Accounting & Auditing Standards Update

Central Ohio HFMA

Agenda

- Meet the Presenters
- New Auditing Standards
- Upcoming Accounting Standards – GASB
- Upcoming Accounting Standards – FASB
- Concluding Thoughts

Meet the Presenters

The Presenters

Wes Ernst, CPA
Director / Healthcare / NMTC
Wes.Ernst@forvis.com

Jason Roeder, CPA
Director / Healthcare
Jason.Roeder@forvis.com

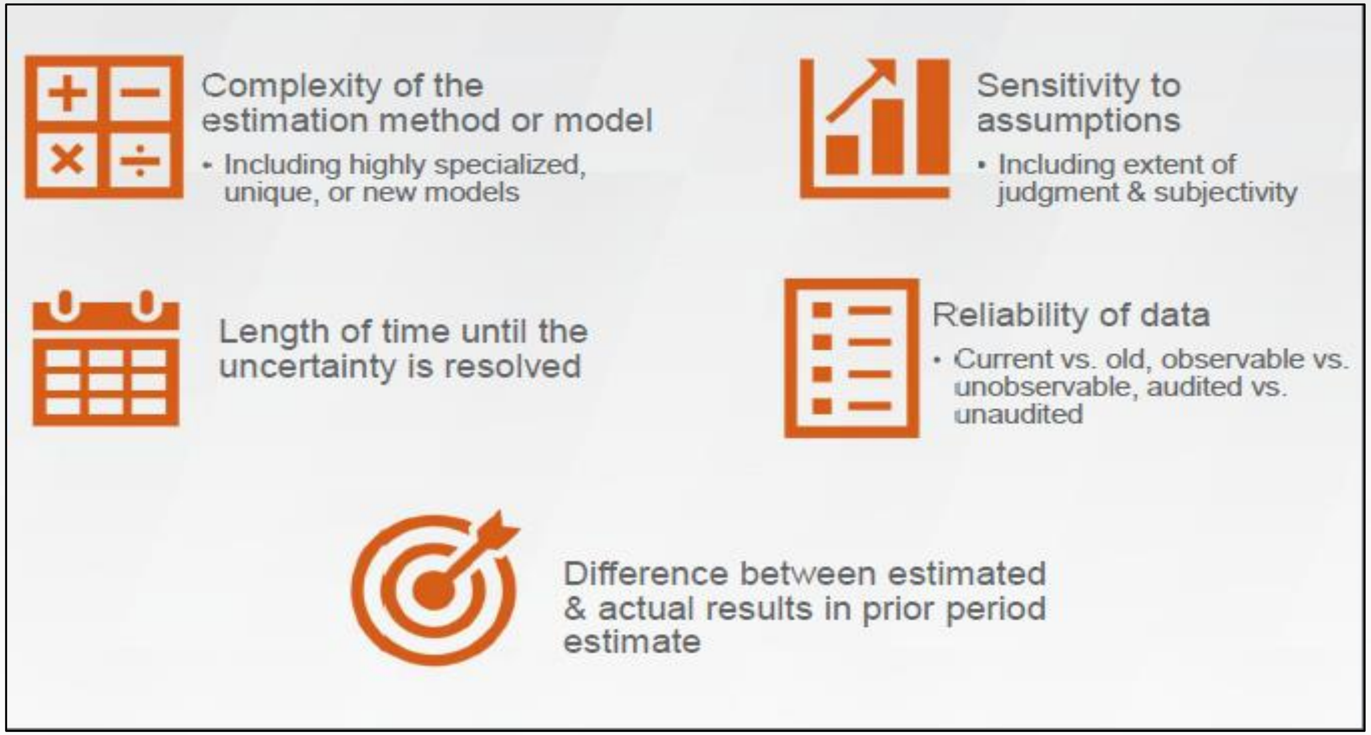
FORVIS

New Auditing Standards - 2023

- Auditing Accounting Estimates (SAS 143)
- Use of Specialists (SAS 144)
- Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (SAS 145)
- Predecessor Auditor Inquiries & Workpaper Review (SAS 147)

