

Clark Nuber ^{PS}

GAAP Update – Staying Ahead of the Curve

WA AK HFMA Fall Conference
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Vincent Stevens, CPA, CGMA

Vincent Stevens, CPA CGMA

Shareholder

- Healthcare and Life Sciences Niche Leader
- Single Audits
- Indirect Cost and other Federal grants consulting
- Software Solutions

vstevens@clarknuber.com

425.990.7608

Learning Objective

Provide a GAAP Update for finance and accounting professionals in the healthcare industry focusing on new standards and what is on the horizon to help you start thinking ahead and stay ahead of the curve.

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*Significant slide content courtesy of the FASB



Staying Ahead of the Curve – Key Developments



Key Developments

- A period of **relative calm** for NFPs (we will touch on Healthcare entities that follow GASB later), in terms of major new standards
- FASB made various changes (additions, modifications, removals) to its technical and research agendas, in response to feedback received on its **2021 Agenda Consultation**
 - *Included new projects on Crypto Assets, Software Costs, and targeted ESG areas, refocusing of various other projects (e.g., Income Tax Disclosures), and removal of still other projects (e.g., Goodwill)*
 - *Final ASUs on Crypto Assets and Income Tax Disclosures to be issued in 4Q*
 - *Follow-up Agenda Consultation expected in 2024*
- Continued FASB monitoring of the current financial reporting environment (COVID-19 issues, Reference Rate Reform, business pressures) and implementation of new standards (Leases, **CECL**)
 - *Issued ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, in December 2022*
 - *Issued ASU 2023-01, Leases (Topic 842): Common Control Arrangements, in March 2023*

FASB Roadmap



Technical Agenda – Recognition and Measurement

(as of September 29, 2023)

PROJECT	Next Milestone	Expected Date
Accounting for and Disclosure of Crypto Assets	Final ASU	4Q 2023
Accounting for and Disclosure of Software Costs	Board deliberations	Ongoing
Accounting for Environmental Credit Programs	Board deliberations	Ongoing
Codification Improvements (next phase)	Board deliberations	Ongoing
Codification Improvements—Amendments to Remove References to the Concepts Statements	Final ASU	2H 2023
Financial Instruments—Credit Losses (Topic 326)—Acquired Financial Assets	Final ASU	1Q 2024
Induced Conversions of Convertible Debt Instruments (EITF Issue No. 23-A)	Deliberations	Ongoing
Scope Application of Profits Interests Awards: Compensation—Stock Compensation (Topic 718)	Final ASU	1Q 2024
Topic 815—Hedge Accounting Improvements	Board deliberations	Ongoing

Technical Agenda – Presentation and Disclosure

(as of September 29, 2023)

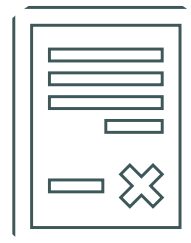
PROJECT	Next Milestone	Expected Date
Disaggregation—Income Statement Expenses	Exposure Draft	Comments due October 30, 2023
Disclosure Improvements in Response to the SEC’s Release on Disclosure Update and Simplification	Final ASU	4Q 2023
Improvements to Income Tax Disclosures	Final ASU	4Q 2023
Interim Reporting—Narrow-Scope Improvements	Exposure Draft	1H 2024
Segment Reporting	Final ASU	4Q 2023

Research Agenda (as of September 29, 2023)



Accounting for and Disclosure of Intangibles

Consider potential ways to improve the accounting for and disclosure of intangibles, including internally developed intangibles, and research and development



Definition of a Derivative

Consider potential refinements to the scope of Topic 815, Derivatives and Hedging, including certain aspects of the definition of a derivative and derivative scope exceptions, and the application to certain arrangements



Accounting for Exchange-Traded Commodities

Explore accounting for exchange-traded commodities



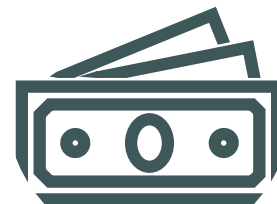
Financial Key Performance Indicators for Business Entities

Explore standardizing the definitions of financial key performance indicators



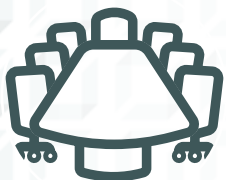
Accounting for Government Grants, Invitation to Comment

Solicit feedback on whether the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, should be in GAAP



Statement of Cash Flows

Explore improvements to the statement of cash flows to provide additional decision-useful information

