



Insights on Healthcare Accounting and Auditing Changes for 2022 and Beyond

Derek R. Pierce / December 15, 2022

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Learning Objectives

- After the session, participants will
 - Have a working knowledge of accounting and auditing changes that have recently occurred or that will occur in the near future
 - Identify potential impacts to their organization of the “hot topic” changes
 - Have a working knowledge of current auditing issues including those impacting health



Agenda

Heres' what we'll cover to achieve our learning objectives:

- FASB Matters – Debrief on Recent Adoptions and Emerging Pronouncements
- GASB Update
- New Auditor Reporting Model and Omnibus Statement on Auditing Standards

FORV/S

3

Presenter



Derek Pierce, CPA, FHFMA

Partner
FORVIS, LLP
Little Rock, AR
501.372.1040
Derek.Pierce@forvis.com

FORV/S

4

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

FASB Update

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

ASU 2021-10 – Disclosures by Business Entities about Government Assistance (ASC 832)

- Aims to provide transparency related to certain types of government assistance
 - Applicable to all entities except NFP's
 - Applies to transactions accounted for by analogizing to either a grant model (IAS 20) or a contribution model (ASC 958)
 - Doesn't apply to transactions accounted for in accordance with contingencies, debt, revenue recognition or income taxes standards or when the government is a customer
- ASC required disclosures include:
 - Information about the nature of the transactions, including the form of assistance (i.e., cash or other)
 - Accounting policies for the transactions
 - Line items in the financial statements affected by the transactions and related amounts
 - Significant terms and conditions (i.e., duration, recapture provisions, contingencies), and
 - General nature transactions and discussion of omitted disclosures for legally prohibited transactions

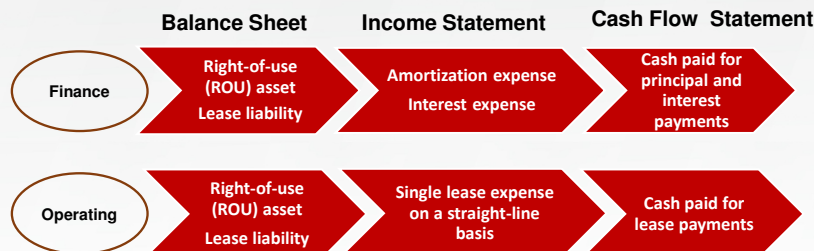
Effective for years beginning after December 15, 2021

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Leases (Topic 842): Lots to Glean from Adopters

- Public not-for-profit organizations (i.e., conduit debt obligors) adopted in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.
 - A lot we all learned
- Effective date for private companies and private not-for-profit organization: fiscal years beginning after December 15, 2021, and interim periods beginning after December 15, 2022.
 - Ready to adopt?



FORV/S

7

Key Takeaways

Transition-date heavy lift

New processes going forward

Back and forth on discount rate and ASU 2021-09 election for non PBEs

Steering committee to ensure compliance

Completeness of arrangements

Most practical expedients elected:

- Expedient package – identification, classification and indirect costs
- Single year presentation
- Short-term leases
- Separation of lease / non-lease

Disclosure pain

FORV/S

8

FORV/S

9

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

ASU 2019-06 - Extending private company alternatives for goodwill and intangibles to NFP entities

Goodwill accounting alternative (ASC 350)

- Annual testing of goodwill for impairment is not required
- Amortize goodwill on a straight-line basis over 10 years (or a period less than 10 years if able to demonstrate that another useful life is more appropriate)
- Upon adoption of the accounting alternative,
 - + must make an accounting policy election to test goodwill for impairment at either the entity level or the reporting-unit level;
 - + Goodwill of the entity (or the reporting unit) is tested for impairment if a event occurs or circumstances change indicating that the fair value of the entity (or the reporting unit) may be below its carrying amount

Intangible asset accounting alternative (ASC 805)

- For transactions occurring after adoption of the alternative:
 - + a not-for-profit entity should subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired
- A not-for-profit entity that elects 805 alternative must adopt 350 alternative, but not vice versa.

