finance leases will be classified as an item within operating activities. Any payments that come from operating leases will be classified within operating activities as an operating cash outflow, and then finally variable lease payments. And short-term lease payments that are not included in the lease liability are also included within the operating activity section of the statement of cash flows. Now there is one exception for payments that arise from operating leases to the extent that those payments represent costs to bring another asset to the condition and location necessary for its intended use. So for example, if you have lease payments incurred while the equipment is being built those are actually classified within investing activities, but that's the only exception there. Generally, we're talking about operating lease payments. Those are going to always fall within the operating activity section.

Ms. Grove Casey

Well, I understand that there've been some questions related to the presentation of operating lease payments in an indirect method presentation of statement of cash flows. Could you touch on that?

Mr. Madray

Sure. And this is this is for all the statement of cash flow nerds out there. And I've actually had this question come up several times in terms of how to present some of these things, but keep them on a system.

Ms. Grove Casey

Be a peer review thing.

Mr. Madray

Oh yeah. That's, it would probably show up there, but keep in mind since the right of use asset lease liabilities are recorded as separate items on the balance sheet, it's the combined change in those two accounts that will be equal to the difference in the straight line lease expense

and the cash paid for any kind of operating lease. So when using the indirect method, which is what 99.9% of the folks are going to do for the statement of cash flows, a question comes up about whether it would be appropriate to show the change in those two balance sheet accounts, the right of use asset and the lease liability as a single reconciling item. Again, Topic 842, doesn't address this issue. But if we look in Topic 230 on the statement of cash flows it does indicate that the reconciliation should separately report all major classes of reconciling items.

So based on the guidance in Topic 230 it appears that the changes in the two balance sheet accounts need to be reported separately in the reconciliation of net income to cash flow used or provided by operating activities. And, of course, you would do that by presenting the amortization of the right of use asset as a non-cash adjustment to net income, and a change in the lease liability as one of those changes in the operating liabilities. But again, like the earlier question we had, in the end, there is no specific guidance in Topic 230 and there is no specific guidance in Topic 842 that requires separate presentation. I think an argument could be made that a single line reconciling item in the indirect method reconciliation would be acceptable. So I think you're going to see both of those in practice, but it's truly one of those statement of cash flow nerd types of questions. And one of those questions that I really, really love to dig into!

Ms. Grove Casey

Okay. So the only other question that I wanted to ask you about in this particular segment relates to leasehold improvements because that issue comes up fairly frequently. And, in particular, related to the proper presentation on the statement of cash flows with respect to leasehold improvements. So could you go over that issue?

Mr. Madray

This is another one of those kind of tricky questions on, how do I classify this? And you have to start with the fact that all payments that are made by the lessor to a lessee are considered to be a lease incentive unless those payments are for a distinct good or service that's provided by the lessee to the lessor now further, even if the lessee provides a distinct, good or service to the lessor, any amount of the lessor payment in excess of the fair value of that distinct good or service is still going to be considered a lease incentive. Now that's

important because lease incentives will reduce the right of use asset and therefore the lease expense over the term of the lease. So in the case of leasehold improvements that you just brought up it's going to require some judgment to determine whether the lessee is constructing the leasehold improvements or is the lessee leasing built out space, or put it another way, who owns the leasehold improvements?

Is it the lessee, or is it the lessor? That's important because for purposes of the statement of cash flows, if the lessee is determined to be the owner of the leasehold improvements, then the payment would be classified as an investing activity. Then if the lessor turns around and reimburses the lessee for those improvements that payment will be treated as a lease incentive. And the cash receipt would be classified based on the guidance that we discussed earlier for the applicable type of lease, depending on whether it's a finance lease or an operating lease.

But on the other hand, if the lessor is determined to be the owner of the leasehold improvements the payment by the lessee would be considered to be prepaid rent. And then if the lessor reimburses the lessee for those improvements, it would be considered a reduction in prepaid rent.

When the lessee pays for leasehold improvements that are owned by the lessor before the commencement date of the lease, then the presentation in the statement of cash flows is going to depend on the ultimate classification of the lease. Again, is it a finance lease or an operating lease? If it's evident that the lease will be classified as a finance lease, then those payments, in other words, prepaid rent would be classified as investing activities. On the other hand, if the lease is ultimately going to be classified as an operating lease, the payments will be classified then as operating activities after the commencement date of the lease, then any lease payments and any lessor reimbursements would follow the guidance that we discussed earlier for an applicable type of lease, whether it's a finance lease or an operating lease. So that one is a little confusing to say the least but those are a couple of really good questions related to the statement of their cash flows. That idea of leasehold improvements and, you know, the answer is, it depends, and it depends on several different things as to how those payments and/or reimbursements are going to be handled by the lessee. And again, that issue with the indirect method for operating lease payments. That's not so complicated,

that's more of a what makes more sense to us, but a couple of really good as I said, statement of cash flow nerdy type questions that are going to come up quite often. So we need to at least give some thought to that and decide how we're going to handle those kinds of things.

And, kind of big picture-wise, as we said when we started, we tend to focus with lease accounting on details like lease classification and discount rates and the, the debits and the credits related to the lease payments and the modifications and the reassessments and those kinds of things, which are all very, very important, but don't forget, there are specific financial statement presentation questions and issues that need to be considered as an overall part of adopting and moving forward with Topic 842 and the new lease accounting guidance.

SUPPLEMENTAL MATERIALS

Financial Statement Presentation of Leases

by J. Russell Madray, CPA, CGMA

FASB Accounting Standards Codification (ASC) 842, *Leases*, is effective for all entities other than a public business entity, a 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, or an employee benefit plan that files or furnishes financial statements with or to the U.S. Securities and Exchange Commission for annual reporting periods beginning after December 15, 2021 (i.e., calendar year 2022 for private entities with a December 31 year-end). As clients move forward with adoption of ASC 842, it will be important to carefully follow the guidance related to proper financial statement presentation.

Balance Sheet Presentation

ASC 842 requires lessees to present right-of-use (ROU) assets resulting from finance leases separately from ROU assets resulting from operating leases and separately from other assets, either on the face of the balance sheet or in the notes to the financial statements. The separate presentation is also required for lease liabilities.

The simplest way to meet this requirement is to create four new line items on the balance sheet to correspond to each of the four categories: finance lease ROU asset, operating lease ROU asset, finance lease liability, and operating lease liability. On the other hand, a lessee may decide to include these line items as a subcategory of a larger balance sheet classification (e.g., property, plant, and equipment). If so, they would need to be disclosed as separate line items within that grouping along with other components of the group. Regardless of the approach, ASC 842 prohibits the finance and operating lease ROU assets and lease liabilities from being presented in the same line item.

Observation: If a lessee discloses those amounts in the notes, it also should disclose in which line items the amounts are included in the statement of financial position.

As discussed in the Basis for Conclusions, the FASB concluded that presenting the assets and liabilities that result from these two different types of transactions (operating lease vs. finance lease) in the same line item

in the statement of financial position would be misleading; it would convey an economic similarity that does not exist. While both types of lease liabilities are financial liabilities, finance lease liabilities are the equivalent of debt, and operating lease liabilities are not “debt like” but, rather, operating in nature.

The examples below show the finance and operating ROU assets as separate line items in the balance sheet, which would eliminate the need to disclose the line items separately in the notes to the financial statements. Example 1 shows the finance and operating ROU assets as a component of premises and equipment. Example 2 includes finance ROU assets as a component of property, plant, and equipment and operating ROU assets as a separate line item. Example 2 aligns more closely with the notion that finance leases are akin to the purchase of an asset, while the economic substance of operating leases is different.

Example 1:

Property, Plant and Equipment:

Operating lease right-of-use asset	\$ 10,000
Finance lease right-of-use asset	19,775
Other property, plant and equipment, net	<u>120,750</u>
Total Property, Plant and Equipment	\$150,525

Example 2:

Property, Plant and Equipment:

Operating lease right-of-use asset	\$ 10,000
Other property, plant and equipment, net	<u>140,525</u>
Total Property, Plant and Equipment	\$150,525

Classified Balance Sheet

Although not required by U.S. generally accepted accounting principles, (U.S. GAAP), most reporting entities prepare a classified balance sheet which presents separate classifications of current assets and current liabilities. ASC 210, *Balance Sheet*, contains general guidance on the classification of assets and

liabilities as current or noncurrent. ASC 842-20-45-1 indicates that ROU assets and lease liabilities are subject to the same considerations as other nonfinancial assets and financial liabilities in classifying them as current and noncurrent in classified balance sheets.

According to ASC 210-10-45-4, the concept of the nature of current assets contemplates the exclusion from that classification of (among other things) depreciable assets. Based on this guidance, entities typically exclude depreciating or amortizing assets (e.g., property, plant, and equipment, intangible assets, etc.) from current assets. Under ASC 842, ROU assets must be amortized and are therefore similar to other amortizable assets. Accordingly, ROU assets should be presented as noncurrent assets in a classified balance sheet.

Observation: If an ROU asset is recorded for a lease with an initial term of 12 months or less (i.e., the accounting policy election to forgo applying the requirements for recognition to a short-term lease was not taken), the ROU asset would be classified as current.

ASC 210-10-45-6 indicates that the concept of current liabilities includes estimated or accrued amounts that are expected to be required to cover expenditures within the year for known obligations. Therefore, lease liabilities, consistent with other financial liabilities, should be classified into current and noncurrent portions. Since lease liabilities are basically amortizing loans, there are several methods to determine the current and noncurrent portions:

- Method 1 – since the overall lease liability is measured on a present value basis, a lessee may determine the current portion on the same basis, by applying the liability's effective interest rate to the total contractual payments that are due within 12 months from the balance sheet date
- Method 2 – a lessee may classify the total undiscounted lease payments that are due in the next 12 months as current
- Method 3 – a lessee may classify the portion of the total lease payments, attributable to principal payments in the loan amortization schedule that are due in the next 12 months as current

Regardless of the method used, a lessee should choose one of these methods and apply it consistently.

Income Statement Presentation

A lessee is required to present each of the following in the income statement:

- The amount of interest expense on the lease liability and the amortization of the ROU asset for a finance lease
- The amount of lease expense for an operating lease, shown in the lessee's income from continuing operations

Observation: While lease-related interest expense and lease-related amortization expense are not required to be presented as individual line items (i.e., lease-related interest expense may be combined with other interest expense and lease-related amortization expense may be combined with other amortization expense) lease-related amortization and lease-related interest expense cannot be combined in the same line item.

While the above guidance is fairly straightforward, questions have arisen about the proper income statement presentation of variable lease payments. ASC 842-10-30-6 indicates that lease payments should exclude variable lease payments that do not depend on an index or a rate and, as a result, these variable lease payments are not included in the initial measurement of the ROU asset or lease liability. Ultimately, for variable lease payments based on the achievement of a specified target, a lessee will record the costs associated with variable lease payments when the lessee believes it is probable that the triggering event will occur (any costs recorded based on this must be derecognized if the lessee later determines that it is probable that the triggering event will not occur). As a result, variable lease cost recognized in any period will be the amount of variable lease payments that are either paid or probable of being paid.

The question then becomes how variable lease costs in finance leases should be recognized—as amortization expense, interest expense, or lease expense (similar to an operating lease)? Although ASC 842 does not address the appropriate classification of variable lease costs arising from finance leases, the FASB, as discussed in the Basis for Conclusions, decided that cash flows from operating leases and variable lease payments that are not included in the lease liability should be classified as operating activities because the corresponding lease costs, if recognized in the

statement of comprehensive income, will be presented in income from continuing operations. Based on this discussion, it appears that variable lease payments should be recognized in income from continuing operations in a manner similar to operating lease expense (although recognizing the variable lease cost as amortization or interest expense would not, technically, be wrong).

Statement of Cash Flows Presentation

Upon adoption of ASC 842 (and at the commencement date of any new lease thereafter), the lessee will record an ROU asset and lease liability. ASC 230, *Statement of Cash Flows*, identifies “obtaining a right-of-use asset in exchange for a lease liability” as an example of a noncash investing and financing activity that should be disclosed. Accordingly, such noncash activity should be disclosed along with the other supplemental cash flow disclosures presented on the statement of cash flows or in the notes.

Observation: Lessees may also need to include noncash disclosures as a result of other noncash changes to the lease balances, such as those stemming from lease modifications or reassessment events.

ASC 842-20-45-5 further indicates that a lessee should classify cash flows related to leases as follows:

- Repayments of the principal portion of the lease liability arising from finance leases within financing activities
- Interest on the lease liability arising from finance leases within operating activities
- Payments arising from operating leases within operating activities
- Variable lease payments and short-term lease payments not included in the lease liability within operating activities

Observation: There is one exception for payments arising from operating leases—to the extent that those payments represent costs to bring another asset to the condition and location necessary for its intended use (e.g., certain lease payments incurred while building property, plant, or equipment), they should be classified within investing activities.

Indirect Method Presentation of Operating Lease Payments

Since the ROU asset and lease liability are recorded as separate items on the balance sheet, the combined change in the two accounts will be equal to the difference in the straight-line lease expense and the cash paid for operating leases. When using the indirect method for the statement of cash flows, questions have arisen about whether it is appropriate to show the changes in the two balance sheet accounts as a single reconciling item. While ASC 842 does not address this issue, ASC 230-10-45-29 indicates that “The reconciliation shall separately report all major classes of reconciling items.” Based on the guidance in ASC 230, it appears that the changes in the two balance sheet accounts should be reported separately. This can be accomplished by presenting the amortization of the ROU asset as a noncash adjustment to net income and the change in the lease liability as one of the changes in operating liabilities. In the end, due to the lack of guidance in ASC 230 and the fact that ASC 842 doesn’t require separate presentation, a single-line presentation in the reconciliation would be acceptable.

Leasehold Improvements

All payments made by a lessor to a lessee are considered to be a lease incentive, unless the payments are for a distinct good or service provided by the lessee to the lessor. Further, even if the lessee provides a distinct good or service to the lessor, any amount of the lessor’s payments in excess of the fair value of the distinct good or service is considered to be a lease incentive. Lease incentives reduce the ROU asset and lease expense over the term of the lease. In the case of leasehold improvements, judgment will be required to determine whether the lessee is constructing leasehold improvements or leasing built-out space; in other words, who owns the leasehold improvements—the lessee or the lessor?