Auditing Accounting Estimates (SAS 143)

- Effective for audits of financial statements for periods ending on or after December 15, 2023
- Challenges auditors to increase their evaluation and understanding of **estimation uncertainty**



FORVIS

Use of Specialists (SAS 144)

- Effective for audits of financial statements for periods ending on or after December 15, 2023
- Enhances guidance for auditors in evaluating the work of management's specialists

FORVIS

Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (SAS 145)

- Effective for audits of financial statements for periods ending on or after December 15, 2023
- Enhances requirements and guidance related to the auditor's risk assessment (namely, around internal controls, control risk, and inherent risk)
- Enhances guidance that addresses the economic, technological, and regulatory aspects of the markets and environment in which entities operate
- Includes revised requirements to evaluate the design of general IT controls
- This standard does not fundamentally change the key concepts underpinning audit risk. Rather, this standard clarifies and enhances certain aspects to drive better risk assessments and to enhance audit quality

FORVIS

Predecessor Auditor Inquiries & Workpaper Review (SAS 147)

- Effective for audits of financial statements for periods **beginning** on or after June 30, 2023
- Most relevant change is that once management authorizes the predecessor auditor to respond to inquiries of the successor auditor, the successor auditor is now required to inquire about identified or suspected fraud and matters involving noncompliance with laws and regulations

FORVIS

Upcoming Accounting Standards - GASB

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*
  - Effective for fiscal years beginning after June 15, 2022
  - SBITAs are contracts that convey control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contracts for a period of time in exchange or exchange-like transactions

FORVIS

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*

- To determine whether a contract conveys control of the right to use the underlying IT assets, an entity should assess:
  - The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
  - The right to determine the nature & manner of use of the underlying IT assets as specified in the contract
- Scope exclusions:
  - Contracts that meet the definition of a lease under GASB Statement No. 87, in which the software component is insignificant
  - Licensing arrangements that provide a perpetual license to entities to use a vendor’s computer software

FORVIS

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*

- Recognition and Measurement
  - A SBITA should be reported under provisions effectively the same as those for a lessee under Statement 87 – recognize a subscription asset & a subscription liability (except for short-term SBITAs)
  - Subscription liability should not be remeasured solely for a change in index or rate used to determine variable payments
  - Discount rate should not be reassessed solely for a change in the government's incremental borrowing rate

FORVIS

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*

- Clarifications on Subscription Term
  - Contract provisions that give right to terminate only in certain circumstances do not constitute termination options
  - SBITA that had previously been determined to be short-term that has been modified to extend initial maximum possible term should be reassessed from inception

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*

Preliminary project stage	Initial implementation stage	Operation & additional implementation stage
• Outlays should be expensed as incurred	• In general, outlays should be capitalized • However, if no subscription asset is recognized (such as for a short-term SBITA), outlays should be expensed as incurred	• Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria

FORVIS

Upcoming Accounting Standards - FASB

- ASU 2017-04 – *Intangibles - Goodwill & Other: Simplifying the Test for Goodwill Impairment*
- ASU 2023-01 – *Common Control Leases*
- Current Expected Credit Losses (CECL) – Impact on Non-Financial Institutions
- Reference Rate Reform

FORVIS

ASU 2017-04 – *Intangibles - Goodwill & Other: Simplifying the Test for Goodwill Impairment*

Eliminates the requirement to calculate the implied fair value of goodwill (step 2 of today's goodwill impairment test) to measure a goodwill impairment charge
Entities will instead record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (measure the charge based on today's step 1)
Effectively removed step 2 of the goodwill impairment test
Entities will need to consider the deferred tax effect only when goodwill assigned to the reporting unit is tax deductible & the reporting unit's carrying value exceeds its fair value

FORVIS

ASU 2017-04 – *Intangibles - Goodwill & Other: Simplifying the Test for Goodwill Impairment*