FORV/S

10

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

ASU 2017-04 - *Simplifying the Test for Goodwill Impairment*

Effective Dates

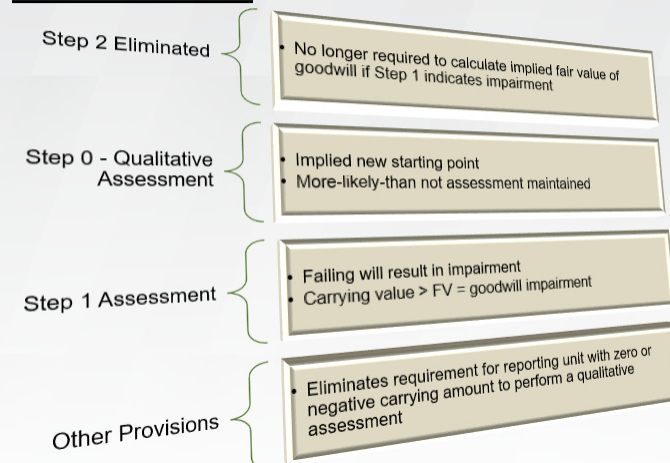
Prospectively for annual and interim periods in fiscal years beginning after

- December 15, 2019 for PBEs that file with the SEC
- December 15, 2022 for all other entities *(based on deferral in ASU 2021-03)*

Early adoption permitted for all entities

FORV/S

Main Provisions



11

ASU 2021-03, *Intangibles—Goodwill and Other (Topic 350)*

Provides private companies and NFPs with an accounting alternative to perform the goodwill impairment triggering event evaluation as of the end of the reporting period

- Not required to monitor for goodwill impairment triggering events during the reporting period
- Instead, evaluate facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired

Not required to also elect other private company / NFP accounting alternatives for goodwill

No incremental disclosure requirements beyond the accounting election

Effective years beginning after December 31, 2019

FORV/S

12

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred In a Cloud Computing Arrangement That Is a Service Contract*



What is a hosting arrangement?

- An arrangement where the customer accesses the vendor's software over the internet or a dedicated line. The software is hosted on the vendors (or a third-party on behalf of the vendor) infrastructure.



What is a cloud computing arrangement (CCA)?

- A hosting arrangement* that does not transfer a license to the hosted software to the customer



This ASU does NOT change the accounting for *software licensing arrangements* (which includes hosting arrangements that do transfer a license to the hosted software to the customer).

Does the Arrangement Transfer a License?

A hosting arrangement transfers a license to the hosted software to the customer only when both:



Right to take possession

- The customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty*



Feasible for customer or third-party to host

- It is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software*

FORV/S

15

Cloud Computing

Evaluate the accounting for fees paid by a customer in a cloud computing arrangement (CCA)

Amends the definition of a hosting arrangement and requires a customer in a hosting arrangement that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project

Entities that enter into hosted CCA service arrangements will apply the existing internal-use software guidance to determine which implementation costs are eligible for capitalization

FORV/S

16

Existing Internal-Use Software Guidance

- AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*
- Codified as ASC 350-40
- Capitalize costs in the Application Development Stage, expense others

<i>Preliminary Project Stage</i>	<i>Application Development Stage</i>	<i>Post-Implementation/ Operation Stage</i>
Conceptual formulation of alternatives	Design of chosen path, including software configuration and software interfaces	Training
Evaluation of alternatives		Application maintenance
Determination of existence of needed technology	Coding	
Final selection of alternatives	Installation to hardware	
	Testing, including parallel processing phase	