For purposes of the statement of cash flows, if the lessee is determined to be the owner of the leasehold improvements, the payment would be classified as an investing activity. Then, if the lessor reimburses the lessee for those improvements, the payment is treated as a lease incentive and the cash receipt would be classified based on the guidance above for the applicable type of lease (finance or operating).

However, if the lessor is determined to be the owner of the leasehold improvements, the payment is considered to be prepaid rent. Then, if the lessor reimburses the lessee for those improvements, it would be a reduction in prepaid rent. When the lessee pays for leasehold improvements owned by the lessor before the commencement date of the lease, the presentation in the statement of cash flows will depend on the ultimate classification of the lease (finance or operating). If it is

evident that the lease will be classified as a finance lease, these payments (prepaid rent) should be classified as investing activities. Otherwise, these payments should be classified as operating activities. After the commencement date, any lessee payments and lessor reimbursements would follow the guidance above for the applicable type of lease (finance or operating).

Example 1

Property, Plant and Equipment:

Operating lease right-of-use asset	\$ 10,000
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Topic 210

An orange rounded rectangle with the text "Right of Use Assets" in white, positioned above a thin orange rectangular outline.

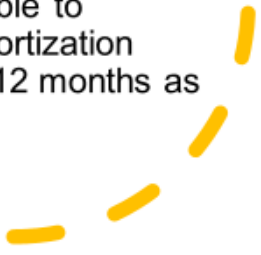
Right of Use Assets

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Current vs Noncurrent

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Current/ Non-Current

- Method 1 – since the overall lease liability is measured on a present value basis, a lessee may determine the current portion on the same basis, by applying the liability's effective interest rate to the total contractual payments that are due within 12 months from the balance sheet date
 - Method 2 – a lessee may classify the total undiscounted lease payments that are due in the next 12 months as current
 - Method 3 – a lessee may classify the portion of the total lease payments, attributable to principal payments in the loan amortization schedule that are due in the next 12 months as current
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Income Statement

- The amount of **interest expense** on the lease liability and the amortization of the ROU asset for a **finance lease**
- The amount of **lease expense** for an **operating lease**, shown in the lessee's income from continuing operations

Statement of Cash Flows

- Repayments of the principal portion of the lease liability arising from finance leases within financing activities
- Interest on the lease liability arising from finance leases within operating activities
- Payments arising from operating leases within operating activities
- Variable lease payments and short-term lease payments not included in the lease liability within operating activities



Statement of Cash Flows

Leasehold Improvements

- Who owns the leasehold improvements and any reimbursement
- Timing of expenditures and reimbursements

GROUP STUDY MATERIALS

A. Discussion Problems

1. Explain how ROU assets and lease liabilities should be presented on a classified balance sheet.
2. Discuss how variable lease costs in finance leases should be recognized—as amortization expense, interest expense, or lease expense.
3. Describe the guidance in ASC 842 as it relates to classification of cash flows.

B. Suggested Answers to Discussion Problems

1. ASC 842-20-45-1 indicates that ROU assets and lease liabilities are subject to the same considerations as other nonfinancial assets and financial liabilities in classifying them as current and noncurrent in classified balance sheets. According to ASC 210-10-45-4, the concept of the nature of current assets contemplates the exclusion from that classification of (among other things) depreciable assets. Based on this guidance, entities typically exclude depreciating or amortizing assets (e.g., property, plant, and equipment, intangible assets, etc.) from current assets. Under ASC 842, ROU assets must be amortized and are therefore similar to other amortizable assets. Accordingly, ROU assets should be presented as noncurrent assets in a classified balance sheet.
2. Although ASC 842 does not address the appropriate classification of variable lease costs arising from finance leases, the FASB, as discussed in the Basis for Conclusions, decided that cash flows from operating leases and variable lease payments that are not included in the lease liability should be classified as operating activities because the corresponding lease costs, if recognized in the statement of comprehensive income, will be presented in income from continuing operations. Based on this discussion, it appears that variable lease payments should be recognized in income from continuing operations in a manner similar to operating lease expense (although recognizing the variable lease cost as amortization or interest expense would not, technically, be wrong).
3. ASC 842-20-45-5 further indicates that a lessee should classify cash flows related to leases as follows:
 - Repayments of the principal portion of the lease liability arising from finance leases within financing activities
 - Interest on the lease liability arising from finance leases within operating activities
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 - Variable lease payments and short-term lease payments not included in the lease liability within operating activities

PART 2. AUDITING

A. Provider Relief Funds and You: Part I

This month we have a special focus on an area in auditing that relates to audits of governmental grants. Most governmental grants entities apply for and so aren't necessarily surprised when funds are received. However, in March 2020, the CARES Act was passed in response to the COVID-19 crisis. As part of that legislation, Provider Relief Funds were disbursed to eligible providers, both for profit and not-for-profit, quickly and in some cases without application. As a result of the quick release of funds, several thousand entities are expected to need yellow book audits for the first time.

For a look at Provider Relief Funds and the potential audit impacts, let's join Lee Ann Watters, CPA, CFGM, a principal with Mountjoy, Chilton, and Medley, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk a little bit about Provider Relief Funds and what our audience will need to know about that. So to begin with, could you give us a little background on where these funds came from?

Ms. Watters

Absolutely. You know, some of our viewers, Debi may be somewhat familiar with the background of the provider relief funds and the other various actions that have been taken to help hospitals and other providers like doctors' offices, nursing homes mitigate the negative financial impact of COVID-19. And we've seen that happen from a lot of different ways. Really, sometimes that impact has been felt because they've had additional virus-related expenses that they've incurred or perhaps they've had a revenue loss because they weren't able to provide their normal battery of elective services to folks. I'm not going to rehash all of that background, but just to get started, I will hit a few of the highlights if that's okay to help ensure that everybody who's with us today has some of this key background information. So back on March 27th of 2020, the CARES act was passed.

And it was signed into law and, you know, I keep finding more and more things that were included in the CARES Act. I thought I knew what the CARES Act was, and I keep finding out more and more about it. But there was a hundred billion dollars appropriated for the Provider Relief Fund. Along with that CARES act dollars are all being administered and managed by United States Department of Health and Human Services or HHS. The first round of payments was about \$30 billion. And that started coming out in mid-April of 2020 with providers being required to access

the HHS portal to sign and accept the terms and conditions of the agreement, or to actually return the funds. And if you didn't get on then you just are considered to have accepted the terms and conditions of the fund. So no action equals action in this case.

Ms. Grove Casey

By default.

Ms. Watters

Exactly.. So then the second round of phase one funds was about another \$20 billion and those started being distributed at the end of April, like April 24th. And then in June there was a general distribution of about \$18 billion that were made available to providers in other areas that were significantly impacted, and this is where you saw nursing homes getting their wave of funding. Also some rural providers were, part of this as well, and those distributions were made all throughout the summer of 2020.

I think a really important thing to keep in mind is that this type of assistance, rather than a fee for service is new to a lot of these providers, and as is often the case, this money has been distributed what I would call hot and fast. You know, it came out at least by the standards of the federal government it certainly came out very quickly.

And unfortunately, because of that, the related reporting guidance has lagged behind. So, and that's kind of one of the risks we face sometimes is that we take this money and there are strings attached to it. But when we take it, we don't exactly know what the strings are going to be. And it reminds me, I tell people this a lot for those of y'all who've been around a while, of the

old ARRA funds, the American Reinvestment Recovery Act money, that came out back in 2009. It feels a lot like that.

Ms. Grove Casey

Well, I understand that there's some online reporting that's associated with these funds. What kind of reporting? who needs to report, and what kinds of things do they have to track and by when? What's our reporting deadline? I mean, as you said, hot and fast. Sometimes that can be really problematic. I guess that's why you have to put in a number in order to deposit into an account, but I haven't noticed the IRS particularly asking before they deposit money into my account.

Ms. Watters

There you go. Well, the PRF, I'll probably call them a PRF or Provider Relief Fund interchangeably, reporting portal has been a hot topic now for months. If you Google it, you'll see lots of articles. It was originally scheduled to open in February of 2021, and providers were going to have to start reporting in February of 2021. That did not happen. That opening was delayed until July 1, 2021 while the health resources and services administration, or HRSA, was kind of ironing out the wrinkles with that system. HRSA has also released some updated guidance within both the CARES Act Provider Relief Fund frequently asked questions (FAQs), as well as the provider relief portal frequently asked questions as well. So, I want to throw that out there so that everybody who's on with us today knows to kind of look for those things.

So back to your first question, recipients of PRF assistance that received one or more payments that exceeded \$10,000 in the aggregate during the payment received period, and that's defined by HRS, are required to report on several required data elements. Providers are going to report on the expenses that they incurred and spent attributable to the coronavirus. Keeping in mind that what we're looking at here is incremental expenses, expenses that are incurred because of COVID. Additionally, providers are going to report or present a lost revenue calculation as well. And they'll claim that some of the funds that they received were used for lost revenue.

So let's look at the payment periods quickly. You can find these in a couple of places, if you're here representing the audit community today. Those of us

who are trying to figure out how to audit provider relief funds could look in the Compliance Supplement, it lays it out very, very well. There again, it's on those frequently asked questions that I mentioned earlier, and so on the provider relief fund, but for the very first wave of payments, the payment received period is what they call it. So the payment runs from the date you received your payment between April 10th, 2020 to June 30th, 2020. You're going to report that as of September the 30th, 2021. That's the first reporting deadline. Now, let me give you a caveat here. One thing that they say is that extensions will not be granted for the reporting time periods. However, just in the last few days, HRSA has come out and said, we're not granting an extension, but we are granting a 60-day grace period. So like one of my coworkers says, I guess what that means is they're not going to come after you and ask for their money back, if you file within that 60 day grace period, because we were all kind of sitting around scratching our heads, you know, exactly what does that mean?

Then for the second reporting period payments that you received between July 1, 2020 to December 31, 2020, those will be reported... between January 1, 2022 to March 31, 2022. Okay. So, go online [[whitehouse.gov/wp-content/uploads/2021/08/OMB-2021-Compliance-Supplement_Final_V2.pdf](https://www.whitehouse.gov/wp-content/uploads/2021/08/OMB-2021-Compliance-Supplement_Final_V2.pdf)] and look at those because it is really a little bit confusing. So I would just caution people to look at that. But we'll focus in on this 9/30 deadline because that's the one that's imminent for us with our 60-day grace period. Recipients can not report eligible expenses and lost revenues early, despite whenever the PRF payments are spent. So you've got to report them within the reporting windows for when you received the funds. That's something that's a little bit different, so people need to make sure to be aware of that. And then if multiple payments are received across multiple time periods, then recipients have to make sure that they report in each reporting time period window when they received one or more payments that exceeded \$10,000 in the aggregate. I keep saying that \$10,000 or more because that's the key number; less than that, you do not have a portal reporting requirement.

Ms. Grove Casey

Well, is there a particular order that the funds have to be used in, and what kinds of things can they use the funds for?

Ms. Watters

So we've been talking about that a lot. The guidance that we have on hand today, the way that most people are kind of interpreting it in the audit community anyway, is that PRF funds have to be used in a certain order or reported in a certain order. The first being healthcare related expenses that are attributable to the pandemic that aren't reimbursed or obligated to be reimbursed from some other sources. Those need to be used first, that includes both general and administrative type expenses and other healthcare related expenses. I think on one of the frequently asked questions it says, do you have to report expenses or can you go directly to provider lost revenue? [That] is the second layer there is the lost revenue. The answer to that frequently asked question is that, yes, you could do that. However, at MCM, we're cautioning our client base against doing that. Just because we are concerned that if you report no expenses being incurred related to the virus or to providing care to those patients who have that type of issue that, that might leave you open when there's some kind of an audit criteria, whether it's being conducted by data analytics or whether it's humans who are looking at that, that might trip a red flag, if you're not showing any expenses. Would you like to talk about some of the types of expenses?

Ms. Grove Casey

Let's talk about what they can use the money for.

Ms. Watters

Sure. Let's look at the G and A category first. There are seven subcategories of actual general and administrative or G&A expenses that can be claimed if the costs were attributable to the coronavirus. One would be mortgage or rent for a facility. You know we've seen lots of people have to maybe rent some more space in order to allow for social distancing or proper ventilation. Insurance is another area. So we're talking about their premiums for property, malpractice, or business insurance. Just keep in mind, it's all incremental costs to the coronavirus. Personnel is a third area in the G&A category. So this is workforce-related actual expenses that are paid to prevent, to prepare for, or to respond to the pandemic. That includes training your staff, hiring temporary staff or contractor staff to help you during this time, either because you have a high volume of work or because you have folks who were out related to the virus, maybe their ill. And also, this can cover overhead like security, that kind of thing.

Fringe benefits, obviously, that are related to those personnel costs are also allowable, as are lease payments. If you had to get new equipment or new software, utilities and operations that are incremental. One thing we've seen in this particular category is cleaning. There's been a lot of additional costs incurred for cleaning services or sanitizing services. So that's something that might be here. And then, we always had the good, old other G&A expenses, costs not captured in one of those other categories that are generally considered to be part of the overhead structure. Again, I think the key here is demonstrating that they were incurred incremental to your normal expenses. And then, there are costs in the healthcare related expense category as well. So these are things that we're all used to hearing about, supplies like the PPE supplies you use to prevent or prepare for, or respond to the pandemic.

We're talking about PPE, hand sanitizers, supplies for patient screening, those types of things. Equipment for providers who've had to buy and can buy ventilators or who might be making updates to their HVAC systems to allow for better ventilation. We've seen folks incurring a lot of costs with their IT, either to expand their service or to preserve their healthcare delivery. They've had to have some electronic health record licensing fees that have been added on tele-health, but we all know that the tele-health infrastructure has been called on. Some providers have had to – when this first started and I was doing a telehealth visit with my doctor we kept freezing up and it was a difficult thing – so they had to invest in increased bandwidth so that they could better facilitate tele-health. So all of those types of expenses are part of this. There's also facility-related costs like the purchase of permanent or temporary facilities or modifying facilities that are going to accommodate patient treatment practices that have been revised because of the pandemic. Then, again, with this there's other healthcare-related expenses category. So again, 80 other expenses that weren't captured in one of those first categories that you can justify that were paid to prevent, detect, prepare for, or respond to the pandemic.

Ms. Grove Casey

Well, you mentioned lost revenues right at the beginning of the last question that I asked you, and that seems to have a few categories as well, that would be addressed there. Could you give us a little bit more detail there?