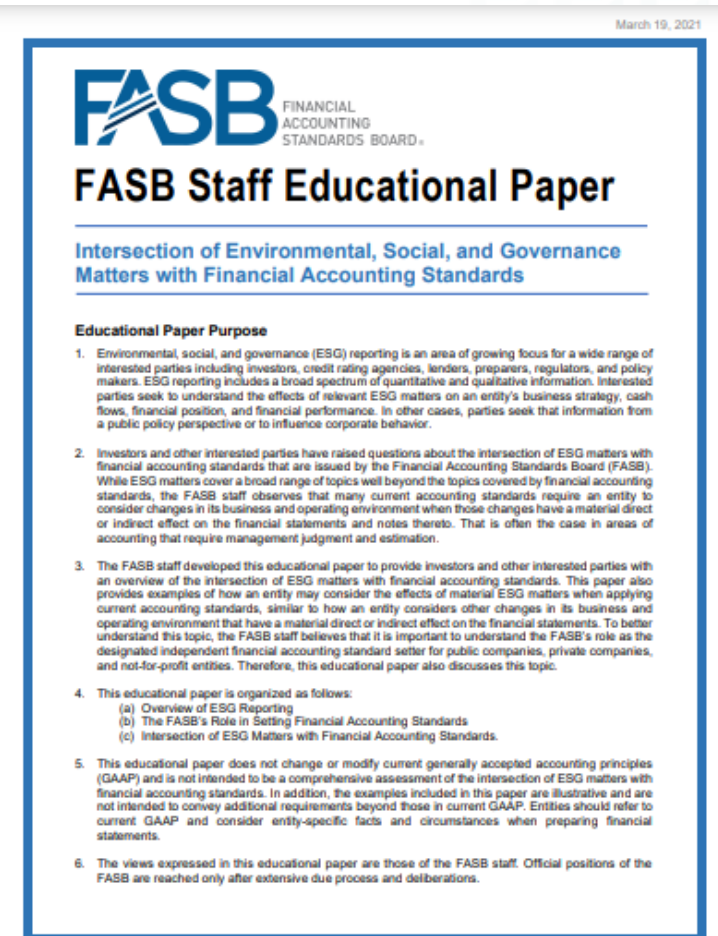


Consolidation for Business Entities

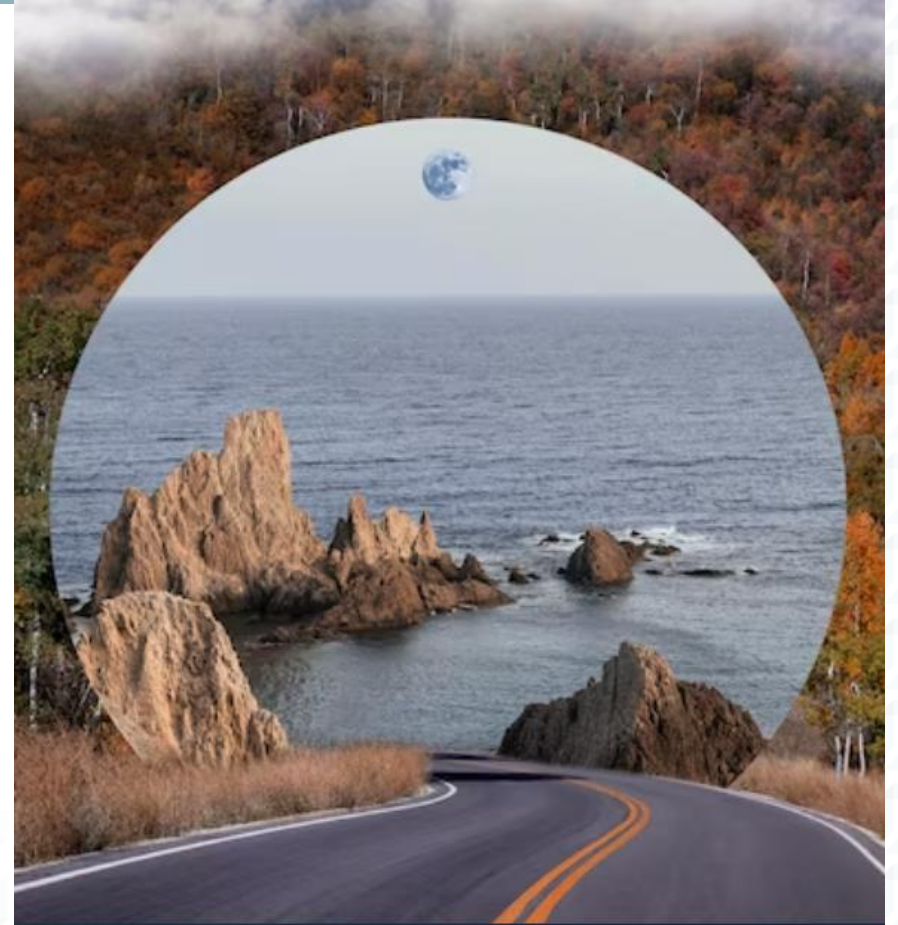
Explore whether a single consolidation model could be developed for business entities

Intersection of ESG Matters with Financial Accounting Standards

- FASB does not have a broad remit on environmental, social, and governance (ESG)/ sustainability matters.
- ESG-related projects on FASB's technical and research agendas address specific issues that affect financial accounting and reporting.
- Many current accounting standards already require an entity to consider changes in business and operating environment.
 - FASB Staff Educational Paper (March 2021)



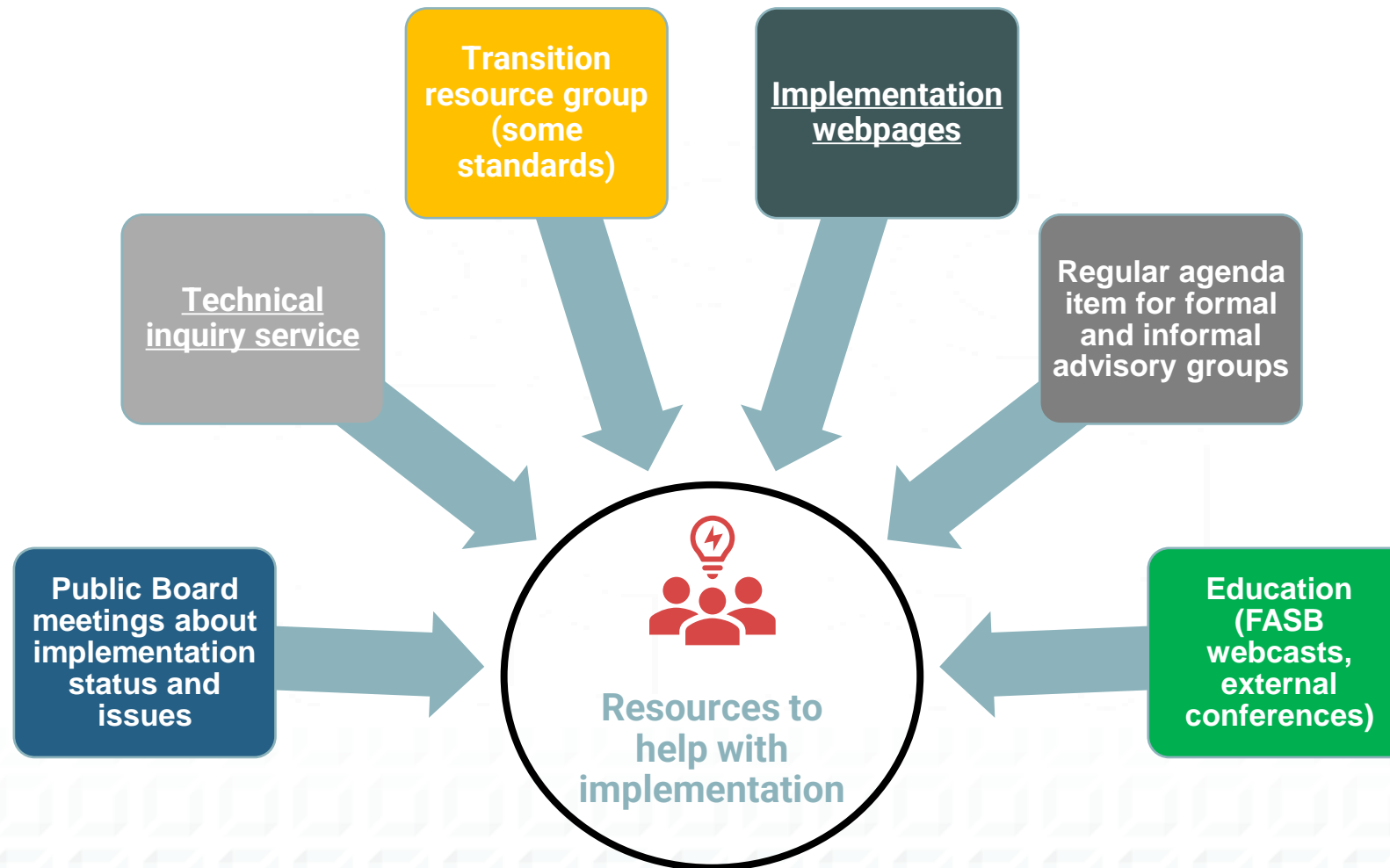
Changing Landscape – New ASUs and Implementation of Recent Standards



ASUs Issued Since Mid-2022 (as of September 29, 2023)

Update	Title
Update 2023-05	Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement
Update 2023-04	SEC Update (related to SEC Staff Accounting Bulletin No. 121)
Update 2022-03	SEC Update (various Topics)
Update 2023-02	Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a Consensus of the Emerging Issues Task Force)
Update 2023-01	Leases (Topic 842): Common Control Arrangements
Update 2022-06	Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848
Update 2022-05	Financial Services—Insurance (Topic 944): Transition for Sold Contracts
Update 2022-04	Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations

Implementation Steering Wheel – Resources for Major Standards



ASU 2021-09, *Discount Rate for Lessees That Are Not Public Business Entities*

ASU 2021-09 amends the discount rate accounting policy election afforded to lessees that are not public business entities (including **all** NFPs)

- The amendments in this Update:
 - Provide more **flexibility** for lessees that are not public business entities by allowing them to make the risk-free rate election **by class of underlying asset**, rather than at the entity-wide level.
 - Require that a lessee use the rate implicit in the lease when it is readily determinable (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election.
 - Require an entity that makes the risk-free rate election to disclose the asset classes to which it has elected to apply a risk-free rate.