FORV/S

17

Capitalizable and Non-Capitalizable Costs

Capitalizable

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

Non-Capitalizable

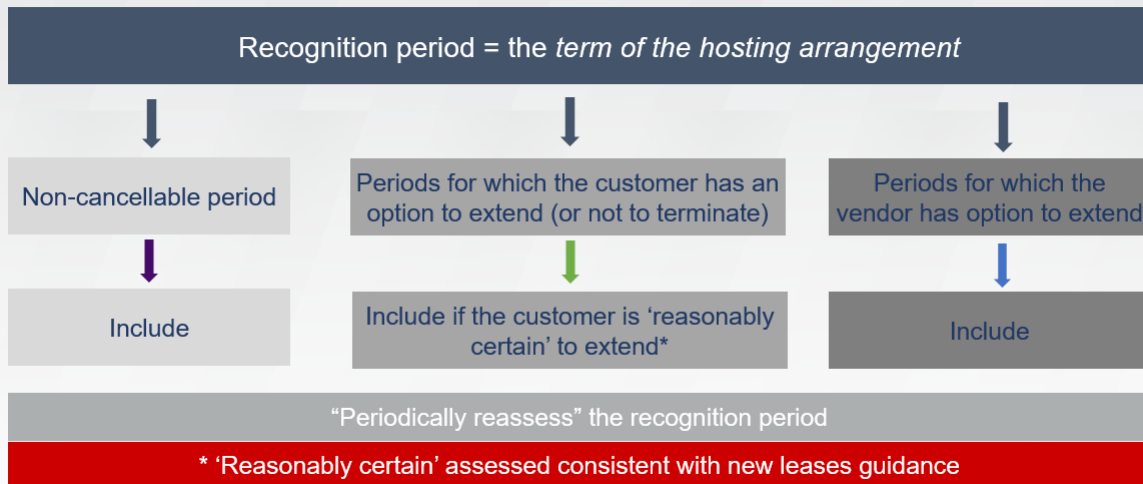
- Testing
- Training
- Business process reengineering

→ Deferred implementation costs are expensed over the term of the hosting arrangement, which is the fixed, non-cancelable term of the arrangement, plus any reasonably certain renewal periods

FORV/S

18

Determining the Recognition Period



FORV/S

19

Presentation & Disclosures

Financial statement presentation	
Balance sheet	Include deferred costs in same line item as would present prepayment of fees for the CCA.
Income statement	Include expense related to capitalized implementation costs in same line item as the CCA fees paid to the cloud service provider
Cash flow statement	Cash payments for implementation costs classified consistent with how the fees for the CCA are classified (generally operating activities)
Disclosure requirements	

Nature of the hosting arrangement

Disclosures as if the deferred costs were a separate, major depreciable asset class

FORV/S

20

FORV/S

21

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*

Background:

- Diversity in the presentation and disclosure of contributed nonfinancial assets by not-for-profit entities
- Recognition and measurement requirements for nonfinancial assets remain unchanged in ASC 958-605

Effective Date and Implementation:

- Retrospectively to all periods
- Effective for annual reporting periods commencing after June 15, 2021 and interim periods within annual periods starting after June 15, 2022
- Early adoption is permitted



FORV/S

22

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*

Enhanced Presentation and Disclosure Requirements:

- Contributed nonfinancial assets are stated as an individual line items in the balance sheet, distinct from contributions of cash and other financial assets
- Contributed nonfinancial assets are disaggregated in a footnote by category
- For each type of contributed nonfinancial assets recognized, an NFP will disclose
 - + Policy on liquidating rather than using contributed nonfinancial assets
 - + Qualitative considerations on whether the contributed nonfinancial assets were liquidated or used
 - + Any donor-imposed restrictions related to the contributed nonfinancial assets
 - + The valuation methods and inputs utilized to determine a fair value measured at initial recognition
 - + The principal or most advantageous market utilized to calculate fair value if it is a market in which the NFP is restricted by the donor from selling or utilizing the contributed nonfinancial assets

FORV/S

23

ASU 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*

- Issued to address diversity in practice and inconsistency related to:
 - Recognition of an acquired contract liability
 - Payment terms and their effect on subsequent revenue recognized by the acquirer
- Requires an acquiring entity to recognize and measure contract assets and liabilities in accordance with Topic 606 (ASU 2014-09, *Revenue from Contracts with Customers*) as if it had originated the contract
- Previous guidance required all acquired assets and liabilities to be measured at fair value
- Effective dates:
 - PBEs – FY beginning after December 15, 2022, including interim periods within those years
 - Non-PBEs – FY beginning after December 15, 2023, including interim periods within those years

FORV/S

24

ASC Topic 848, *Reference Rate Reform*

- ASU 2020-04 added Topic 848 in March 2020 to ease the potential accounting burden related primarily to the cessation of the London Interbank Offered Rate (LIBOR)
 - Existing GAAP requires contract modifications to be evaluated in determining whether the modification result in a new contract or the continuation of an existing contract
 - Hedge accounting impacts (potentially not qualifying as highly effective)
- Provides optional expedients and exceptions when applying GAAP to contract modifications caused by reference rate reform for the period of March 12, 2020 to December 31, 2022
- ASU 2021-01 clarified the scope of Topic 848 to make certain derivatives eligible for relief
- Proposed ASU issued in April 2022 and affirmed in October defers the sunset to December 31, 2024

FORV/S

25

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office**FORV/S**

26

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

GASB Update

FORV/S

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

GASB 96- Subscription-Based Information Technology Arrangements

Defines subscription-based IT arrangement (SBITA)

- A contract that conveys control of the right to use a vendor's IT software, alone or in combination with underlying IT capital assets, for a period of time

Requires an entity to recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability

- Follows lease accounting guidance (GASB 87) re: initial & subsequent measurement, term, discount rate, etc.
- Short-term exception for contracts < 12 mos.