Ms. Watters

It does. I think this category is pretty interesting. The CARES Act Provider Relief Fund frequently asked questions as of July 1, 2021. That's the date that's last updated there grants greater flexibility to providers in the calculation of lost revenues. The frequently asked questions clarify that lost revenue is calculated on a quarter by quarter basis. And then there are three options for actually calculating lost revenue that are out there. The first one is, that you're looking at the difference between actual patient care revenue on a quarter to quarter basis. The second option is that you're looking at the difference between your budget prior to March 27th of 2020, when this was declared an emergency and then your actual patient care revenue, so if you can show a big gap there. Then the third option, I love this one. It is calculated by any reasonable method of estimating revenue. Okay. So there, there's going to be a caveat here. The CARES Act PRF frequently asked questions do clarify that option one and two lost revenue is calculated for each period during the period of availability as a standalone calculation. So I think that's important to remember. The 2019 quarters always serve as the back baseline for that, because that's the last time things were "normal," so for each calendar year of reporting, the applicable quarters where lost revenue is demonstrated, our total to determine an annual lost revenue amount. There's no offset of quarters during the period of availability where the reporting entity didn't experience lost revenue. So if you experienced lost revenue or you don't experience lost revenue one quarter, that's okay. You can look at it over that broad period.

Ms. Grove Casey

Over the whole period.

Ms. Watters

Exactly. So that was a favorable change from the way that this first came out, and I think that that's a really good thing for providers. HRSA also clarified that the reporting entity may carry forward excess lost revenue in a period and apply it against payments received in subsequent periods, just so long as you're not duplicating your lost revenue, so as such, payments received may not be applied to the same lost revenues that PRF payments received in prior periods were already reimbursed. So that's just something you have to keep careful to keep separated. It reminds me a lot of just like with any grant, they want to make sure that you're only reimbursed one time. No,

Ms. Grove Casey

Double-dipping

Ms. Watters

Exactly.

Ms. Grove Casey

Yes, but still that's awesome that it uses the whole time period, because I know one of the things that we heard about with healthcare providers in general is that everybody was so afraid of COVID that there were certain areas of the country where they were laying off health care staff because people weren't going in for the regular stuff.

Ms. Watters

Exactly.

Ms. Grove Casey

Now most government funds have documentation requirements, actually, most grants and funds do anyway. And I wouldn't think that these are any different, so let's talk about what kind of documentation is needed if an entity did receive these funds.

Ms. Watters

And I think Debi that this is where things are tricky, right? Because certainly there are some providers who are government related and they actually administer federal assistance, but most providers that are impacted by this do fee-for-service work. They do receive federal funds, but it's as a vendor or a contractor fee for service. So the concept of federal assistance and the requirements that are attached to that may be a little bit difficult. So for expenses that are claimed and I'm talking here mainly to our audit community and to accountants, but you would be wanting payroll journals, certainly any source documents that you would have as well as paid vendor invoices that would demonstrate that you incurred costs and that you can show that it's related to the pandemic. You also need to make sure that you can expand. So when I say you, I mean, the providers. That you can show that the expense was for one of those eligible uses that we discussed earlier, either in the G&A or the other healthcare related expense category, and that it's incremental, that it was incurred because of COVID, and I think that providers have likely been accumulating the cost in segregated G/L accounts. So I

think, it's going to be important to be able to tie those accounts out to the Provider Relief Fund Portal and to the report that you submit through that. That same type of information applies to your lost revenue calculation, whichever method you utilize. The provider needs to make sure that they maintain verifiable detailed information that details the key elements of the calculation. So those are the type of things that as an auditor I am going to be asking my clients for. And those are the kinds of things we've been counseling our client base to keep.

Ms. Grove Casey

Well, let's talk a little bit about when a single audit is required and what it means in these specific circumstances. Usually, governmental entities are on the receiving end of governmental funds. And they may or may not need a Single Audit depending on how much federal funding they have expended in a particular time period, but it sounds like here that we may have for-profit entities that are receiving funds. What does that mean in terms of a Single Audit? Because those entities are not used to having that kind of a situation arise I think?

Ms. Watters

You're exactly right. I can't remember it's somewhere between 5,000 and 10,000 is the number, but we are anticipating there's going to be somewhere between 5,000 and 10,000 new single audits that this year that are related to either the Provider Relief Fund or some other type of CARES Act funding. So this is going to be a big deal. There are going to be a lot of organizations and a lot of them are going to be for-profit that have never had a Single Audit before. Having said that, in case we've got some folks on here today who are not familiar with that, I'm going to step back and define some of the terms that might be more familiar to our normal government or nonprofit viewer that we have in the event that we have some of our for-profit friends out there with us.

A Single Audit is required when a non-federal entity expends \$750,000 or more of federal financial assistance in a single year. And, federal financial assistance can take several different forms. In this situation, it's a cash payment but sometimes it might be in the payment, it might be in the form of a loan. It might be in the form of a grant agreement. It might be in the form of even some kind of commodities, but for what we're talking about here, we're talking about a

cash award of grant assistance. Non-federal entities are usually defined as not for profit organizations, institutions of higher education and state or local governments. But, specifically, the terms of the Provider Relief Fund also included for-profit audits in the scope of a Single Audit, so that is something that's very, very important here. Now with our commercial entities, they're going to have a couple of options. Many of these folks are only going to receive federal assistance under one program....

And if that is the case, if they only expend funds under the Provider Relief Fund, then they can elect to have a program specific audit under the terms of the Single Audit act rather than a full financial statement Single Audit of all their federal financial assistance programs. If you receive and expend funds under more than one federal program, that is a grant program where we're scoping Medicaid out of this, your normal Medicaid fee for service is scoped out of this, then you would be subject to a single audit if you have more than one federal assistance program. Is that about as clear as mud Debbie?

Ms. Grove Casey

A little bit, yes.

Ms. Watters

Okay. That is something that's just a little bit different, but I think for most of our providers here today, they're only going to have that one program. And in that case, what you get to do is you can kind of hone in on that program and look at the internal control over compliance with that program, as well as looking at the compliance with those program requirements. In that case, your financial statement is your schedule of expenditures of federal awards, and that is the dollar amount that was expended relative to the provider relief fund. So that's what you're looking at. It's a much narrower scope than a normal single audit.

Ms. Grove Casey

Well, I'm sure that's going to be a good thing.

Ms. Watters

I think it will be. One thing that I would say for folks out there who might administer more than one federal financial assistance program, this provider relief program has specifically been identified by HHS as a high risk program or a higher risk program. So more

than likely even if you are, let's say that you are a large university hospital and you have tens of grants and you're normally getting a single audit each and every year, so you've got this. If this program is higher risk, it's very likely that that will be selected for audit as part of that normal single audit practice.

Ms. Grove Casey

I can't really say I'm surprised about that. I was talking to a friend about it yesterday, and I mentioned that, it's just like when we get a new accounting pronouncement, right? So those areas that are impacted by that accounting pronouncement are areas that auditors want to look at because there's more risk because people haven't done it before.

Ms. Watters

Exactly.

B. Provider Relief Funds and You: Part II

Ms. Grove Casey

Well, we do get the Compliance Supplement that's issued each year by the OMB to help auditors with the current issues and requirements. Do we think that it's going to indicate something about the compliance requirements that are tied to these funds?

Ms. Watters

Sure. So, the 2021 Compliance Supplement was released on August 12, 2021, and one item of specific note related to the Provider Relief Fund is like I said, it's in there, they've got their own entry in the compliance supplement. It's very, very helpful. And it provides a lot of clarifying information. It is the provider relief fund is identified by its assistance listing number, which is 93.498. I think that the good news is that this guidance tells us there are only four applicable compliance requirements (Yay, right!) activities allowed or not allowed, allowable and unallowable cost and cost principles reporting, and then special test and provisions. So for folks out there who may not be familiar with the Compliance Supplement, you can go to the website for the office of management and budget at www.whitehouse.gov/omb. And there's a really easy link that you can find that will take you to the 2021 compliance supplement. And when you click on that and get in the supplement, you can just search for either provider relief funds or 93.498, and you'll find that listing. It just lays the requirements out in some really plain language. I like it. It's great. Auditors use it all the time, but it's also a great tool for auditees as well. And again, in this particular compliance supplement, one of the things that they highlight is that this is a higher risk program.

Ms. Grove Casey

Well, and if you're a first time audittee, because you've never had a grant like this before, it could probably be extremely helpful.

Ms. Watters

It's extremely helpful because like I say, it is in plain language, it lays out how you can use this money and what you need to do to demonstrate that you've done so appropriately. Also, it really clarifies the reporting standards. It's really a helpful document.

Ms. Grove Casey

Well, you mentioned allowable and unallowable both activities and costs, but let's talk about the activities that are allowed and unallowed for these particular funds.

Ms. Watters

Sure. Just in general, for any federal grant that you have activities allowed or unallowed defines what providers can and cannot do with their federal assistance dollars. It also sort of drives allowable costs as well. But in the case of PRF, the federal assistance will only be used to reimburse providers for activities that were associated with preventing, preparing for, and responding to, the coronavirus. I feel like I say that a lot, as well as the lost revenues that are attributable because of the disease. So those are things we just talked about.

There are a few other terms and conditions that a provider will need to determine [have been] met. And then an auditor will have to verify that they've meant to be in compliance. So some of those things are: providers are not allowed under this grant or under this form of assistance to try to collect from an out of network patient or an out of network provider or patient out of pocket expenses that are higher or greater than they would have been required to pay if they'd received the same service or service from an in-network provider.

When those funds were distributed, like I said earlier, providers had 90 days to either accept the funds and agree to the terms of use or return them again. This says here, if you didn't do either, then HHS presumes that you've accepted the terms and conditions. So like you said, Debbie, by default, you are now responsible for adhering to all of these requirements. So that's something that folks may not have been aware of back when they started getting these monies in April 2020. You must provide, have, or have provided after January 31, 2020 diagnosis testing or care for individuals with possible or actual cases of COVID-19 or conducted activities that prevented the spread of the disease.

One thing that I thought was really interesting in the Compliance Supplement is that HHS has provided a practical expedient, I guess you would say because they broadly view every single patient that a provider treats

as a possible COVID-19 case. So I think that's a pretty broad range, of latitude because you could go in there for your broken arm, but because this disease is so highly communicable, you could be considered a potential COVID 19 case. Then, finally, this reiterates, again, under the activities allowed or unallowed, no double-dipping, as you said earlier. And, so again, what we mean by that is you can't seek reimbursement for an expense from two different sources.

Ms. Grove Casey

Okay. So now it is probably the time that we want to talk about what is an allowable cost?

Ms. Watters

That makes the most sense to go there next. So as we move on to allowable costs, these are costs that are in line with the cost reporting elements on the online portal that I discussed earlier. So when we're talking about the categories of G&A or the categories of healthcare related expenses, I won't necessarily go over that list again, I just would, again, reiterate that we're talking about incremental costs that have been incurred related to the virus, costs that a provider wouldn't have had if things had just gone on as normal. But I do want to spend a few minutes, if we have time, looking at the cost principle piece, because I think that's the part where if you're not used to administering federal grants, that might be the part that could slip people up.

So the background or the guidance for this is in 2 code of federal regulations or CFR 200.306. And in that section of the Code it defines cost principles for all federal assistance in order to meet those principles. You have to be able to demonstrate that the cost is allowable as defined by federal regulations. First that it's tied to one of those allowable activities that we talked about earlier; second, that that cost is allocable, which is a hard word for me to say, but that just means that the project that paid the expenses is the one that benefited from those disbursements. So again, in this case, you need to be able to demonstrate that those costs that are being claimed as expenses are related to the pandemic, costs have to be necessary, and they have to be reasonable. So in this case, that the cost reflects what a prudent person might pay given the same set of circumstances.

Now, I think that one of the things that will be really interesting here is that prior to the pandemic, for instance, certain items of PPE or things like hand

sanitizers, you could probably get them for what we would normally call a reasonable price, right? After the pandemic was declared and there started being shortages of those types of things, sometimes we saw the costs go up. So again, we're looking at what a reasonable person would do if you need an N95 mask and the price has gone up, you're still looking at a reasonable person, so just the threshold now has gone up, right, of what a person would consider reasonable at that point. Then, finally, costs have to be verifiable from your records. That just means that the cost has to be appropriately documented that you have to have like a paid vendor invoice or something that clearly details what this expense is and what it's related to.

Ms. Grove Casey

Well, we talked a little bit about the online reporting earlier. Is there any other special reporting besides that reporting portal? Because I remember hearing about a reporting portal.

Ms. Watters

The other grants, that really is the special reporting. So when we talk about that compliance requirement, it applies to the providers that they have executed under that provider reporting portal, and then auditors are expected to test this special report, that reporting portal submission, for fiscal years ending on or after June 30, 2021, that's the first year of audit that those expenses are going to be on a schedule of expenditures of federal awards (SEFA). So one of the recommendations that's included in the Compliance Supplement is that auditors consider delaying actually starting the audit of the provider relief funds until the PRF program portal requirements or portal submission has been filed because that submission is going to dictate the total amount of awards that are expended and included on the schedule of expenditures of federal awards, as well as the type of expenses or the lost revenue that are claimed.

So we're going to be testing that special reporting to ensure that the report was submitted on time or within the grace period and that the required data elements were accurately reported. So, we've talked a lot about, well, is it going to be an exception if you didn't report on time, when we've been told you've got this grace period, and I'm going to say that the verdict is out. We're still kicking that around. I think it will probably be some level of exception, but I think it will be mitigated and lessened by the fact that you do have that grace period.

Ms. Grove Casey

Well, when I looked at that little table that you mentioned, I thought it was interesting that the 60-day grace period comes like right up against where the next reporting requirement is right. Because there's a window in there. Like we have to report by September 30th, but then the next one isn't until like January 1st or something.

Ms. Watters

Exactly. You know, it's really difficult, I think. I mean, this has been a monumental endeavor, I think, getting the money out and thinking about what was important to be reported, getting a site that's up and available to a large number of providers and making sure that the government can get meaningful data out of it. I think it's really been a bear.

Ms. Grove Casey

I agree.

Ms. Watters

And I think they recognize that providers are struggling because, the guidance didn't come out Day One. I've talked about that a little bit, that there's been this lag, and so now, folks are having to try to make sure that they've got their guidance in line or that they've got their expenses in line and that everything is just as it should be. And so, it has really been a challenge to the government, to the provider community, and it's going to be a challenge to us auditors as well. Yay.