Leases – Common Control Arrangements (ASU 2023-01)

The Issues

- Private company stakeholders were primarily concerned with:
 - Determining the **legally enforceable** terms and conditions in common control arrangements, particularly those that are implicit
 - The outcome of applying Topic 842 leasehold improvement amortization guidance to common control arrangements when term is **significantly shorter** than the useful life of the improvements.

Project

- Board added a narrow-scope project in September 2022 to address these issues
- Exposure Draft, *Leases (Topic 842): Common Control Arrangements*, issued on November 30, 2022
- The Board redeliberated the ED on February 15, 2023
- ASU 2023-01 issued in March 2023

Issue 1 – Terms and Conditions to be Considered for Applying Topic 842 to Common Control Arrangements

Which NFPs are affected?

Non-public NFP lessees (i.e., those that **aren't** obligors for **publicly-traded** conduit or other debt) that are a party to a lease between entities **under common control**

What are the main provisions?

- ▶ May **elect** a **practical expedient** to use **written terms and conditions** of a common control arrangement to determine:
 1. Whether a lease exists and, if so,
 2. The classification and accounting for that lease
- ▶ That practical expedient may be applied on an **arrangement-by-arrangement** basis
- ▶ If no written terms and conditions exist, an entity cannot apply the practical expedient and is required to use the legally enforceable terms and conditions to apply Topic 842
- ▶ An entity is **permitted to document** any **existing unwritten** terms and conditions of a common control arrangement as part of transition

Issue 2 – Accounting for Leasehold Improvements Associated with Common Control Leases

Which NFPs are affected?

All lessees (public and non-public) that are a party to a lease between entities **under common control** in which the lessee is the owner of leasehold improvements

What are the main provisions?

- ▶ Leasehold improvements associated with common control leases are:
 1. Amortized by the lessee over the **useful life** of the leasehold improvements to the common control group[†] as long as the lessee **controls** the use of the underlying asset through a lease.
 2. Accounted for as a **transfer** between entities under common control through an **adjustment to net assets**, if, and when, the lessee **no longer controls** the use of the underlying asset.
 3. Subject to the impairment guidance in paragraph 360-10-40-4.
- ▶ When the useful life of leasehold improvements to the common control group determined exceeds the related lease term, a lessee must **disclose** certain items

[†] If the lessor obtained the right to control the underlying asset through a lease with another entity not within the same common control group, the amortization period may not exceed the lease term associated with the lessor's lease with the other entity.

Update 2023-01: *Leases (Topic 842) Common Control Arrangements*

Update 2023-01: Transition

Issue 1: Terms and Conditions

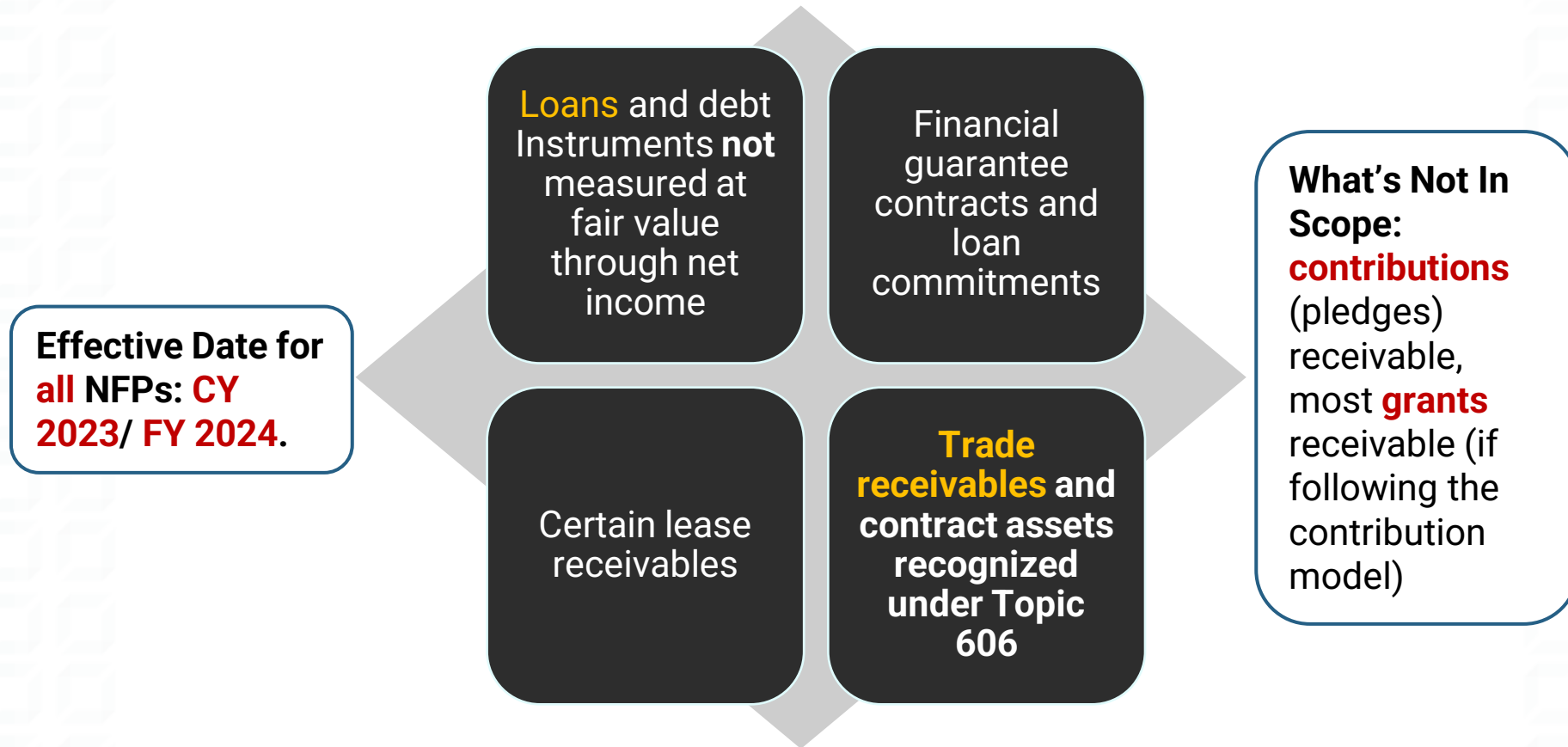
- Concurrent with Topic 842 adoption – same transition approach
- Topic 842 already adopted – retrospective or prospective

Issue 2: Leasehold Improvements

- Concurrent with Topic 842 adoption – same transition approach or prospective
- Topic 842 already adopted – retrospective or prospective

Effective Date for NFPs: CY 2025/ FY 2026

Current Expected Credit Losses (CECL) —Effective Date and Scope



CECL—Effect on Trade (and Similar) Receivables

What might not be new:

- Assessing history of payment
- Aging of receivables

What might be new:

- Considering current conditions and (especially) the foreseeable future
- Additional disclosures to help users understand how credit losses are estimated



AICPA NFP Expert Panel is currently reviewing the guidance on Programmatic Loans/ Investments in Chapter 8 of the NFP Audit Guide for potential CECL impacts

CECL—Effect on Trade (and Similar) Receivables

Paragraphs 326-20-55-37 through 55-40 provide an example

Estimates are
based on

Historical information, adjusted for:

- Current conditions
- Reasonable and supportable forecasts

Pooled basis

Expected credit losses measured for pools of assets with similar risk characteristics, for example:

- Customer credit rating
- Trade receivable aging category
- Industry
- Geographical location of customer
- Product line

Individual basis

Expected credit loss for an asset that does not have shared risk characteristics is measured individually

CECL – Helpful FASB Resource

July 2019: FASB issued [Staff Q&A](#) on the following topics:

- Historical Loss Information
- Developing Reasonable and Supportable Forecasts
- Reversion to Historical Loss Information

JULY 2019

FASB FINANCIAL ACCOUNTING STANDARDS BOARD **STAFF Q&A**

TOPIC 326, NO. 2

DEVELOPING AN ESTIMATE OF EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

PURPOSE OF THIS STAFF Q&A

This FASB staff Q&A only focuses on the guidance in Topic 326, Financial Instruments—Credit Losses. This Q&A does not address other regulatory, rules, or compliance requirements that entities may need to consider when preparing and issuing financial statements.