Accounting for associated activities similar to internal-use software guidance

- Preliminary project stage – expense as incurred
- Initial implementation stage – capitalize as addition to the subscription intangible asset
- Operation & additional implementation stage – expense as incurred unless specific capitalization criteria met

Effective for fiscal years beginning after June 15, 2022 on a retrospective basis, if practicable

FORV/S

28

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

GASB 87 - Leases

What?

The Board issued Statement 87 to improve lease accounting and financial reporting

Why?

Existing standards in effect for decades without review in light of GASB's conceptual framework; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers

When?

Effective for periods beginning after June 15, 2021

Earlier application is encouraged

FORV/S

29

GASB 87 - Scope and Approach

- Statement 87 applies to any contract that meets the definition of a lease:

"A lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction."

- Leases are financings of the right to use an underlying asset



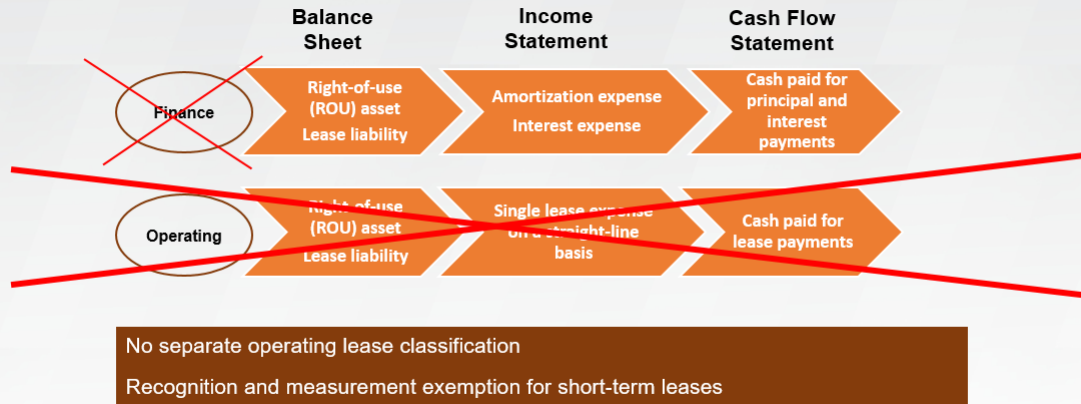
Single approach applied to accounting for leases with some exceptions, such as short-term leases