Ms. Grove Casey

Well, you also mentioned some special tests and provisions, and not every grant has special tests and provisions requirements. What's unique about the Provider Relief Funds, that's driving the inclusion of that provision. In addition to the fact that, frankly, just living has been a challenge for most people over the last year and a half.

Ms. Watters

So I talked about this earlier because it's under allowable activities as well, but it's repeated again under special tests and provisions. This will not be applicable to every type of provider. I was talking to a nursing home client the other day. They don't serve out of network patient, so this is not an issue for them. But

other entities, I talked about this just a few minutes ago, that are part of a network who might be called upon to provide healthcare services to out of network [patients]. Normally, they charge a surcharge or out-of-network patients are charged a higher fee. Okay, they can't do that here. So this is something that auditors are going to be looking at. I think the Compliance Supplement did a really good job of kind of guiding auditors and telling them what to do here.

They're going to be reviewing your billing and collection policies and procedures that are applicable to out-of-network expenses. Most likely auditors are going to test a sample of out of network patients to make a determination of whether or not that patient was assessed an out-of-network charge that they shouldn't have been. So I think that that's, again, that is linked again to the allowable and unallowable activities. I think they just set it up as a special test and provision because they want to make sure that it gets its due audit attention.

Ms. Grove Casey

Well, are there any special considerations when it comes to internal control and compliance related to these funds?

Ms. Watters

You know, Debbie, I think this is just always such a challenge. What are even requirements? The requirements for internal controls over compliance are folks say, well, what are internal controls over compliance? I think as an auditor, when we're training new auditors this is something that they really struggle with. Conceptually it's easy, to say, yes, they complied. Yes, they complied. Check.

Ms. Grove Casey

It's only a box, right?,

Ms. Watters

But it's a little more difficult to conceptually think about what kind of processes, what kind of policies and procedures are in place to ensure that you comply. So that's what we're looking at is that organizations have to establish and maintain effective controls over those federal award compliance requirements. Just to be honest, I will be surprised if we don't see a lot of, I was going to use old language and call them reportable conditions, but control deficiencies related to internal

control over compliance simply because there wasn't great guidance about what the compliance requirements were early on. So I expect, we'll see a lot of that.

Ms. Grove Casey

So one of the things that needs to be filed when federal funds are used is the SEFA. That's the schedule of expenditures of federal awards. What kinds of things need to go on the SEFA if an organization receives these funds?

Ms. Watters

Yes. So again, there's some really good guidance on this. This SEFA, it does capture and it recaps expenditures of federal awards for the fiscal year by agency by federal funding agency and by program or by that a federal assistance listing number. Some of you all may be familiar with the term CFDA number that is now, catalog of federal domestic assistance, outdated language. We just call it assistance listing number, however, the numbers all stayed the same. But we want to make sure we're using the most up to date terminology here, but some of the information that you need to be gathering and including on that type of schedule is a list of awards by federal awarding agency and by program first and foremost. So for many people that's going to be just HHS and provider relief funds, hopefully, you're going to use your assistance listing number.

We told you that earlier 93.498, and the official program title, which when we're talking about PRF, it is the provider relief fund. If you received your funds from some other way than directly if you received it as a pass through from some other organization, you would include information that identifies that package or organization. However, in the case of provider relief fund most, if not all of this money has come to providers directly from Health and Human Services. Also, if you administer more than one program, sometimes there are federal awards that are within a cluster, those are a series of programs where their compliance requirements are so similar that they are audited together. So that would be identified as well. You know, I think that on the surface Debbie, the SEFA requirements are pretty straightforward. But you know, it can get complicated.

I think that some of the common requirements that get messed up, if you will, are not using the correct assistance listing number some you should have been

given notice of what that number was when you received your PRF funds by the about second or third round of funds. But when they first came out there wasn't a CFDA or assistance number assigned to those. Some other things that could trip you up is just not making sure that your expenses and your lost revenues align properly with your provider reporting portal submission. So those are some of the things that could trip you up. There's a couple of specific SEFA requirements that are related directly to the Provider Relief Fund. Again, I have said this about four times, and we'll say it one more time just to reiterate because it's so, so important, make sure that you have 93.498 as your number and Provider Relief Fund. Don't get it mixed up with the coronavirus relief fund. Because that, that will cause you problems also see for reporting amounts for this program. As I've said before, they are based on the online provider relief fund reporting submission that we summarized earlier and look in the compliance supplement because it tells you for each of your fiscal year ends, what to include on your actual SEFA. So this is a place where I think it gets just a little bit confusing. So if you're a June 30th year end your SEFA is going to show your period one reporting. If you have a 12/31 year end then or a nine, or I guess it's 12/31, that's the first one you're going to have to have on your SEFA your period. One, I have to think about this before I say it, Debbie, your period one, and your period two total expenses and lost revenue will be on there.

So it's something that's a little bit confusing, as you can tell, since I have to stop and think, and it says that specifically in the compliance supplement, so it laid it out about as clearly as they can make it. I think that the reporting entity is again for provider relief funds. That's something else that's interesting. And it says this specifically in the compliance requirement, the reporting entity required for the provider relief fund reporting purposes may not align to the reporting entity as defined for financial reporting purposes. It's important to note that the required PRF level of reporting has no bearing on the application of the requirements in 2 CFR, 200.514 for actually defining the entity to be audited for single audit purposes. So for single audits that include provider relief fund, you may have organizations that have different TINs that you're rolling up into one consolidated financial statement.

Your TIN when you report on your provider relief fund, you're reporting each TIN. And when I say TIN, I think we all know tax ID number, each tax ID number is

reported separately under the provider relief fund. Audittees do have some latitude to make a determination of how they're going to report on their SEFA their PRF funds. So there may be a difference between what's reported on a consolidated SEFA versus what is reported in the consolidated financial statements. This is something that we were really, really glad to see clarified. For instance we work with an organization that has 10 different provider relief funds, or entities that have provider relief funds. Only one of them expended more than \$750,000 in federal awards. So for the purposes of single audit, they can scope the other nine who didn't receive \$750,000 out and only look at the organization that has expended over \$750,000. So that's going to provide them some relief,

Ms. Grove Casey

A lot of relief, I would think.

Ms. Watters

Exactly. So I think that's a good thing. And, we were really, really glad to see that clarified in the Compliance Supplement.

Ms. Grove Casey

Well, what kind of reports go into that single audit reporting package, if an entity receives these provider relief funds and does qualify to have a single audit, as we were just talking about?

Ms. Watters

You know, it's interesting Debbie, because we have had so many discussions about, well, this normally doesn't apply to a for-profit entity. Normally they do not have to have a reporting package submission to the federal audit clearinghouse, but where we've come down and, and where it seems to come down and all the guidance that's out is that a for-profit entity that is going to be subject to the single audit requirements is going to have to submit their audit package to the data collection to the federal audit clearinghouse, just like any other recipient of federal assistance. So what they will have just to give a little background, this federal audit clearinghouse is a depository that is maintained by the United States census bureau. Certain information about the audit is entered into the data collection form along with it and then that form is uploaded along with audited financial statements, the schedule of expenditures of federal award, as well as both the

yellow book audit report and the uniform guidance audit report along with a schedule of findings and question costs as well.

That schedule of findings and questioned costs, Debbie, I liken it to a report card about the audit. I like this page because you can turn directly to it and get a really good general summary or overview of the audit results including the type of opinion that was issued, whether or not there were any material weaknesses or significant deficiencies, whether there were any kind of questioned costs that might've been related there. So it's a really helpful document I think, but all of that information collectively is uploaded to this federal audit clearinghouse and it's available really to the public. They can search for it and find your single audit. It's really just been an effort to increase the transparency and the accountability for the use of federal funds.

A. Provider Relief Fund and You: Part I

by Jennifer F. Louis, CPA

Background on SEFA

A Single Audit is an organization-wide financial and compliance audit. In addition to providing an opinion on the financial statements, a Single Audit report includes reports on the Schedule of Expenditures of Federal Awards (SEFA), internal control over financial reporting and compliance, and internal control over compliance.

The schedule of expenditures of federal awards (SEFA) is at the heart of any audit performed in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Uniform Guidance contains uniform cost principles and audit requirements for federal awards and administrative requirements for all federal grants and cooperative agreements.

Often the SEFA is one of the first pieces of information that a CPA firm will request when designing and planning the audit.

The SEFA, which is prepared by the auditee and considered supplementary information to the financial statements, is a key part of the reporting package required by the Uniform Guidance. The SEFA also serves as the primary basis that auditors use to determine which programs will be audited as part of the Single Audit. Therefore, the auditee's responsibility for preparing an accurate and complete SEFA is critical.

Specifically, §200.510(b) of the Uniform Guidance requires the auditee to prepare a SEFA for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with §200.502 of the Uniform Guidance, "Basis for Determining Federal Awards Expended."

The total expenditures reported in the SEFA is the determination factor for whether an entity is required to undergo an audit in accordance with Uniform Guidance (if total expenditures equal or exceed \$750,000 in the given fiscal year). It is also the basis for identification of Type A and Type B programs, and ultimately which program(s) are to be tested as major.

Preparation of the SEFA is the responsibility of the auditee, and receipt of a complete and accurate SEFA is the foundation for a smooth audit. If the SEFA includes errors or omissions, it will surely result in inefficiencies, duplicate audit effort by auditors if major programs must be re-selected, the potential for audit restatement, and/or additional audit costs. The best insurance policy for any auditee receiving federal funds is to follow a thorough SEFA preparation process.

Impact of Pandemic

In 2020 and into 2021, an unprecedented number of government and nonprofit organizations have received federal funding in response to the COVID-19 pandemic, *e.g.*, the Coronavirus Relief Fund established by the *Coronavirus Aid, Relief, and Economic Security Act*. Many of these funds are subject to Single Audit, which requires recipients to prepare a Schedule of Expenditures of Federal Awards (SEFA). For many organizations, this may be their first time doing so.

In many cases the funding was provided to nonfederal entities in a very short timeframe after the passage of the CARES Act, sometimes before official awards or terms and conditions were established between federal agencies (or pass-through entities) and recipients (or subrecipients). Further complicating matters is that many of the new programs provide for a period of performance and allow for application of costs (or lost revenue, as applicable) incurred in periods both before and after the award existed and often spanning more than one fiscal year of the nonfederal entity. This combination of factors has been at a level not encountered before. As a result of these factors, there have been many questions around the timing of when costs incurred (or lost revenue, as applicable) should be reported on the Schedule of Expenditures of Federal Awards (SEFA).

Generally, expenditures are reported on the accrual-basis SEFA when costs (or lost revenue, as applicable) are incurred and an award is determined to exist.

The determination of the reporting of expenditures (or lost revenue, as applicable) on the SEFA is independent of the determination of revenue recognition under generally accepted accounting principles.

IMPORTANT: General guidance should not be assumed to apply to Single Audits of Provider Relief Funding because the U.S. Department of Health and Human Services (HHS) has directly addressed the timing of SEFA reporting of PRF expenditures and lost revenue by nonfederal entities in the “Other Information” section of the Addendum to the 2020 OMB Compliance Supplement. It states that for Single Audits of fiscal years ending in 2020 on or before December 31, 2020, the entity reports no PRF expenditures on the SEFA (including no lost revenue). For a FYE of December 31, 2020, the entity reports on the SEFA as expenditures (including lost revenue) based upon the PRF report (submitted by the nonfederal entity to HHS) for calendar year ending December 31, 2020, and discloses in the footnotes to the SEFA that the amount included on the SEFA is based upon the December 31, 2020 PRF report. On August 12, 2021, the U.S. Office of Management and Budget (OMB) released the 2021 OMB Compliance Supplement. There were some key changes and updates made in the 2021 Supplement, including those related to the ongoing implications of the COVID-19 pandemic and the identification of certain programs as “higher risk.” This Supplement also covers revised OMB plans for future Addenda to the 2021 Supplement. It should be noted that OMB will be releasing two Addenda to the 2021 Supplement in late 2021, primarily to address new programs established by the American Rescue Plan Act (ARPA).

For expenditures (or lost revenue, as applicable) to be reported on the SEFA in a particular period, there should be an award. However, the awarding process for these new programs has not been typical and, therefore, professional judgment may be needed to determine an exact award date. While an award date may be clear in some cases, in many other cases there may not be a signed and dated award document, particularly when the auditee is a subrecipient.

Procedures auditors may consider for determining the appropriateness of the “award date” used by the auditee include:

- Inquiries of management regarding the facts and circumstances surrounding award arrangements; and
- Reviewing client supporting records such as Board minutes, e-mail correspondence, or instructions provided to a subrecipient from a pass-through

entity for claiming expenditures.

If an existing award is subsequently impacted by a substantial amendment to award terms due to new legislation, the substantial amendment would be the equivalent of a new award for purposes of determining when associated activity is presented on the SEFA. An example of this scenario is the retroactive expansion of allowable uses of unspent HEERF grant funds being impacted by the subsequent allocation of HEERF funding resulting from CRRSAA. But there may also be other similar funding situations that arise.

Assuming an award is determined to exist as of fiscal year-end, costs incurred (or lost revenue, as applicable) that a nonfederal entity applies to an award should be reported on the SEFA in the year costs were incurred (or lost revenue, as applicable) even if the nonfederal entity makes the determination to apply those costs incurred (or lost revenue, as applicable) to the award until after fiscal year-end. If the award’s period of performance allows a nonfederal entity to apply future year costs incurred (or lost revenue, as applicable) to that award in lieu of current year costs (or lost revenue), and the nonfederal entity decides to do so, future year costs (or lost revenue, as applicable) should be reported on a subsequent year’s SEFA when applied by the nonfederal entity.

Generally, the timing of cash receipts (whether advances or reimbursements) should have no impact on SEFA recognition.

Certain of the new CARES programs (e.g., Provider Relief Fund) allow for the reimbursement of lost revenue. Auditees and auditors should look to federal agency guidance documents for information related to how lost revenue is to be calculated.

It’s important to note that all COVID-19 funding is required to be identified as such per the 2020 Compliance Supplement. Entities are required to add “COVID-19” prior to the program name (this includes COVID-19 funds that were provided under a non-COVID-19 CFDA number).