Topic 326 contains a requirement of applying a reasonable and supportable forecast and, if applicable, reverting to historical loss information (if an entity is unable to forecast credit losses over the estimated life of the instrument) when measuring expected credit losses. As part of the Board's continuing commitment to educate stakeholders, the staff has developed this question and answer (Q&A) document to respond to some frequently asked questions about using historical loss information, developing reasonable and supportable forecasts, and requirements regarding applying the reversion to historical loss information. The staff encourages entities also to read the [Staff Q&A Topic 326, No. 1, Whether the Weighted-Average Remaining Maturity Method Is an Acceptable Method to Estimate Expected Credit Losses](#), that was issued in January 2019.

For contextual purposes, this Q&A includes information from Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and certain paragraphs in the basis for conclusions.

Update 2016-13 was developed to be operably scalable and flexible. An entity must apply judgment in estimating expected credit losses. An entity's estimate of expected credit losses should reflect its expectations or its best estimate of expected credit loss. All examples or

numerical adjustments contained in this Q&A are intended for educational purposes. Consequently, numerical adjustments should not be misconstrued as a "starting point," that is, a required amount or the Board's expectation regarding the level of allowance for expected credit losses that a particular entity should record.

BACKGROUND

When an entity develops an estimate of expected credit losses for financial assets held at amortized cost at the reporting date, Topic 326 requires the entity to consider available and relevant information, including historical experience, current conditions, and reasonable and supportable forecasts, with the objective of presenting the entity's estimate of the net amount expected to be collected on the financial assets. Under this new accounting standard, an entity should use reasonable and supportable forecasts to inform stakeholders about its credit loss estimates. The amendments in the Update do not require a specific credit loss estimation method; an entity is allowed to use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances over the reasonable and supportable period.

An entity is required to disclose information that will help users of financial statements understand its method and relevant information used to develop the allowance for credit losses, including information on its reasonable and supportable forecasts.

Questions have been posed to the staff on acceptable approaches for determining reasonable and supportable forecasts and techniques for reverting to historical loss

Changing Landscape – New ASUs and Implementation of Recent Standards - GASB

The logo for the Government Accounting Standards Board (GASB). It features the letters "GASB" in a bold, blue, sans-serif font. A stylized graphic element, consisting of three parallel diagonal lines, is positioned between the "A" and "S".

New Standards Effective for Years Beginning After June 15, 2022

- Statement 94 – Public-Private Partnerships
- Statement 96 – SBITAs
- Statement 99 – Omnibus 2022 as it relates to leases, PPPs, and SBITAs

New Standards Effective for Years Beginning after June 15, 2023

- Statement 99 – Omnibus 2022 remaining portions
- Statement 100 – Accounting Changes and Error Corrections
- Statement 101 – Compensated Absences (for years beginning after December 15, 2023)

Biggest Impact to Healthcare

- Statement 94 – Public-Private Partnerships
- Statement 96 – SBITAs
- Statement 100 – Accounting Changes and Error Corrections
- Statement 101 – Compensated Absences

No. 94 – PPPs

- Similar to lease and SBITA standards
- Defines what a public-private partnership and public-public partnership is
- Brings certain receivable, asset, and liability amounts onto the balance sheet with an offsetting deferred inflow

No. 96 – Subscription-Based Information Technology Arrangements (SSBITAs)

- Similar to lease standard
- Brings long-term IT arrangements onto the balance sheet with a right of use asset and liability
- Common questions – An agreement that automatically renews annually for software often qualifies as a SBITA, but typically the noncancelable term is 12 months so must look at other factors.

No. 100 – Accounting Changes and Error Corrections

- Defines an accounting changes as
 - Change in accounting principle (including new standards)
 - Change in accounting estimate
 - Change to or within the financial reporting entity
- How to account for these:
 - Change in accounting principle – Retroactively by restating prior periods presented if practicable
 - Change in accounting estimate – Report prospectively, recognized in current-period flows
 - Change to or within the financial reporting entity – Report retroactively by restating prior periods presented

No. 101 – Compensated Absences

- Defines:
 - What a compensated absence is
 - When to record the liability
- When to recognized compensated absences
 - Leave is attributable to services already rendered
 - Leave accumulates
 - Leave is more likely than not to be used for time off or otherwise paid or settled (likelihood of more than 50%)
- Examples that will not be accrued for under this standard:
 - Parental leave, military leave, jury duty, sick leave, sabbatical leave, unlimited leave, holiday leave (taken on a specific day)

Road Conditions – Current Financial Reporting Issues



Overview of COVID-19 Federal Assistance

Program	Links	Accounting - NFPs
Paycheck Protection Program	TQA	Loan or Conditional Grant
Higher Education Emergency Relief Funds	NACUBO Tutorials	Conditional Grant
Healthcare Provider Relief Funds	TQA	Conditional Grant; Topic 606 (third-party payments)
Employee Retention Credits	Journal of Accountancy Article	Conditional Grant
Shuttered Venue Operators Grants	TQA	Conditional Grant
Vaccines/ Pharmaceuticals/ Medical Supplies & Devices	TQA	Agency Transaction/ Grant or Exchange Revenue

ASU 2021-10, *Government Assistance (Topic 832)—Disclosures by Business Entities about Government Assistance*