May increase the frequency of goodwill impairment charges, as under previous guidance, it is possible for a reporting unit to fail step 1 but for goodwill not to be impaired, it is based on how impairment is measured in step 2
Effective for nonpublic entities in 2023, but entities previously required to perform step 2 have likely early adopted
Entities with reporting units that failed step 1 but passed step 2 of the previous impairment test will likely need to perform an impairment test at the beginning of the period of adoption

FORVIS

ASU 2023-01 – *Common Control Leases*

Allows private companies & certain NFP entities to use the written terms & conditions of a common control arrangement (rather than the legally enforceable terms) to determine whether a lease exists & classify & account for the lease

Requires all leases (including PBEs) to amortize leasehold improvements associated with common control leases over their useful life to the common control group & account for them as a transfer of assets between entities under common control at the end of the lease

FORVIS

Current Expected Credit Losses (CECL) – Impact on Non-Financial Institutions

- ASU 2016-13, *Financial Instruments – Credit Losses* introduced the concept of CECL
- This concept of CECL is a very hot topic in the financial services industry and is often overlooked or minimized for its applicability in other industries, including healthcare
- Summary Concept: Effectively replaces the “incurred loss” model with a “current expected credit loss” model when measuring impairment of a wide-ranging scope of financial assets
- This standard is effective for fiscal years beginning after December 15, 2022 (e.g. January 2023) for all non-public entities

FORVIS

Current Expected Credit Losses (CECL) – Impact on Non-Financial Institutions

Financial instruments in scope

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

What makes the CECL impairment model more complex than the current model is that the estimate of expected credit losses considers not only historical information, but also current & future economic conditions & events over the life of the financial instrument that could impact expected losses. Such lifetime expected credit losses require immediate recognition under the CECL impairment model

Current Expected Credit Losses (CECL) – Impact on Non-Financial Institutions

Financial instruments not in scope

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

FORVIS

Reference Rate Reform

- In 2020, FASB issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*
- Provides temporary, optional expedients & exceptions for applying GAAP to held-to-maturity securities, contracts, hedging relationships, & other transactions affected by reference rate reform, most notably to
  - Simplify contract modification accounting
  - Allow hedging relationships to continue without designation upon a change in certain critical terms
  - Allow a change in the designated benchmark interest rate to a different eligible benchmark interest rate in an existing fair value hedging relationship & allow flexibility in the accounting method for the effect of that change
  - Simplify or temporarily suspend the assessment of hedge effectiveness for cash flow hedges
  - Suspend the assessment of certain qualifying conditions for fair value hedges for which the shortcut method for assuming perfect hedge effectiveness is applied

Reference Rate Reform

	Current Accounting	Optional Relief
Contract Modifications	High volume of modifications results in burdensome accounting evaluations	Simplified accounting evaluations scaled for high volume of modifications
Hedge Accounting	Hedge accounting discontinued when contracts are modified	Hedge accounting preserved when contracts are modified
	Hedge accounting discontinued if hedging relationships are not highly effective during the temporary transition period	Hedge accounting preserved during the temporary transition period, with any hedge breakage/ineffectiveness visible in the financial statements

Under optional relief, the contract is not remeasured or reassessed but assumed to be a contract continuation

FORVIS

Reference Rate Reform

- Due to the unique nature of LIBOR sunset, ASU 2020-04 had an unusual effective date. The relief was set to expire for contracts entered into or evaluated after December 31, 2022, which was one year after the then-expected LIBOR cessation date. However, on March 5, 2021, LIBOR's regulator announced that certain USD LIBOR tenors will continue to be published until June 30, 2023. FASB recently issued ASU 2022-06, which extends the available relief to December 15, 2024

Rate	Sunset Date
Overnight	June 30, 2023
1 week	December 31, 2021
1 month	June 30, 2023
2 month	December 31, 2021
3, 6, & 12 month	June 30, 2023

Questions?

FORVIS

Thank You!

forvis.com

FORVIS

Assurance / Tax / Advisory