Single Audits

Impact of Pandemic

In March 2020, in response to the ongoing COVID-19 crisis, Congress and President Trump passed and

signed the \$2 trillion economic stimulus bill known as the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Within this stimulus package were billions of funds from the government that are now subject to the Single Audit Act of 1984, as amended, and the Office of Management and Budget (OMB) 2 CFR 200 subpart F – Audit Requirements. The more recent American Rescue Plan Act of 2021 (ARPA) provided billions of dollars to American businesses, state and local governments and not-for-profits. While this funding has been a huge relief, especially for nonprofits, it causes complications for a lot of recipients. These funding sources are expected to cause a significant increase in organizations requiring a Single Audit for the first time.

Compile a List of all Funding Received

It is important for an entity to compile a listing of all funding received as “non-exchange” transactions. The sooner reporting entities know about important and relevant information, the better prepared they will be for a compliance audit. Entities may need to proactively ask questions about any stipulations embedded in funds received – including whether the funds are subject to Single Audit. Many organizations are not aware of the compliance audit requirement until after funds have already been received.

Organizations will need to complete the SEFA, the schedule detailing all federal awards they received. While this can be a time-consuming process in the first year, it is vital to an effective Single Audit.

Even if a Single Audit is not required, there are still administrative requirements that must be met. It is important for entities to fully understand the guidelines for funds received. Even if you are not subject to a Single Audit, a federal agency may request documentation or perform an internal review.

Uniform Guidance

If the funding is subject to Uniform Guidance, the auditee should review this section of the codification in detail. This codification includes all the areas the Single Audit will examine for compliance requirements as they apply to the specific award. Included in the Uniform Guidance are requirements related to:

- Pre-Federal Award Requirements and Contents of Federal Awards (subpart C),

- Post Federal Award Requirements (subpart D),
- Cost Principles (subpart E),
- Audit Requirements (subpart F), and
- Various appendices providing further compliance requirements.

beta.SAM.gov. Website

Auditees should also review any guidance, policies, or memos issued by the federal agencies related to their award. Additionally, by using the beta.SAM.gov website, auditees can look up their Assistance Listing number under the Federal Assistance Listing and determine whether the funding is subject to Uniform Guidance and what parts are applicable. When issuing significant amounts under a CFDA (now listing) number, the federal agency is required to include information on the program on the beta.SAM.gov website.

OMB Compliance Supplement

The OMB Compliance Supplement (the Supplement) is issued annually by the OMB to guide auditors performing the Single Audit. This is an invaluable resource to auditees as well. The Supplement includes directions on how and what the auditor should be testing for specific funding. The auditee should review the Supplement for any CFDA funding they receive and review what the OMB is guiding the auditors to test.

The Supplement also includes a listing of the compliance requirements under Uniform Guidance and suggested audit procedures under each in Part 3 of the Supplement. By using the Supplement, an auditee could determine what allowable cost/cost provision is applicable to their CFDA number of their award. The auditee can then review Part 3 of the Supplement to determine what testing the auditors are recommended to perform and the samples they will likely take. See Part 3 2021 Compliance Supplement discussion below.

Lastly, in Part 6 of the Supplement, the OMB lists example internal controls an organization could put in place to ensure the compliance requirements are met. For an auditee who is just starting under federal compliance, this is an important area to review to ensure their controls are set up appropriately to comply with the federal requirements.

B. Provider Relief Funds and You: Part II

By Checkpoint Learning Editorial staff

The 2021 Compliance Supplement was released in July 2021, and additional addendums are expected. As previously mentioned, the Provider Relief Fund has its own Assistance Listing Number (93.498). The Health Resources & Service Administration is responsible for administering funding from the CARES Act supporting eligible health care providers distributed as direct payments through the Provider Relief Fund. Eligible recipients may receive funds directly or may need to apply for the funds. Additional information may be found at [hhs.gov/providerrelief](https://www.hhs.gov/providerrelief).

Per the Compliance Supplement, the Provider Relief Fund (PRF) is considered a “higher risk” program for 2021, so practitioners should refer to Part 8 of Appendix IV, Internal Reference Tables, within the Compliance Supplement to understand what that designation means in terms of major program determination. The PRF is to provide relief funds to eligible providers of health care services and support for health care related expenses or lost revenues attributable to coronavirus. PRF recipients must only use payments for eligible expenses including services rendered, and lost revenues during the period of availability, although recipients may use payments for eligible expenses incurred dating back to January 1, 2020. Eligible expenses are those to prevent, prepare for, and respond to coronavirus. Phase 1 money was distributed proportionate to Medicare fee for service reimbursements in 2019 and advanced to providers. Providers without adequate cost report data on file needed to submit their revenue information to the General Distribution Portal for additional funds. For the second and third phases of the General Distribution, Medicaid, Children’s Health Insurance Program (CHIP), dental, assisted living, and behavioral health providers were eligible to apply for funds, along with Medicare providers paid under Phase 1 who qualified to receive additional funds. Funding for high-impact areas was distributed to hospitals in areas that were particularly impacted by the COVID-19 outbreak based on submission of the hospital’s: Tax Identification Number.

In addition to the Compliance Supplement, a myriad of resources are available to help preparers report the funds. HRSA provides detailed guidance on the reporting portal with tutorials and guides on

accessing the provider relief portal and reporting the funds used ([hrsa.gov/provider-relief/reporting-auditing](https://www.hrsa.gov/provider-relief/reporting-auditing)). Additionally, webinars related to reporting the funding were also held in July 2021. For those who missed the live events, the slides are available as a pdf with detailed examples <https://www.hhs.gov/sites/default/files/prf-webinar.pdf>, and a recording of the webinars are also available.

Providers are expected to use funds within a window of time. The same period of availability is used for expenses and lost revenues. The time period to return unused funds for Period 1 has recently closed (October 30, 2021). The deadline to use funds for the second reporting period (December 31, 2021) is rapidly approaching. With no extension on the use of funds beyond the period of availability, providers should pay close attention to the timelines to use funds and return them. The period of availability is sometimes referred to as the period of performance and all services must be completed during the period. Tangible property does not need to be in hand by the end of the period of availability, but renovation and construction contracts must be fully executed (completed) during the period. PRF payment amounts (excluding Nursing Home Infection Control Distribution payments) may be applied to patient care lost revenues. The July webinar does provide detailed illustrative examples of the lost revenue calculations, and provides a list of best practices for reasonable lost revenue. Lost revenues should be considered and added to the SEFA for Single Audit purposes. Answers to frequently asked questions (FAQs) are provided and may be accessed from the bottom of the webpage at <https://www.hrsa.gov/provider-relief>, with a download available at <https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/provider-relief-fund-faq-complete.pdf>.

Remember that the American Rescue Plan Act has added additional recipients and funds to the process.

All recipients who expend a total of \$750,000 or more in federal funds during their fiscal year are subject to audit requirements under 45 CFR §75.501, including those subject to Single Audit and commercial organizations. The report is due to be filed by the earlier of 30 calendar days after the receipt of the audit or 9 months after the fiscal year end. Certain extensions

were provided in the earlier portion of 2021 via OBM Memo M-21-20. Commercial organizations have two options—either a financial related audit of the award in accordance with GAGAS, or a Single Audit. Practitioners may also want to look at the fact sheet for auditors.

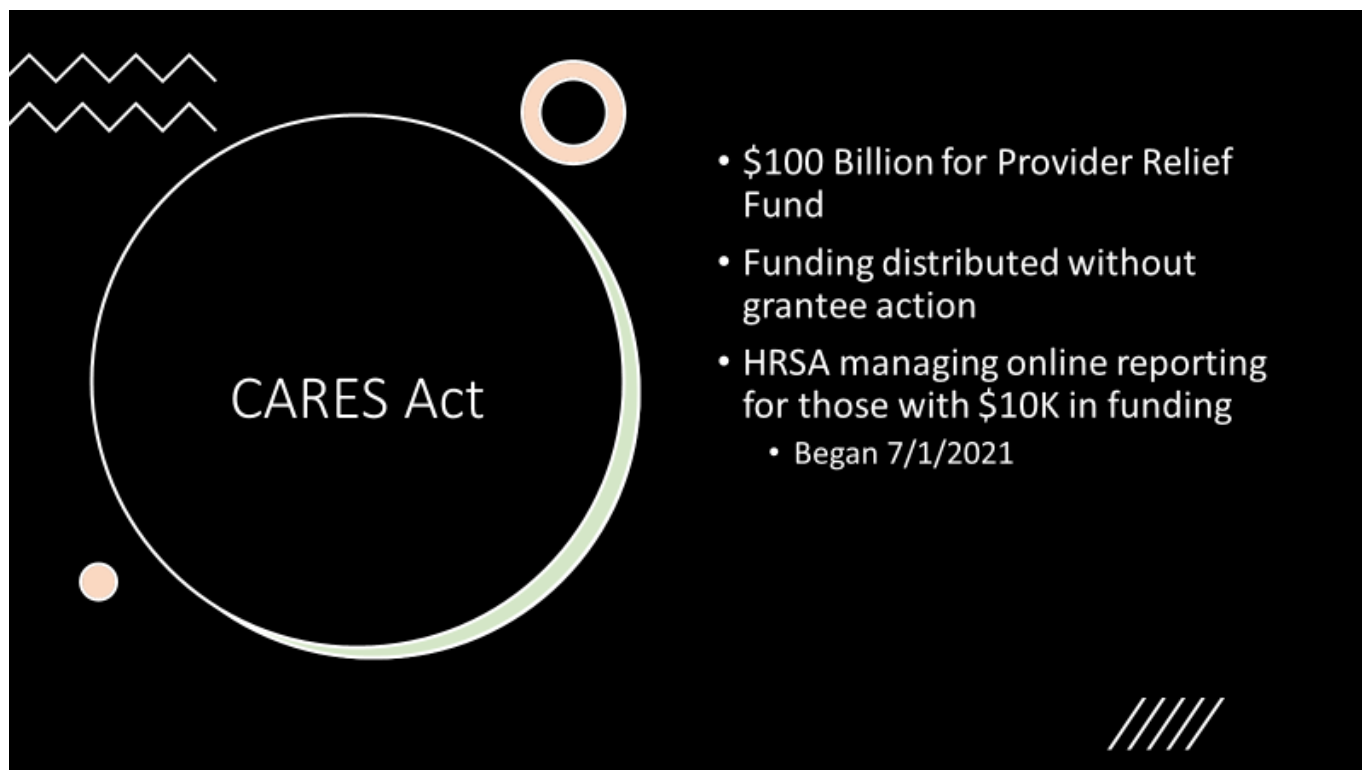
<https://www.hrsa.gov/sites/default/files/hrsa/provider-relief/independent-audit-requirement-fact-sheet.pdf>.

The 2 CFR 200 was revised on August 13, 2020. Section 200.216, Prohibition on certain telecommunication and video surveillance services or equipment, and 200.340, Termination, are effective on August 13, 2020, while other revisions are effective November 12, 2020. Auditors are reminded to check the proper and applicable versions of 2 CFR 200 and the award terms and conditions depending on the occurrence date of the transactions reviewed.

The 2021 Supplement is a continuation of efforts to maximize the value of grant funding by applying a risk-based, data-driven framework that balances compliance requirements with demonstrating successful results. In 2019, Federal awarding agencies were encouraged to make a paradigm shift in grants management from one heavy on compliance to a balanced approach that includes establishing measurable program and project goals and analyzing data to improve results, and thus the 2019 Supplement focused on this paradigm shift

and reduced the areas for compliance reviews from a maximum of 12 to a maximum of 6 (A and B compliance areas are counted as one). This reduction focused the agencies and the auditors on the areas that are most important for Federal awarding agencies to manage programs more efficiently. In the 2021 Supplement, under Part 3 L, Reporting, agencies include the review for performance reporting for 57 programs. With this requirement, the complete audit provides Federal awarding agencies with another tool to ascertain that recipients are accurately reporting their achievements towards program performance goals. OMB intends to work with Federal awarding agencies to identify performance reporting requirements for more Federal programs to be added to future Supplements, and also to consider requiring audits to review documentation that may support validation of performance reporting. Ultimately, OMB would like to move to a state where the auditors are conducting performance audits as opposed to compliance audits and providing reports to agencies on the extent to which the program is achieving its stated goals.

Certain policy requirements are applicable to this assistance including: the general provisions and the audit requirements.



The infographic features a large white circle on a black background with the text "CARES Act" inside. To the left of the circle are white zigzag lines and a small orange circle. To the right is a list of bullet points. In the bottom right corner, there are four white diagonal lines.

- \$100 Billion for Provider Relief Fund
- Funding distributed without grantee action
- HRSA managing online reporting for those with \$10K in funding
 - Began 7/1/2021

Compliance Supplement

	Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received)	Deadline to Use Funds	PRF Portal Reporting Time Period	Schedule of Expenditures for Federal Awards (SEFA) Reporting
Period 1	April 10, 2020 to June 30, 2020	June 30, 2021	July 1, 2021 to September 30, 2021	Fiscal Year End (FYE) of June 30, 2021 through June 29, 2022
Period 2	July 1, 2020 to December 31, 2020	December 31, 2021	January 1, 2022 to March 31, 2022	FYE of December 31, 2021 through FYEs June 29, 2022
Period 3	January 1, 2021 to June 30, 2021	June 30, 2022	July 1, 2022 to September 30, 2022	Guidance will be included in 2022 Compliance Supplement
Period 4	July 1, 2021 to December 31, 2021	December 31, 2022	January 1, 2023 to March 31, 2023	Guidance will be included in 2022 Compliance Supplement

No extension but a grace period for the first period

G&A

Mortgage/Rent

Insurance

Personnel

Fringe Benefits

Utilities and Operations

Cleaning/Sanitizing

Other



Lost Revenues

- Calculated Quarter to Quarter (Baseline 2019)
 - Difference in Actual Patient Care Revenue
 - Difference Between Budgeted Prior to 3/27/2020 and Actual Patient Care Revenue
 - Any Reasonable Method of Estimating Revenue

Single Audits

- Required when a non-federal entity expends \$750K or more of federal financial assistance in a year
- Expecting 5k – 10K new audits as a result of CARES Act and Provider Relief Fund



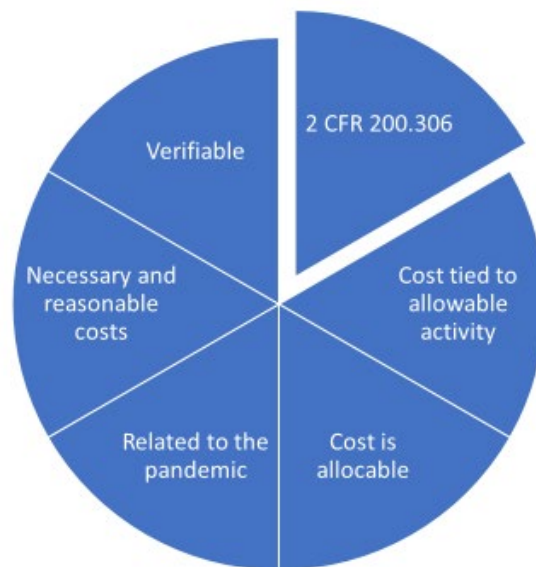
Compliance Supplement

Provider Relief Fund

- Assistance listing number 93.498
- High risk program



Cost Principles



Auditor Testing



Report submitted timely



Report included required data elements accurately reported



Special testing related to out of network patients and charges

Common SEFA Errors

- Not using the correct assistance listing number
- Reporting portal submission not matching expenses and lost revenues
- Do not mix PRF and CRF funds up
- Look for the period reporting of funds for the SEFA





Single Audit Reporting

- Data Collection Form
- Audited financial statements
- SEFA
- Yellow Book audit report
- Uniform Guidance audit report
- Schedule of findings and questioned costs

GROUP STUDY MATERIALS

A. Discussion Problems

A. Provider Relief Fund and You: Part I

1. Discuss what a Schedule of Expenditures of Federal Awards (SEFA) is.
2. What types of considerations should the auditor use in determining if an award date determined by an auditee is reasonable?
3. Discuss the purpose of the Compliance Supplement.