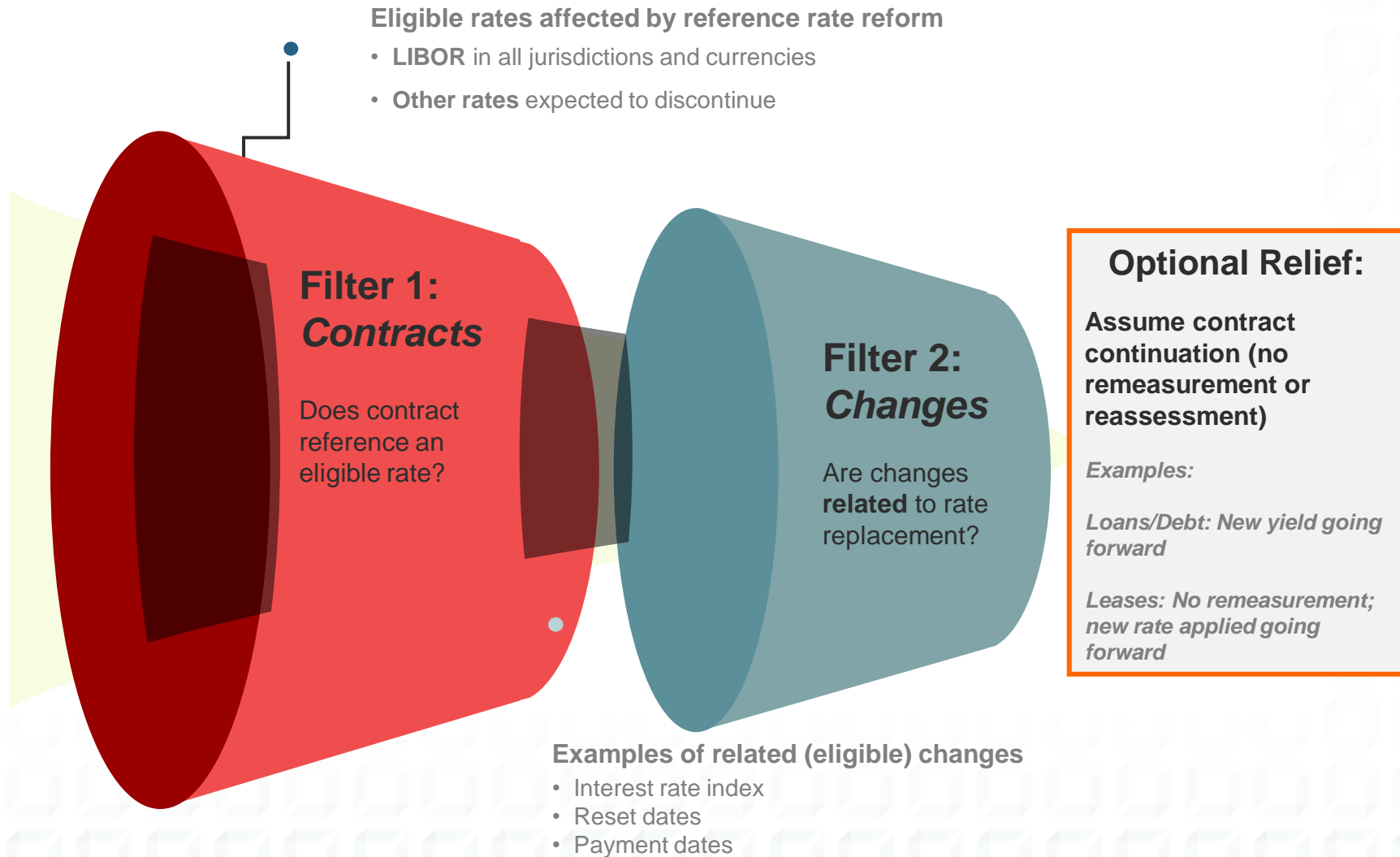
Main Provisions

The amendments require the following **annual disclosures** about transactions with a government that are accounted for by **applying a grant or contribution accounting model by analogy**:

1. Information about the **nature of the transactions** and the **related accounting policy** used to account for the transactions
2. The **line items on the balance sheet** and **income statement** that are affected by the transactions, and the **amounts applicable** to each financial statement line item
3. The **significant terms** and **conditions** of the transactions, including commitments and contingencies.

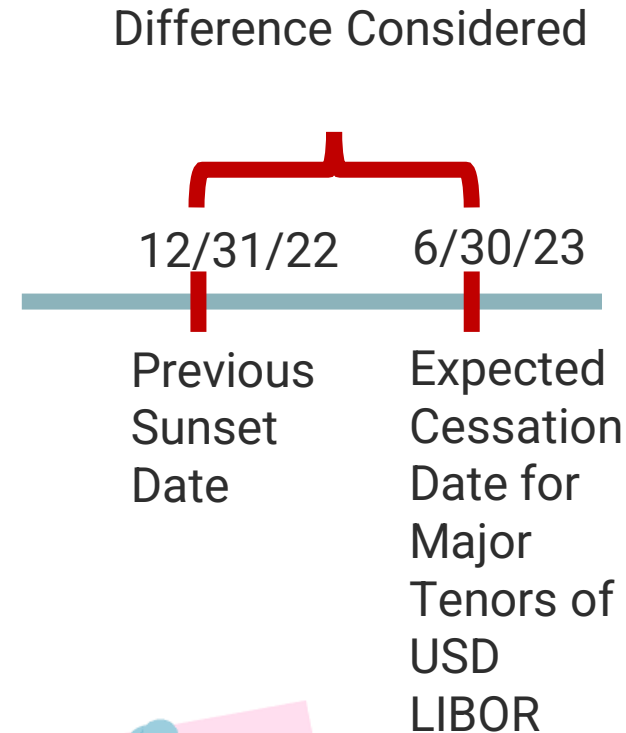
NFPs are not within the scope of this Update because they apply Subtopic 958-605 directly, rather than by analogy. However, they may find including such disclosures to be useful.

Reference Rate Reform (RRR; Topic 848): Contract Modifications



RRR – Ongoing Monitoring

- On March 5, 2021, LIBOR's administrator indicated that major tenors of USD LIBOR will cease to be published as of **June 30, 2023**
- Relief was set to expire December 31, 2022
- **ASU 2022-06** issued in December 2022, extending the sunset date to **December 31, 2024**.
- **Reminders for NFPs:**
 - Review contracts and agreements that may be affected by reference rate reform.
 - Discuss timing with your creditor/lender.
 - Consider the guidance in Topic 848.



Discussion at September 7, 2023, NAC Meeting

Recent Trends, Concerns, and Observations of Committee Members—Committee members discussed recent trends, concerns, and observations in the NFP sector, including the **range of business pressures** that NFPs are facing and the associated consequences of those pressures on an NFP's operations and financial reporting. Members discussed **staffing shortages, inflationary pressures, rising interest rates, wage pressures, fundraising challenges, and declining COVID-19 financial assistance**. Members noted that the current staffing shortages have affected the ability of some NFPs to **fulfill contracts**, in turn affecting **revenue generation**, and together with staffing shortages at their CPA firms, to provide **timely financial statements**. Members highlighted the need for NFPs to provide **robust disclosures on liquidity, risks and uncertainties, and commitments and contingencies**. They also stressed the importance of performing **going concern analyses** and providing the required **going concern disclosures**, when applicable. Additionally, some Committee members observed that there could be a greater need for NFPs to present an **operating measure** to help financial statement users understand how certain factors are affecting organizations and highlighted the usefulness of providing **voluntary disclosures** outside of the financial statements, such as in a **management's discussion and analysis**.

On the Horizon – Select Current Projects and Pending ASUs



Crypto Assets—Background

Stakeholder feedback to 2021 ITC, including 492 Agenda Consultation comment letters

Accounting does not “reflect the economics”

- Accounting for crypto as an indefinite-lived intangible asset does not show gains until realized.

