June 25, 2020

Director of Research and Technical Activities
Governmental Accounting Standards Board
Of the Financial Accounting Foundation
401 Merrit 7
PO Box 5116
Norwalk, CT, 06856-5116

Ref: Project No. 3-40

On behalf of our 130-member hospitals and health systems, the North Carolina Healthcare Association (NCHA) appreciates the opportunity to comment on the Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2020-a (Technical Bulletin).

NCHA is concerned about GASB’s interpretation that funds received by hospitals and healthcare providers as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020 be reflected on the Statement of Revenue, Expenses and Changes in Net Assets as “nonoperating revenue.” NCHA believes that including hospital revenues from the CARES Act as “nonoperating revenue,” while expenses incurred and revenue lost are directly related to the treatment of patients and remain as “operating expenses” and “lost operating revenue” and will be misleading to the financial statement user.

As acknowledged by the U.S. Department of Health and Human Services, hospitals and health systems canceled elective procedures to mitigate the spread of COVID-19 and to create capacity for a huge expected patient surge. This service to the community resulted in significant patient revenue shortfalls and in exchange for that service, the federal government provided reimbursement through CARES Act revenues. Additionally, hospitals and health systems incurred incremental expenses to defend communities against COVID-19, further exacerbating financial losses. Such costs include additional staffing requirements and contract clinicians, COVID testing, maintaining social distancing by redirecting patients, establishing temporary site locations, purchase of personal protective equipment. Such expenses are part of hospitals and health systems’ mission to treat patients and meet the healthcare needs of their communities. NCHA believes that including such costs as "operating expenses" on the Statement of Revenue, Expenses, and Changes in Net Assets remains appropriate.

The intent of funds from the CARES Act was to support healthcare providers (including hospitals and health systems) to offset the ordinary and incremental expenses incurred to treat and prevent the spread of COVID-19. CARES Act funds are similar to other reimbursements for patient care by patients and insurers (governmental and commercial insurance), which are used to offset the cost of patient care and reflected as "operating revenues" in the Statement of Revenues, Expenses, and Changes in Net Assets. NCHA believes that CARES Act revenue constitutes "principal ongoing operations" as reflected in footnote 42 within the Technical Bulletin, which states:
“Revenue and expense transactions normally classified as other than operating cash flows from operations in most proprietary funds may be classified as operating revenues and expenses if those transactions constitute the reporting proprietary fund’s principal ongoing operations.”

NCHA is further concerned about the downstream implications to hospitals and health systems if funds from the CARES Act are disclosed as "nonoperating." There is no uniform guidance from financiers regarding how funds from the CARES Act are treated for purposes of financial debt covenants. Thus, the onus of determining whether such funds are included as operating revenues for purposes of financial debt covenanted lies with GASB.

NCHA thanks GASB for the opportunity to provide comments on behalf of our member hospitals and health systems. Please contact Jeff Weegar (jweegar@ncha.org; 919-677-4231) with comments or questions.

Sincerely,

Stephen J. Lawler
President and CEO
North Carolina Healthcare Association