- Capital/operating distinction is eliminated

FORV/S

30

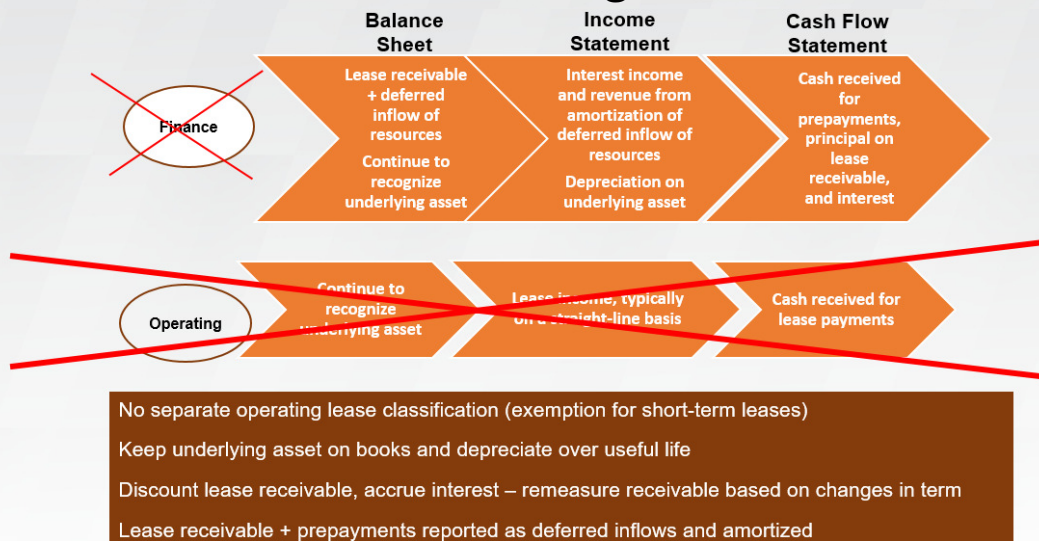
GASB 87 - Lessee Accounting Overview



FORV/S

31

GASB 87 - Lessor Accounting Overview



FORV/S

32

GASB 87 - Expense Recognition Issue

Single approach may cause changes in expense recognition

- + Straight line amortization plus interest vs.
- + Flat rental rate

GASB apparently recognized as noted in the Basis For Conclusion of Statement No. 87 (Item B56):

"the Board concluded that amortization of the lease asset should be calculated in a systematic and rational manner to be consistent with depreciation and amortization of other capital assets. Amortization in a systematic and rational manner does not necessarily mean the same amount would be amortized in each period. For example, a calculation that results in a constant total lease cost (the total of the separately determined interest and amortization) could be considered systematic and rational in some cases."

FORV/S

33

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

FORV/S

34

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

New Auditor Reporting Model and Omnibus Statement on Auditing Standards

FORV/S

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Auditor Reporting Suite of Standards

SAS No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements.

SAS No. 135, Omnibus Statement on Auditing Standards

SAS No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as amended

SAS No. 137, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports

SAS No. 138, Amendments to Concepts of Materiality

SAS No. 139, Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134

SAS No. 140, Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137
SAS No. 140, Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137

FORV/S

36

FORV/S is a trademark of FORV/S, LLP, registration of which is pending with the U.S. Patent and Trademark Office

SAS 134-140

The most significant changes include:

- “Opinion” section to precede the “Basis for Opinion” section in the auditor’s report
- “Basis for Opinion” section required for all reports, not just modified opinions
- New going concern reporting requirements, particularly in situations where the financial statements do not include adequate disclosures about an entity’s ability to continue as a going concern for a reasonable period
- Requires auditor make reference to other required communications

Original Effective Dates

Audits of financial statements for periods ending on or after December 15, 2020.
Early implementation is not permitted.

Delayed Effective Dates

Audits of financial statements for periods ending on or after December 15, 2021.
Early adoption is permitted. The AICPA recommends that this suite of standards be implemented concurrently.

FORV/IS

37

FORV/IS is a trademark of FORV/IS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

INDEPENDENT AUDITOR'S REPORT	
To the [Identify the body charged with governance.] of [Name of Nonprofit Health Care Entity]	2
Opinion We have audited the accompanying financial statements of [Name of Nonprofit Health Care Entity] (a nonprofit organization), which comprise the statement of financial position as of [Date] and [Years], and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [Name of Nonprofit Health Care Entity] as of [Date] and [Years], and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.	<ul style="list-style-type: none"> • Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about [Name of Nonprofit Health Care Entity]'s ability to continue as a going concern for a reasonable period of time. <p>We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.</p> <p>Supplementary Information Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The [Identify supplementary information], is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.</p> <p>[Firm's Signature] [Location of Firm (City, State)] [Report Date]</p>
Basis for Opinion We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of [Name of Nonprofit Health Care Entity] and to meet other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.	
Responsibilities of Management for the Financial Statements Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about [Name of Nonprofit Health Care Entity]'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.	
Auditor's Responsibilities for the Audit of the Financial Statements Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards, we:	
<ul style="list-style-type: none"> • Exercise professional judgment and maintain professional skepticism throughout the audit. • Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. • Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of [Name of Nonprofit Health Care Entity]'s internal control. Accordingly, no such opinion is expressed. • Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements. 	

38

FORV/IS is a trademark of FORV/IS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

Thank you!

forvis.com

The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by FORVIS or the author(s) as to any individual situation as situations are fact specific. The reader should perform its own analysis and form its own conclusions regarding any specific situation. Further, the author(s) conclusions may be revised without notice with or without changes in industry information and legal authorities. FORVIS has been registered in the U.S. Patent and Trademark Office, which registration is pending.

FORVIS

Assurance / Tax / Advisory