Impairment

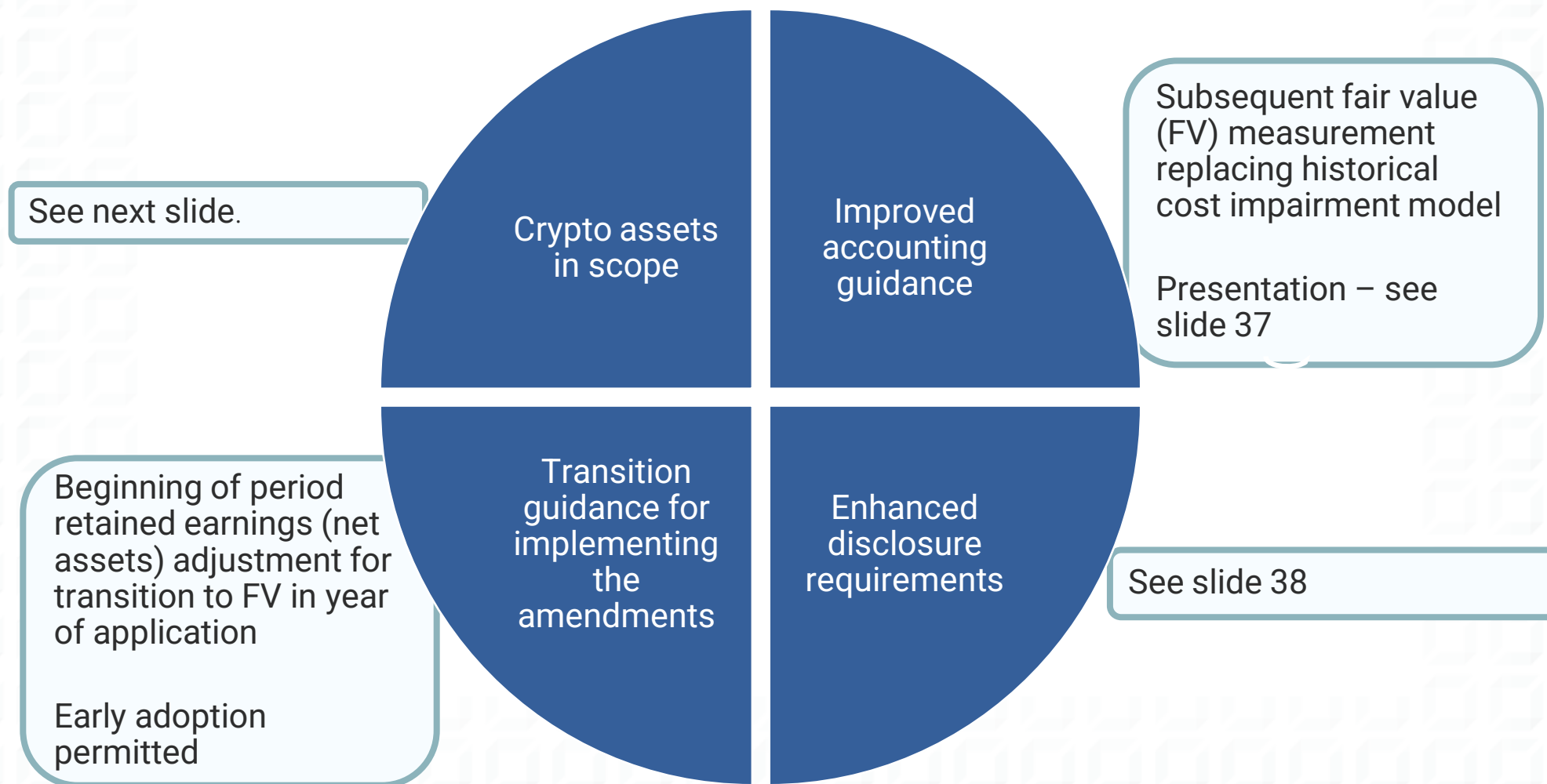
- Applying the intangible asset model captures greatest loss experienced without any consideration of recovery.

Restatement risk

- Lack of guidance is leading to different interpretations and could ultimately lead to restatements.

Crypto Assets — Pending Final ASU

Expected issuance: 4Q 2023; Effective date for all entities: CY 2025 (FY 2026)



Crypto Assets—Scope Criteria

Meet the definition of *intangible asset* as defined in the Codification's Master Glossary

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

Are created or reside on a distributed ledger or "blockchain"

Are secured through cryptography

Are fungible

Are not created by a reporting entity or its related party

Crypto Assets — Presentation

Balance Sheet	Income (Activities) Statement	Statement of Cash Flows
Crypto assets separate from other intangible assets measured using other measurement bases	Gains and losses in net income (changes in net assets) separate from amortization and impairment of other intangible assets	Classify cash flows from crypto assets received in ordinary course of business or as a contribution and converted nearly immediately into cash as operating activities*

* Contributions for long-term/ capital purposes: financing activities

Crypto Assets – Disclosures

Significant crypto asset
holdings
(annual and interim)

Restrictions on crypto
assets held
(annual and interim)

Reconciliation of activity
between the beginning and
end of the period
(annual)

Historical realized gains
and losses (annual)

Improvements to Income Tax Disclosures

Final ASU to be issued in 4Q 2023; Effective Date for NFPs: CY 2026 (FY 2027)

Project Objective

To improve the transparency and decision usefulness of income tax disclosures.

Project Scope

Focus primarily on the following income tax information:

- (a) **Income taxes paid**
- (b) **The rate reconciliation table.**

Retain several generally supported amendments in the 2019 revised proposed Update (for example, replace the term **public entity** with the term **public business entity**; disaggregated disclosures on income tax expense [or benefit] and pre-tax income)

Software – Overview

Software costs are costs that a company incurs to purchase, internally develop, or modify software. Companies utilize software in a wide variety of ways, including:



Software that supports the company's operations.



Software that facilitates services the company provides to its clients.



Software that a company provides to its clients or customers to access information.



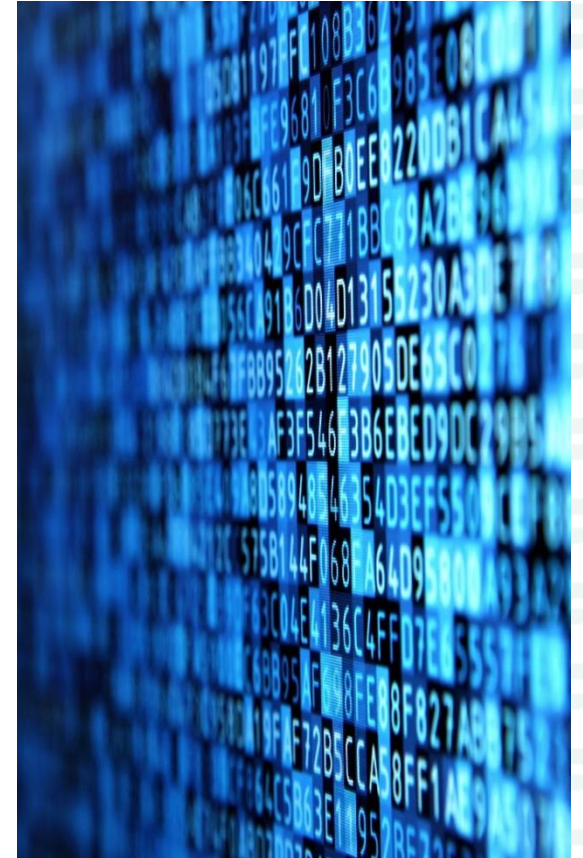
Software that a company directly sells to its customers, through on-premise licenses or cloud computing arrangements (CCAs).