B. Provider Relief Fund and You: Part II

1. Discuss who is eligible for Provider Relief funds.
2. Discuss timelines for use of funds and returning of unused funds.
3. Discuss the type of audits commercial organizations should anticipate if they have received or used these funds.

B. Suggested Answers to Discussion Problems

A. Provider Relief Fund and You: Part I

1. The schedule of expenditures of federal awards (SEFA) is at the heart of any audit performed in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Uniform Guidance contains uniform cost principles and audit requirements for federal awards and administrative requirements for all federal grants and cooperative agreements. Specifically, §200.510(b) of the Uniform Guidance requires the auditee to prepare a SEFA for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with §200.502 of the Uniform Guidance, "Basis for Determining Federal Awards Expended."

The total expenditures reported in the SEFA is the determination factor for whether an entity is required to undergo an audit in accordance with Uniform Guidance (if total expenditures equal or exceed \$750,000 in the given fiscal year). It is also the basis for identification of Type A and Type B programs, and ultimately which program(s) are to be tested as major.

Preparation of the SEFA is the responsibility of the auditee, and receipt of a complete and accurate SEFA is the foundation for a smooth audit. If the SEFA includes errors or omissions, it will surely result in inefficiencies, duplicate audit effort by auditors if major programs must be re-selected, the potential for audit restatement, and/or additional audit costs. The best insurance policy for any auditee receiving federal funds is to follow a thorough SEFA preparation process.

2. Procedures auditors may consider for determining the appropriateness of the "award date" used by the auditee include:
 - Inquiries of management regarding the facts and circumstances surrounding award arrangements; and

- Reviewing client supporting records such as Board minutes, e-mail correspondence, or instructions provided to a subrecipient from a pass-through entity for claiming expenditures.

If an existing award is subsequently impacted by a substantial amendment to award terms due to new legislation, the substantial amendment would be the equivalent of a new award for purposes of determining when associated activity is presented on the SEFA. An example of this scenario is the retroactive expansion of allowable uses of unspent HEERF grant funds being impacted by the subsequent allocation of HEERF funding resulting from CRRSAA. But there may also be other similar funding situations that arise.

Assuming an award is determined to exist as of fiscal year-end, costs incurred (or lost revenue, as applicable) that a nonfederal entity applies to an award should be reported on the SEFA in the year costs were incurred (or lost revenue, as applicable) even if the nonfederal entity makes the determination to apply those costs incurred (or lost revenue, as applicable) to the award until after fiscal year-end. If the award's period of performance allows a nonfederal entity to apply future year costs incurred (or lost revenue, as applicable) to that award in lieu of current year costs (or lost revenue), and the nonfederal entity decides to do so, future year costs (or lost revenue, as applicable) should be reported on a subsequent year's SEFA when applied by the nonfederal entity.

3. The OMB Compliance Supplement (the Supplement) is issued annually by the OMB to guide auditors performing the Single Audit. This is an invaluable resource to auditees as well. The Supplement includes directions on how and what the auditor should be testing for specific funding. The auditee should review the Supplement for any CFDA funding they receive and review what the OMB is guiding the auditors to test.

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GLOSSARY OF KEY TERMS

Assistance Listing Number— Assistance Listing Numbers (ALN), formerly known as Catalog of Federal Domestic Assistance (CFDA), are related to Federal programs, projects, services, and activities that provide assistance or benefits to the American public.

CARES Act—Coronavirus Aid, Relief and Economic Security Act

HHS—Health and Human Services

HRSA—Health Resources Services Administration

Lease— a contractual arrangement calling for the user (referred to as the lessee) to pay the owner (the lessor) for use of an asset. The lessor is the legal owner of the asset, while the lessee obtains the right to use the asset in return for regular rental payments.

Leasehold Improvement— a change made to a rental property to customize it for the particular needs of a tenant. Leasehold improvements may be done by the landlord or the tenant.

Provider Relief Fund—Created under the CARES Act to provide direct payments to eligible providers who diagnose, test, or care for individuals with possible or actual cases of COVID-19, and have health care related expenses and lost revenues attributable to COVID-19.

SEFA—Schedule of Federal Awards

Single Audit Act— Single Audit Act was enacted by Congress in 1984 and required most governmental recipients of federal assistance to have organization-wide financial and compliance audits on an annual basis

Uniform Guidance— The Uniform Guidance (2 CFR § 200) streamlines and consolidates government requirements for receiving and using federal awards so as to reduce administrative burden and improve outcomes.

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SSARS 1.....	Jul-37
SSARS 21.....	Jul-37
Topic 210	Aug-3, Nov-4
Topic 230	Nov-6
Topic 323	Feb-16
Topic 340	Oct-4
Topic 360	Jan-8
Topic 606	Sep-4, Oct-5
Topic 718	Oct-3, 5
Topic 805	Feb-16
Topic 835	Oct-4
Topic 840	Sep-5
Topic 842	Jul-5, Aug-28, Oct-5
Topic 850	Aug-43
Topic 852	Feb-16
Topic 952	Jul-6

BY SPEAKER

Speaker	Month	Speaker	Month
Jennifer Louis	Jan-Aug, Oct	Russ Madray.....	Jan, Jun, Jul-Aug-Nov
Kurt Oestriecher.....	Feb-May, Jul-Aug-Sep	Lee Ann Watters	Nov

Choose the best response and record your answer in the space provided on the answer sheet.

1. According to Russ Madray, ASC Topic 842 requires lessees to present ROU assets resulting from finance leases as which of the following?
 - A. Separately from ROU assets that result from operating leases.
 - B. Combined with ROU assets that result from operating leases.
 - C. Combined with finance lease liabilities resulting from finance leases.
 - D. Combined with ROU assets and liabilities resulting from finance and operating leases.
2. According to Russ Madray, operating and finance lease liabilities are both which of the following?
 - A. Debt liabilities.
 - B. Operating liabilities.
 - C. Financial liabilities.
 - D. Equity type liabilities.
3. According to Russ Madray, the guidance on determining the current and noncurrent portion of the lease liabilities is found in which of the following?
 - A. Topic 842.
 - B. Topic 320.
 - C. Topic 210.
 - D. Topic 170.
4. According to Russ Madray, lessees need to present which of the following on the income statement for a finance lease?
 - A. Long-term debt.
 - B. ROU asset.
 - C. ROU liability.
 - D. Interest expense.
5. According to Russ Madray, obtaining a right of use asset in exchange for a lease liability will result in which of the following presentations in the statement of cash flows under Topic 230?
 - A. Operating activity.
 - B. Financing activity.
 - C. Investing activity.
 - D. Non-cash investing and financing activity to be disclosed.

Continued on next page

6. According to Lee Ann Watters, the Provider Relief Fund was created as part of which of the following pieces of legislation?
 - A. Tax Cuts and Jobs Act.
 - B. The CARES Act.
 - C. The American Reinvestment Recovery Act.
 - D. The American Rescue Plan Act of 2021.
7. According to Lee Ann Watters, the Provider Relief Fund reporting portal open during which of the following months?
 - A. January 2021.
 - B. February 2021.
 - C. June 2021.
 - D. July 2021.
8. According to Lee Ann Watters, Provider Relief Fund payments received between July 1, 2020 and December 31, 2020 will be reported in which of the following time periods?
 - A. July 1, 2021 to September 30, 2021.
 - B. January 1, 2022 to March 31, 2022.
 - C. April 1, 2022 to June 30, 2022.
 - D. July 1, 2022 to September 30, 2022.
9. According to Lee Ann Watters, the Provider Relief Fund portal reporting requirement is triggered at which of the following dollar amounts?
 - A. \$5,000.
 - B. \$10,000.
 - C. \$50,000.
 - D. \$100,000.
10. According to Lee Ann Watters, how many subcategories of general and administrative expenses can be claimed if the costs were attributable to the coronavirus?
 - A. Three.
 - B. Four.
 - C. Seven.
 - D. Ten.

Continued on next page

11. According to Lee Ann Watters, the Provider Relief Fund is which of the following assistance listing numbers?
 - A. 93.053.
 - B. 93.095.
 - C. 93.498.
 - D. 93.556.
12. According to Lee Ann Watters, for Provider Relief Fund monies, providers had how many days to either accept the funds and agree to the terms or return the funds?
 - A. 45 days.
 - B. 60 days.
 - C. 90 days.
 - D. 120 days.
13. According to Lee Ann Watters, auditors will need to test the reporting portal submission of Provider Relief Funds for the first time as part of the SEFA for which of the following periods?
 - A. Fiscal years ending on or after June 30, 2021.
 - B. Fiscal years ending on or after September 30, 2021.
 - C. Fiscal years ending on or after December 31, 2021.
 - D. Fiscal years ending on or after June 30, 2022.
14. According to Lee Ann Watters, which of the following is going to be part of the special tests and provisions unique to the Provider Relief Fund audits?
 - A. Higher fees being charged to in-network patients.
 - B. Higher fees being charged to out-of-network patients.
 - C. Higher fees being charged for all services.
 - D. Lower fees being charged to out-of-network patients.
15. According to Lee Ann Watters, which of the following is a common requirement of the SEFA that is **not** frequently done in error?
 - A. Reporting the assistance listing number.
 - B. Matching the lost revenues to the provider reporting portal submission.
 - C. Referring to the Coronavirus Relief Fund.
 - D. The entity year end.

Subscriber Survey Evaluation Form

Please take a few minutes to complete this survey related to **CPE Network® A&A Report** and return with your quizzer or group attendance sheet to 2395 Midway Road, Carrollton, Texas 75006. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to CPLgrading@thomsonreuters.com.

How would you rate the topics covered in the November 2021 **CPE Network® A&A Report**? Rate each topic on a scale of 1–5 (5=highest):

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Financial Statement Presentation of Leases	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Provider Relief Funds and You: Part I	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Provider Relief Funds and You: Part II	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which segments of the November 2021 issue of **CPE Network® A&A Report** did you like the most, and why?

Which segments of the November 2021 issue of **CPE Network® A&A Report** did you like the least, and why?

What would you like to see included or changed in future issues of **CPE Network® A&A Report**?

How would you rate the effectiveness of the speakers in the November 2021 **CPE Network® A&A Report**? Rate each speaker on a scale of 1–5 (5 highest):

	Overall	Knowledge of Topic	Presentation Skills
Russ Madray	<input type="text"/>	<input type="text"/>	<input type="text"/>
Lee Ann Watters	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which of the following methods would you use for viewing CPE Network® A&A Report? DVD ☐ Streaming ☐ Both ☐

Are you using **CPE Network® A&A Report** for: CPE Credit ☐ Information ☐ Both ☐

Were the stated learning objectives met? Yes ☐ No ☐ _____

If applicable, were prerequisite requirements appropriate? Yes ☐ No ☐ _____

Were program materials accurate? Yes ☐ No ☐ _____

Were program materials relevant and contribute to the achievement of the learning objectives? Yes ☐ No ☐

Were the audio and video program materials effective? Yes ☐ No ☐ _____

Were the time allocations for the program appropriate? Yes ☐ No ☐ _____

Were the supplemental reading materials satisfactory? Yes ☐ No ☐ _____

Were the discussion questions and answers satisfactory? Yes ☐ No ☐ _____

Specific Comments: _____

Name/Company _____

Address _____

City/State/Zip _____

Email _____

Once Again, Thank You...

Your Input Can Have a Direct Influence on Future Issues!

CPE Network®

CPE Group Attendance Sheet

Firm/Company Name: _____
Account #: _____
Location: _____
Program Title: CPE Network® Accounting & Auditing Report, November 2021 Date: _____

<u>Name</u>	<u>Email</u>	<u>Total Hrs</u>	<u>IRS PTIN ID</u> <u>(if applicable Tax only)</u>	<u>Sign In</u>	<u>Sign Out</u>
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

I certify that the above individuals viewed and were participants in the group discussion with this issue/segment of the CPE Network® newsletter, and earned the number of hours shown.

Instructor Name: _____ Date: _____

E-mail address: _____

License State and Number: _____

CHECKPOINT LEARNING NETWORK

CPE NETWORK[®] USER GUIDE

Group Live CPE Credit (Sponsored by “Checkpoint Learning Network”)

Promotional Information:

CPE Program Sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. If you are delivering this course within your firm, you should complete the following table and circulate it to attendees prior to the classroom course delivery. Refer to the executive summary for certain information noted below. **Be sure to include the completed sheet when you request certificates for this event.**

Title of Course (Enter full title)	
Date of Class (MM/DD/YYYY)	
Time (Enter time of class)	
Location (Enter location of class)	
Learning Objectives (Refer to executive summary)	
Program Description (Refer to executive summary)	
Instructional delivery method	Group Live
Recommended CPE credit	3.0 Credits
Recommended field of study(ies) (Refer to executive summary)	
Program Level	Update
Prerequisites (Circle One)	<ul style="list-style-type: none">• Basic Accounting and Auditing professional experience
	<ul style="list-style-type: none">• Basic Tax professional experience
	<ul style="list-style-type: none">• Basic Governmental professional experience
Advance preparation	None required
Course registration and, where applicable, attendance requirements (1)	

- (1) Insert instructions for your students to register for the class and any other attendance requirements (e.g., bring your laptop, be prepared to work in groups, you will be required to sign in and sign out of the session, etc.