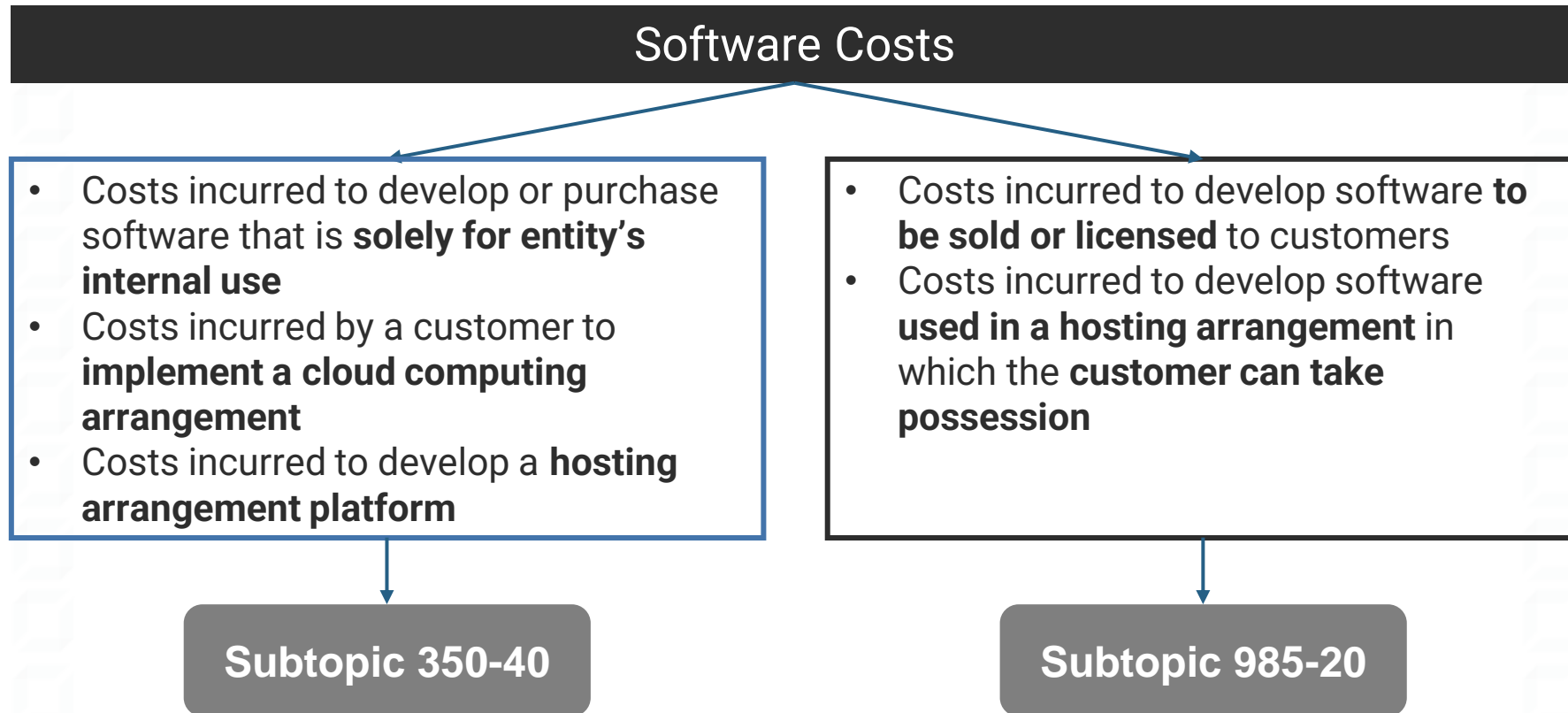
Software that is integrated into tangible products.

NFP Software Costs — Examples

- An organization purchases or develops software to process payroll, accounts payable, and accounts receivable.
- An organization incurs costs to implement an enterprise resource planning (ERP) system.
- An organization develops website technology to allow its young “scouts” to sell delicious products, raising money for the organization while developing their entrepreneurial skills.
- A university develops a mobile application for student use. Students can enroll in classes, pay their tuition, and check their grades. The university frequently updates the application to improve student experience.
- A healthcare system develops a mobile application for patient use. Patients can schedule appointments with the system’s medical providers, see medical test results and provider notes, request authorization for prescription refills, and pay outstanding bills. The healthcare system frequently updates the application to improve patient experience.



Software – Project Scope and Objective

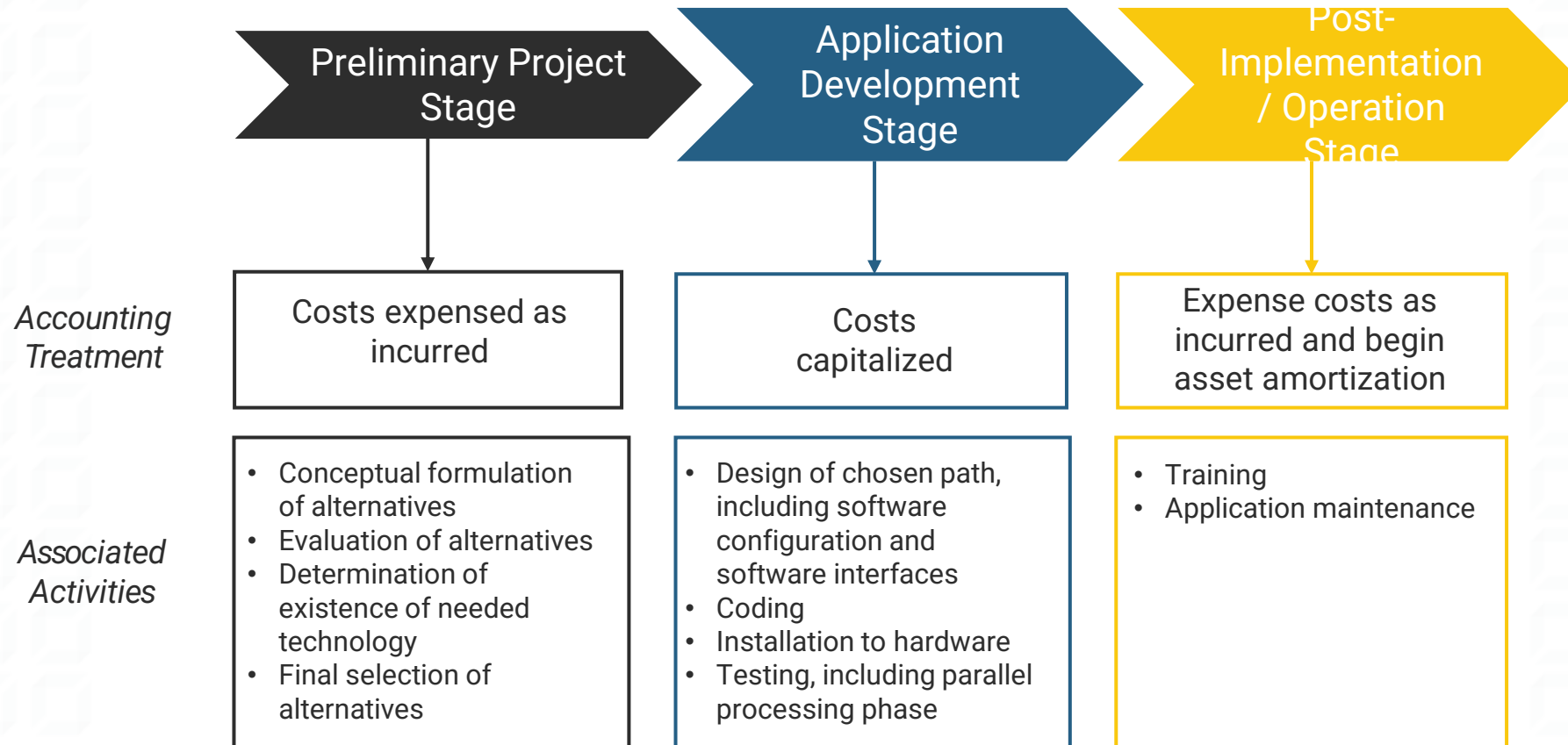


Objectives:

- To modernize the accounting for software costs and
- To enhance the transparency about an entity's software costs

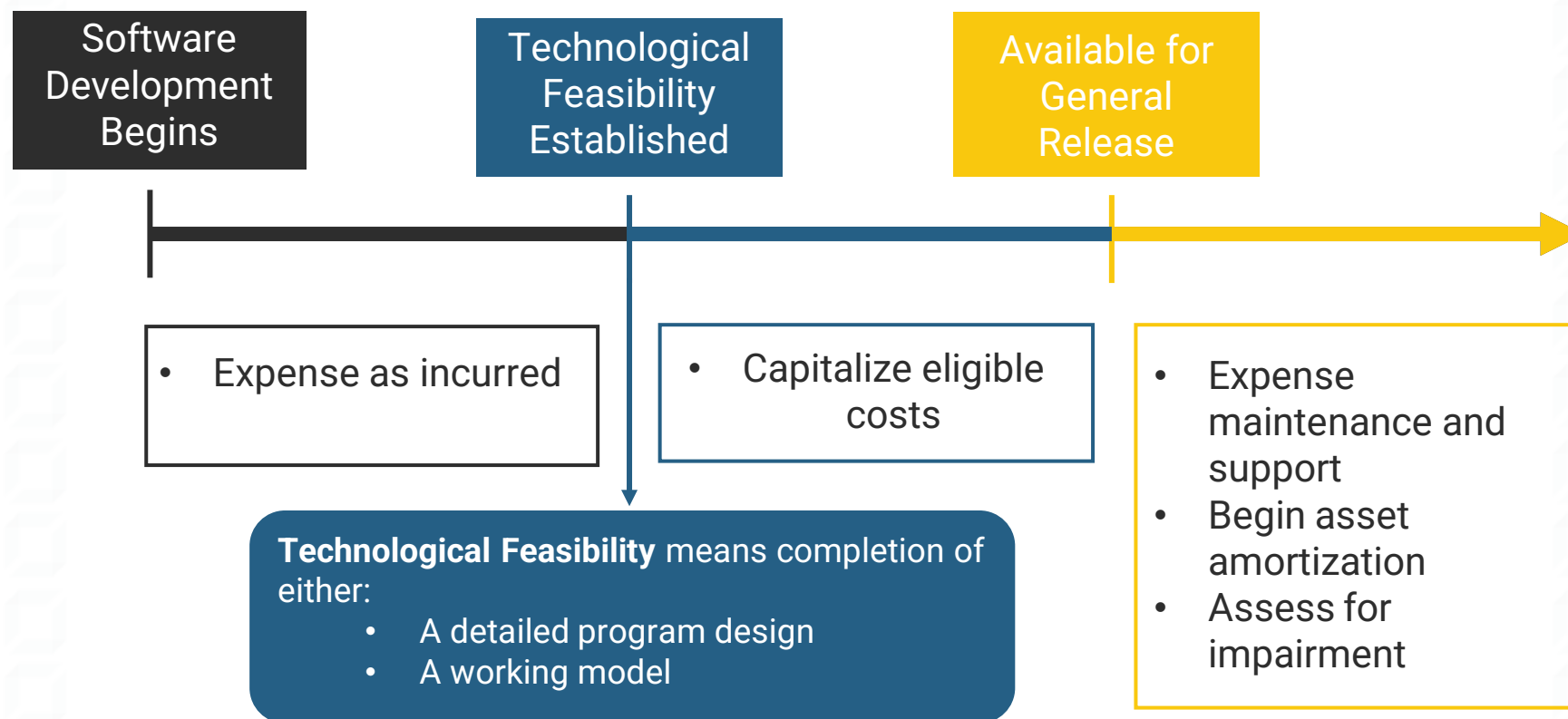
Subtopic 350-40

Intangibles – Goodwill and Other – Internal-Use Software



Subtopic 985-20

Costs of Software to Be Sold, Leased, or Marketed



Feedback on Current Guidance

Software development has evolved (to an “agile” development approach).

Current guidance and outcomes are unintuitive.

There are significant costs to apply the software guidance.

Diversity in practice exists.

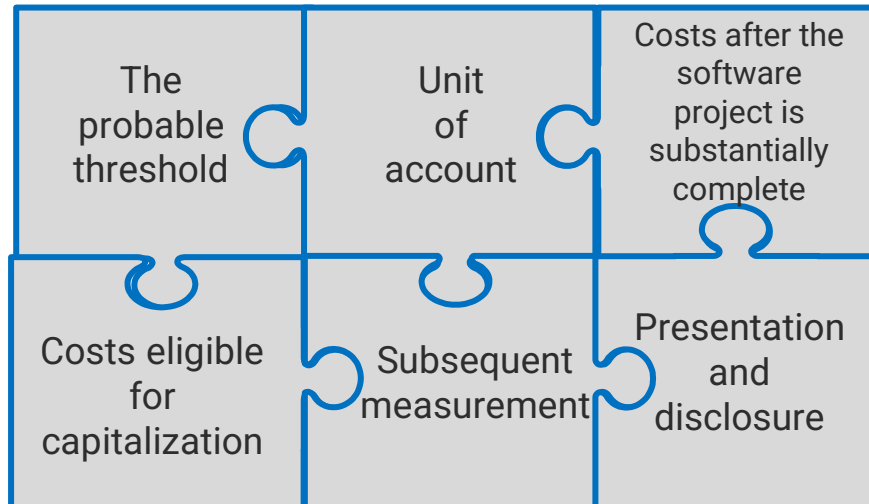
There is a lack of transparency to investors.

Accounting for and Disclosure of Software Costs— Single Model

All direct software
development costs

Capitalized from the point at which it is **probable** that the software project will be completed until the software project is **substantially complete**.

- Elements of the **single model** being researched:



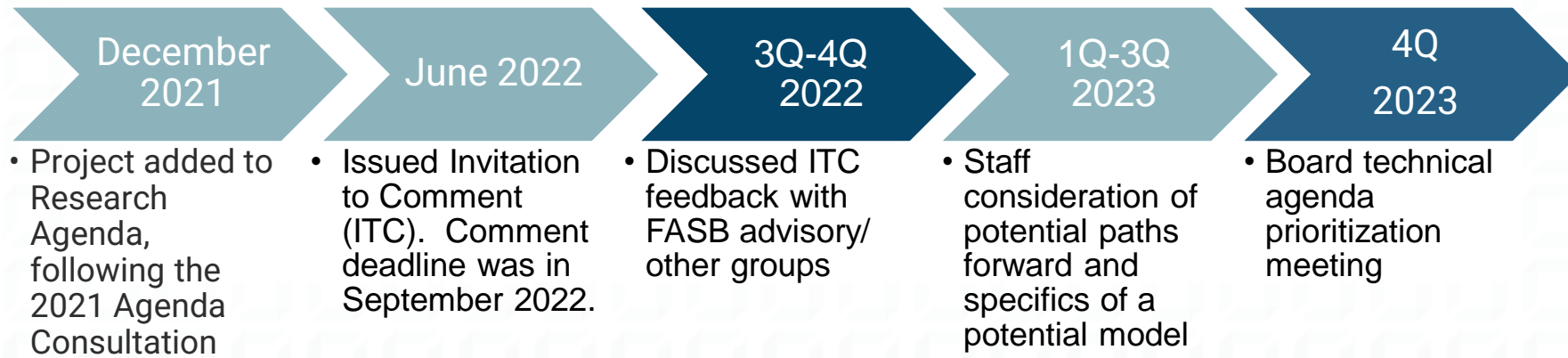
April 2023: Board decided not to further research a **dual model** in which certain costs would have been expensed as incurred and certain costs would have been subject to a capitalization model.

September 2023: Board made some tentative decisions, including about unit of account and subsequent capitalization (enhancements). Directed staff to do **further research** and **outreach**.

Accounting for Government Grants (Research Project)—Project Objective, Scope, and Timeline

Objective: To solicit broad stakeholder feedback on whether certain recognition, measurement, and presentation requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, as it relates to government grants should be incorporated into GAAP.

Scope: Business entities (which are scoped out of the contribution guidance in Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition, for such transactions).



Questions?

Clark Nuber^{PS}

Contact us



EMAIL



WEBSITE

www.clarknuber.com



PHONE

425-454-4919