Determining CPE Credit Increments

Group study sessions are measured by program length, with one 50-minute period equal to one CPE credit. One-half CPE credit increments (equal to 25 minutes) are permitted after the first credit has been earned. Discussion leaders must monitor the program length and the participants' attendance in order to request the appropriate number of CPE credits.

Note: All Network CPE products are developed and intended to be delivered as 3 CPE credits.*

Monitoring Attendance

While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient.

The CPE group attendance sign-in sheet should list the names of each instructor and her/his credentials, as well as the name of each participant attending the seminar. The participant is expected to sign the CPE group attendance sheet at the beginning and sign out at the end of the session. If a participant arrives late and/or leaves early, the hours actual hours they attended should be documented on the sign-in sheet and should be reflected on the participant's CPE certificate.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products 'group live' sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designed by Checkpoint Learning Network. After November 1, 2018, Checkpoint Learning Network will no longer issue certificates for "group live" deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures)).

Note that Checkpoint Learning CPE Network can still be tailored by firms to smaller courses (e.g., 1 credit or 2 credit deliveries); however, when this is done, "Checkpoint Learning Network" cannot act as the sponsor and will not issue certificates of completions to participants. If a firm wishes to tailor (i.e., shorten, lengthen, and/or adjust field(s) of study), the firm delivering the tailored content must become the sponsor and that firm's name and sponsor identification number must appear on the certificates of completion. In these cases, there is no need to send attendance sheets back to Checkpoint Learning Network. If attendance sheets are submitted to Checkpoint Learning Network for modified deliveries as noted above (notwithstanding late arrivals and early departures), the attendance sheets will be returned to you.

Real Time Instructor During Program Presentation

Group live programs must have a qualified, real time instructor while the program is being presented. Program participants must be able to interact with the instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A group live program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Make-Up Sessions

Individuals who are unable to attend the group study session may use the program materials for self-study either in print or online.

- If print materials are used, the user should read the materials, watch the DVD, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant's record of attendance and is awarded by Checkpoint Learning Network after the group study documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completions should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

Subscriber Survey Evaluation Forms

NASBA requires the group study session to include a means for evaluating quality. At the conclusion of the group live session, evaluations should be distributed and collected from participants and sent to Checkpoint Learning Network along with the other course materials. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the group live session, it is required that the firm hosting the group live session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Group Study Attendance sheets; indicating any late arrivals and/or early departures)
- Copy of the program materials;
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations

Copyrighted Materials

The program materials are copyrighted and may not be reproduced in another document or manuscript in any form without the permission of the publisher. As a subscriber of the CPE Network[®] series you may reproduce the necessary number of participant manuals needed to conduct your group study session.

Finding the Transcript

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. The Adobe

Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available.), a free version of the reader may be downloaded at:

- <https://get.adobe.com/reader/>

Request Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your group study session should be sent to Checkpoint Learning by one of the following:

Mail: Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008

Email: CPLgrading@thomsonreuters.com

Fax: 888.286.9070

Before sending your package to Thomson Reuters, please be sure to include the following:

- ___ Promotional Sheet (completed)
- ___ Group Attendance Sheets (indicating any late arrivals and/or early departures)
- ___ Subscriber Survey Evaluation Forms
- ___ Name, title, and credentials of discussion leader(s) entered at the bottom of Group Attendance Sheet

CPE Network Self-Study Options

If you are unable to attend the live group study session, we offer two options for you to complete your Network Report program.

Self-Study—Print

Follow these simple steps to use the printed transcript and DVD:

- Watch the DVD.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
- Mail your completed quizzer and survey to:

**Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008**

Best Practices Via Teams/Zoom

With the events surrounding the coronavirus many groups are unable to meet in person. Playing the video via Teams/Zoom or other conferencing software is one means of viewing the video. While the video from the Checkpoint Learning online accounts can be played through Teams/Zoom, the user experience will be better if the video files are shared via the desktop, which can be accomplished by copying the files from the DVD to the desktop and then sharing. Please note to enable viewers to hear the video being played follow the below instructions.

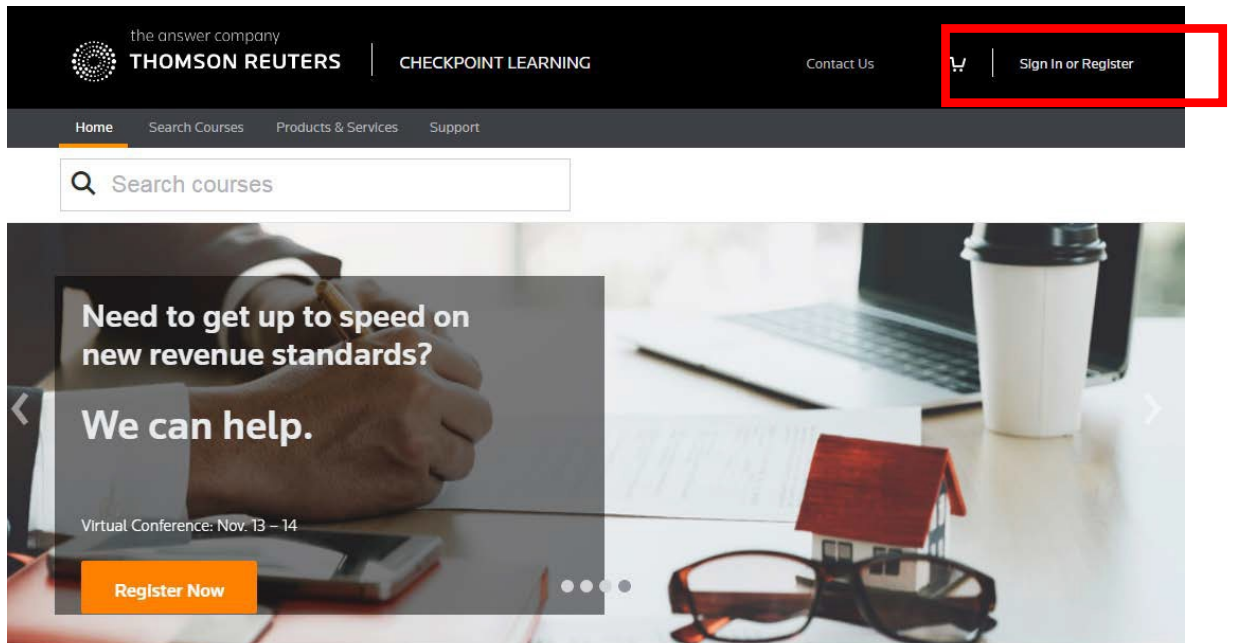
In Teams, when sharing the desktop with others, be sure to check the Share system audio box directly above the desktop to be shared, for the video's audio to be heard by others.

In Zoom, click the Share Screen button in the toolbar. Check the box to Share computer sound at the bottom of the Share Screen popup. Adjust the volume to an appropriate level. Do make sure the video is visible to participants.

Self-Study—Online

Follow these simple steps to use the online program:

- Go to www.checkpointlearning.thomsonreuters.com.
- Log in using your username and password assigned by your firm's administrator in the upper right-hand margin ("Sign In or Register").



Move forward

Checkpoint Learning provides training and tools to keep you and your team up to date and looking forward in an industry full of change and opportunity.



Webinars

Fit learning into your schedule with instructor-led webinars ranging from one to eight hours.



Seminars and conferences

In-person networking, dynamic instructors, nationwide locations plus vacation destinations.

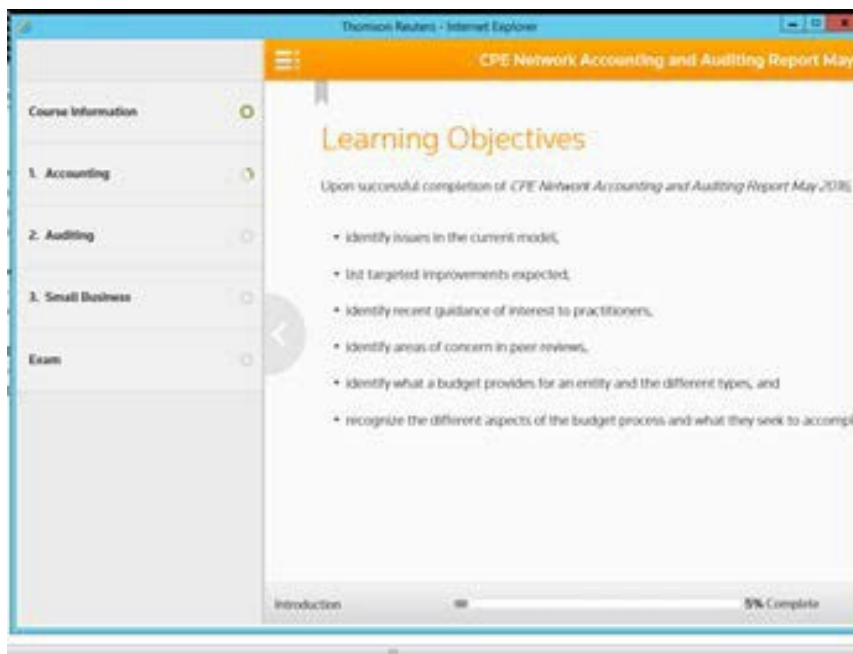


- In the **Network** tab, select the Network Report for the month desired.



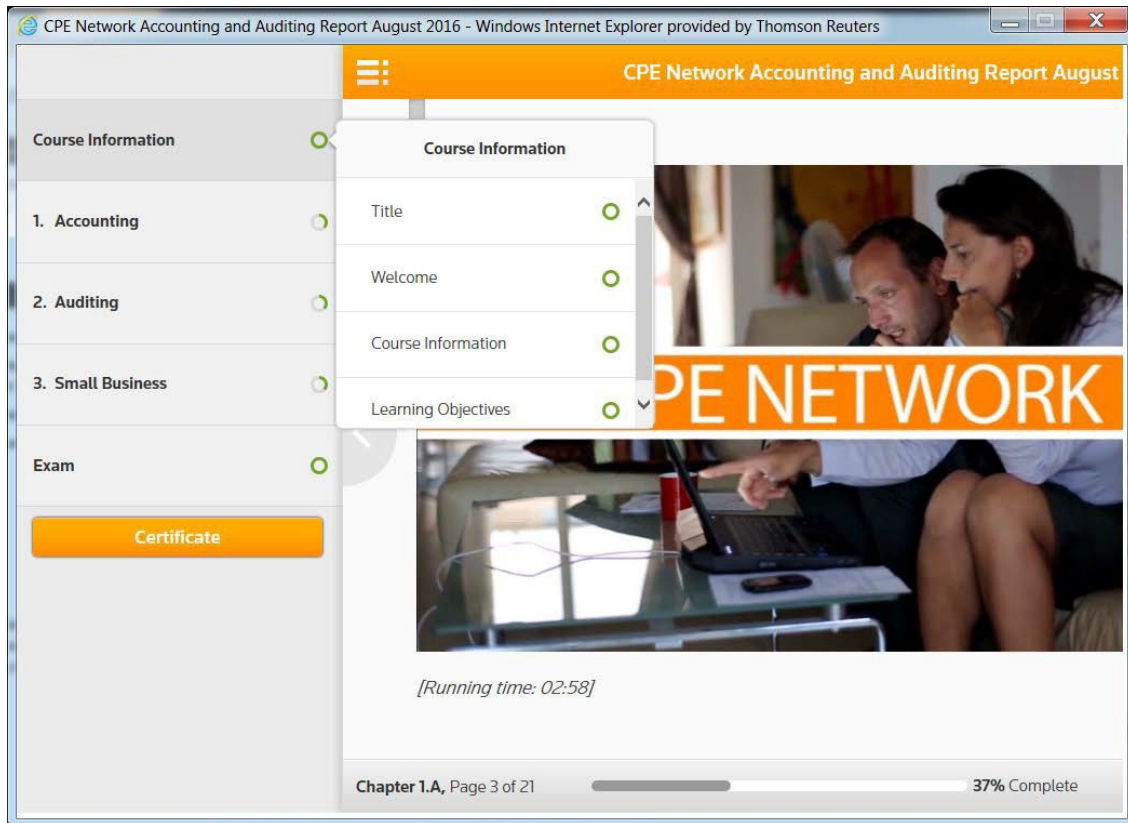
<https://qa.la-checkpointlearning.thomsonreuters.com/CpeNetwork/CpeNetworkDetailsPage?SubscriptionId=177994>

The Chapter Menu is in the gray bar at the left of your screen:

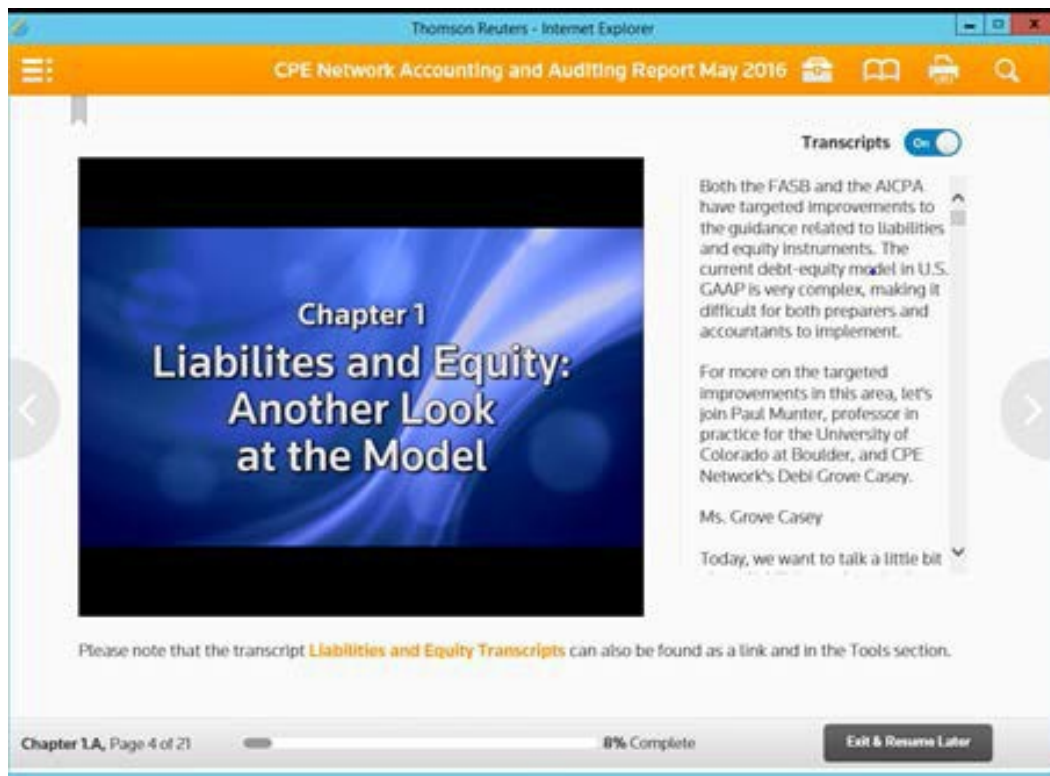


Click down to access the dropdown menu and move between the program Chapters.

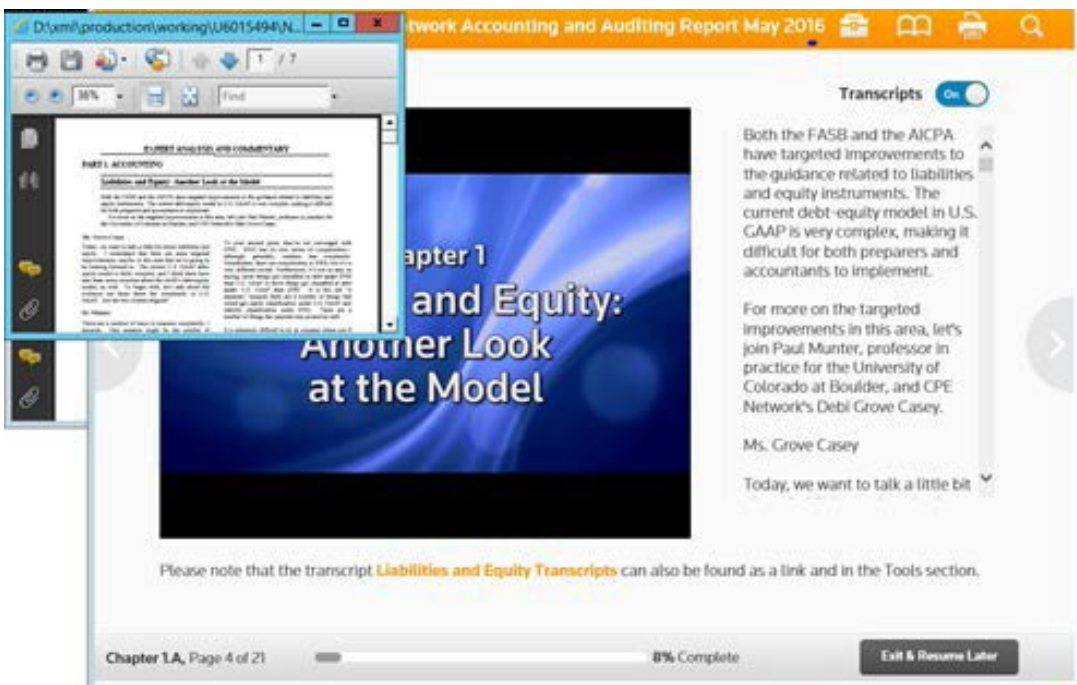
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



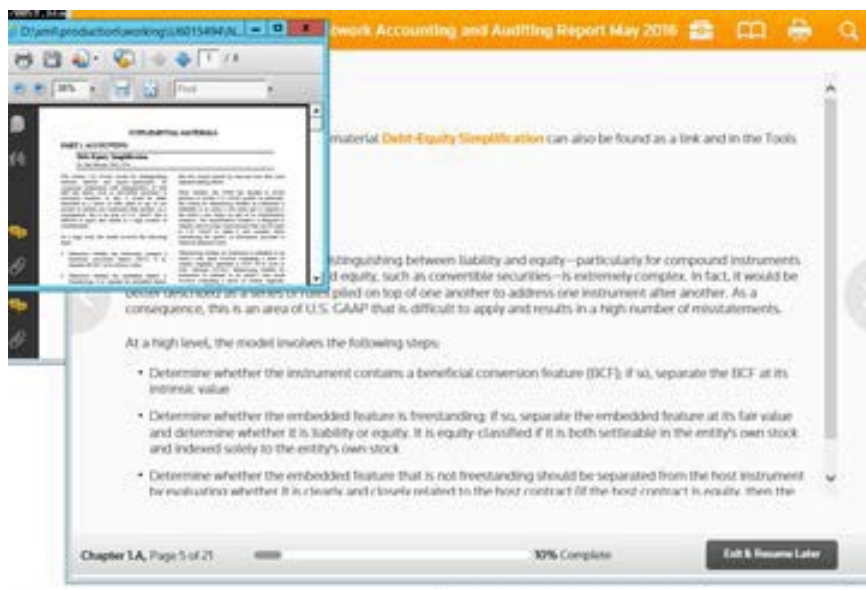
- **Each Chapter is now self-contained.** While on the CPEasy site the interview segments were all together, then all of the supplemental materials, etc., each chapter now contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials and the discussion questions. This more streamlined approach allows administrators and users to more easily access the related materials.



Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled transcripts or via the link to the pdf below the video (also available in the toolbox in the resources section). The pdf will appear in a separate pop-up window.



Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material. As with the transcripts, the supplemental materials are also available via the toolbox and the link will pop up the pdf version in a separate window.



Continuing to click the arrow to the right side of the screen will bring the user to the Discussion problems related to the segment.

The Suggested Answers to the Discussion Problems follow the Discussion Problems.

The screenshot shows a web interface for the CPE Network Accounting and Auditing Report July 2016. The header is orange with a menu icon, title, and icons for home, books, printer, and search. The main content area is titled 'Suggested Answers to Discussion Problems' and contains three numbered items. Item 1 lists three categories: Held-to-maturity, Trading, and Available-for-sale, followed by a paragraph explaining the classification process. Item 2 describes the trading securities category. Item 3 discusses impairment recognition. A progress bar at the bottom shows 'Chapter 3.A, Page 20 of 20' and '100% Complete', with an 'Exit & Resume Later' button.

Suggested Answers to Discussion Problems

1. ASC 320 requires that, at acquisition, an enterprise classify debt and marketable equity securities into one of three categories:
 - Held-to-maturity
 - Trading
 - Available-for-sale

An entity decides how to classify securities based on its intended holding period for each individual security, using the framework in ASC 320. In establishing its intent, an entity should consider relevant trends and experience, such as previous sales and transfers of securities. Classification decisions should be made at acquisition and, preferably, formally documented. It is not appropriate to use "hindsight" to classify securities transactions, perhaps by considering changes in value after acquisition.
2. The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. "Short-term," in this context, is intended to be measured in hours and days, rather than in months or years, according to ASC 320. However, an entity is not precluded from classifying as trading a security it plans to hold for a longer period, as long as that designation occurs at acquisition.
3. Impairment is recognized in earnings when a decline in value has occurred that is deemed to be other than temporary, and the current fair value becomes the new cost basis for the security. An investment is considered to be impaired if the fair value of the investment is less than its cost basis. Cost includes adjustments made for

Chapter 3.A, Page 20 of 20 100% Complete Exit & Resume Later

The **Exam** is accessed by clicking the last gray bar on the menu at the left of the screen or clicking through to it. Click the orange button to begin.

When you have completed the quizzer, click the button labeled **Grade** or the **Review** button.

The screenshot shows a web interface for the CPE Network Accounting and Auditing Report June 2016. The header is orange with a menu icon, title, and icons for home, books, printer, and search. The main content area is titled 'Course Exams Completed' and contains text informing the user they have completed the exam. It provides two options: 'Review My Answers' and 'Grade My Answers', each with a brief description and an orange button. A progress bar at the bottom shows 'Course, Completed' and '100% Complete', with an 'Exit & Resume Later' button.

Course Exams Completed

You have completed the exam for this course.

Please choose your next course of action by selecting on one of the buttons below.

"Review My Answers" will take you back through exam, giving you the opportunity to make changes.

Review My Answers

"Grade My Answers" will result in providing you with a final score for this course.

Grade My Answers

Course, Completed 100% Complete Exit & Resume Later

- Click the button labeled **Certificate** to print your CPEcertificate.
- The final quizzer grade is displayed and you may view the graded answers by clicking the button labeled **view graded answer**.

Additional Features Search

Checkpoint Learning offers powerful search options. Click the **magnifying glass** at the upper right of the screen to begin your search. Enter your choice in the **Search For:** box.

Search Results are displayed with the number of hits.

Print

To display the print menu, click the printer icon in the upper bar of your screen. You can print the entire course, the transcript, the glossary, all resources, or selected portions of the course. Click your choice and click the orange **Print**.

GETTING HELP

Should you need support or assistance with your account, please see below:

Support Group	Phone Number	Email Address	Typical Issues/Questions
Technical Support	800.431.9025 (follow option prompts)	checkpointlearning.techsupport@thomsonreuters.com	<ul style="list-style-type: none"> • Browser-based • Certificate discrepancies • Accessing courses • Migration questions • Feed issues
Product Support	800.431.9025 (follow option prompts)	checkpointlearning.productsupport@thomsonreuters.com	<ul style="list-style-type: none"> • Functionality (how to use, where to find) • Content questions • Login Assistance
Customer Support	800.431.9025 (follow option prompts)	checkpointlearning.cpecustomerservicet@thomsonreuters.com	<ul style="list-style-type: none"> • Billing • Existing orders • Cancellations • Webinars • Certificates

Checkpoint Learning Network: CPE Compliance

Checkpoint Learning Network courses can be group live, group internet based, or self-study. Unless otherwise stated in each course's descriptive information, no other prerequisites or advanced preparation are required.



Checkpoint Learning Network is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.nasbaregistry.org.

Checkpoint Learning Network is approved for Group Live, Group Internet Based, and QAS Self Study delivery methods.



Checkpoint Learning Network is an approved IRS Continuing Education Provider to deliver CPE to Enrolled Agents and IRS tax preparers. The IRS Tax Preparer Office requires that any course to be used for IRS PTIN holders must be pre-registered with the IRS. If you are a PTIN holder and are interested in obtaining IRS CE credit, be sure to review the course details in Checkpoint Learning to determine if the course you are considering is accredited to IRS.

What Does It Mean To Be a CPE Sponsor?

Your organization is the CPE Sponsor for this monthly series. The sponsor highlights below reflect those of NASBA, the national body that sets guidance for development, presentation, and documentation for CPE programs. **For any specific questions about state sponsor requirements, please contact your state board. They are the final authority regarding CPE Sponsor requirements.** Generally, the following responsibilities are required of the sponsor:

- Arrange for a location for the presentation
- Advertise the course to your anticipated participants and disclose significant features of the program in advance
- Set the start time
- Establish participant sign-in procedures
- Coordinate audio-visual requirements with the facilitator
- Arrange appropriate breaks
- Have a real-time instructor during program presentation
- Ensure that the instructor delivers and documents elements of engagement
- Monitor attendance of the participants (make notations of late arrivals, early departures, and “no shows”)
- Solicit course evaluations from participants
- Award CPE credit
- Retain records for five years

The following information includes instructions and generic forms to assist you in fulfilling your responsibilities as program sponsor.

CPE Sponsor Requirements

Determining CPE Credit Increments

Sponsored seminars are measured by program length, with one 50-minute period equal to one CPE credit. One-half CPE credit increments (equal to 25 minutes) are permitted after the first credit has been earned. Sponsors must monitor the program length and the participants' attendance in order to award the appropriate number of CPE credits.

Program Presentation

CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. CPE program sponsors must make the following information available in advance:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and recommended field of study.
- Prerequisites.
- Program level.
- Advance preparation.
- Program description.
- Course registration and, where applicable, attendance requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement, if an approved NASBA sponsor (explaining final authority of acceptance of CPE credits).

Disclose Significant Features of Program in Advance

For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, website, electronic notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration and attendance policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

Monitor Attendance

While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient. The sign-in sheet should list the names of each instructor and her/his credentials, as well as the name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant leaves early, the hours they attended should be documented on the sign-in sheet and on the participant's CPE certificate.

Real Time Instructor During Program Presentation

Group live programs must have a qualified, real time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A group live program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Awarding CPE Certificates

The CPE certificate is the participant's record of attendance and is awarded at the conclusion of the seminar. It should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early. Attached is a sample *Certificate of Attendance* you may use for your convenience.

CFP credit is available if the firm registers with the CFP board as a sponsor and meets the CFP board requirements. IRS credit is available only if the firm registers with the IRS as a sponsor and satisfies their requirements.

Seminar Quality Evaluations for Firm Sponsor

NASBA requires the seminar to include a means for evaluating quality. At the seminar conclusion, evaluations should be solicited from participants and retained by the sponsor for five years. The following statements are required on the evaluation and are used to determine whether:

1. Stated learning objectives were met.
2. Prerequisite requirements were appropriate.
3. Program materials were accurate.
4. Program materials were relevant and contributed to the achievement of the learning objectives.
5. Time allotted to the learning activity was appropriate.
6. Individual instructors were effective.
7. Facilities and/or technological equipment were appropriate.
8. Handout or advance preparation materials were satisfactory.
9. Audio and video materials were effective.

You may use the enclosed preprinted evaluation forms for your convenience.

Retention of Records

The seminar sponsor is required to retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (the original sign-in sheets, now in an editable, electronic signable format)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name(s) and credentials
- Results of program evaluations

(SAMPLE) Certificate of Attendance (SAMPLE)

This Certifies That:

Participant's Name

Attended:

Course Title

Field(s) of Study and Breakdown

Total CPE Credits

Completion Date

Location (City, State)

Instructor Name(s)

Sponsored By:

Sponsor's Name

Sponsor's Mailing Address

Sponsor's Identification Number

Sponsor's Signature

Sponsor's Signature

In accordance with the standards of the National Registry of CPE Sponsors, CPE credits have been granted based on a 50-minute hour. (Use this Statement if the Sponsor is Registered with NASBA.)

