2022 SUMMER CPE SYMPOSIUM: WHAT’S HOT IN HEALTHCARE

A&A Update

Session 1 | July 27, 2022

Introductions

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Agenda

- Updates from the following (i.e., alphabet soup of terms)
  - American Institute of Certified Public Accountants (AICPA) – professional organization in charge of establishing generally accepted auditing standards (GAAS)
  - Financial Accounting Standards Board (FASB) – creates generally accepted accounting principles (GAAP) for companies and nonprofits in the United States
  - Governmental Accounting Standards Board (GASB) – creates GAAP for state and local governments in the United States

What We Will NOT Be Talking About

- Single Audits
- Financial Audits of Provider Relief Funds

New Statements on Auditing Standards (SAS)

- For years ending December 31, 2021, new auditing standards took effect. A comprehensive overview of everything encompassed in the new standards is beyond the scope of our time today. However, we will cover topics of interest to preparers of financial statements/auditees.
  - SAS 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*
  - SAS 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

SAS 134 – Key Takeaways

- **Opinion section required to be presented first**, followed by the Basis for Opinion section
- Basis for Opinion section to follow the opinion section, which must include a statement that the auditor is required to be independent of the entity and to meet the auditor’s other ethical responsibilities
- Enhanced auditor reporting relating to going concern, including a description of the respective responsibilities of management and the auditor on going concern
- If substantial doubt about an entity’s ability to continue as a going concern, it is included in its own separate section

SAS 134 – Key Takeaways (cont.)

- Expanded description of the auditor's responsibilities, including the auditor's responsibilities relating to professional judgment and professional skepticism, and the auditor's communications with those charged with governance
- Auditors are required to communicate with those charged with governance about the significant risks identified by the auditor
- If engaged, the auditor's report can include key audit matters (KAMs); keep in mind that GAAS **does not require** the communication of KAMs

SAS 136 – Key Takeaways

- No more “limited scope” audits
  - Audits formerly called “limited scope” are now known as “ERISA section 103(a)(3)(c) audits”
- An ERISA section 103(a)(3)(c) audit is <u>unique</u> to employee benefit plans and is not considered a scope limitation, so the auditor would no longer issue a disclaimer of opinion
- The opinion issued by the auditor under the “new” ERISA 103(a)(3)(c) audit is two-pronged
  - Provides an opinion on whether the amounts and disclosures in the financial statements **not covered** by the certification are presented fairly, in all material respects, in accordance with the applicable financial reporting framework (GAAP)
  - Provides an opinion on whether the certified investment information in the financial statements agrees to or is derived from, in all material respects, the certification

SAS 136 – Key Takeaways (cont.)

- New requirements specific to ERISA 103(a)(3)(c) audits relating to management's responsibilities for the financial statements, including
  - Maintaining a current plan instrument, including all plan amendments
  - Administering the plan
  - Determining that the plan's transactions are presented and disclosed in the financial statements in conformity with the plan's provisions
  - Maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants

Accounting Standards Update (ASU) No. 2016-02, *Leases*

- The new standard is already effective for public companies and those not-for-profits that are conduit debt obligors
- For not-for-profits that are not conduit debt obligators, and for private companies, the new standard becomes effective for fiscal years beginning after December 15, 2021 (i.e., calendar year 2022)
- The standard establishes two different types of leases that we'll discuss in the following slides
  - Operating lease
  - Finance lease

Accounting Standards Update (ASU) No. 2016-02, *Leases* (cont.)

- Finance Lease – there are multiple criteria which could lead to a lease being considered as financing. You may notice that these criteria are similar to the requirements that formerly helped determine if a lease was a capital lease.
  - The lease transfers ownership of the underlying asset by the end of the lease term
  - The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise
  - The lease term is for the major part of the remaining economic life of the underlying asset (however, if the asset is in the last 25% of its useful life, this criterion should be excluded)
  - The present value of the lease payments equals or exceeds substantially all (90%) of the fair value of the asset
  - The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term

Accounting Standards Update (ASU) No. 2016-02, *Leases* (cont.)

- Operating lease
  - A lease not classified as a finance lease

Accounting Standards Update (ASU) No. 2016-02, *Leases* (cont.)

- Under both methods, a right-of-use (ROU) asset is recorded, while a lease liability is also recorded on the balance sheet
  - For operating leases, a single lease cost should be calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis (unless another systematic and rational basis is more representative)
  - For finance leases, included in profit or less are
    - Amortization of the ROU asset
    - Interest on the lease liability
    - Variable lease payments not included in the lease liability
    - Any impairment of the ROU asset

GASB 87 – *Leases*

- Unlike the FASB's requirement in ASU 2016-02, GASB 87 only requires a **single** method for recording a lease on the balance sheet
- At the time of lease inception, the government lessee should record
  - a) A lease liability, and
  - b) An intangible asset representing the lessee's right to use the leased asset(s)
- The government lessee should record in its financial statements
  - a) Amortization expense for using the leased asset(s) over the shorter of the term of the lease or the useful life of the underlying asset,
  - b) Interest expense on the lease liability, and
  - c) Note disclosures about the lease

ASU 2021-01, *Reference Rate Reform*

- LIBOR is tentatively set to end on June 30, 2023
- This amendment clarifies that certain, optional practical expedients and exceptions in Topic 848 for contract modifications and hedge accounting are available related to the transition

ASU 2019-06, *Goodwill...Not-for-Profit Entities*

- Instead of testing goodwill for impairment annually at the reporting unit level, a not-for-profit organization that elects this accounting alternative will
  - Amortize goodwill over 10 years or less, on a straight-line basis,
  - Test for impairment upon a triggering event, and
  - Have the option to elect to test for impairment at the entity level

ASU 2021-03, *Goodwill…Accounting Alternative for Evaluating Triggering Events*

- Provides an accounting alternative that allows private companies and not-for-profit organizations to perform a goodwill triggering event assessment, and any resulting test for goodwill impairment, as of the end of the reporting period
- It eliminates the requirement for organizations that elect this alternative to perform the impairment test during the reporting period, but rather limits the testing only to the reporting (i.e., balance sheet) date

ASU 2021-10, *Government Assistance: Disclosures by Business Entities about Government Assistance*

- This ASU is **not** applicable to not-for-profit health care entities, only for-profit business entities
- This ASU is in response to government assistance provided to businesses over the past two years, notable PPP loans and PRF monies
- The new standard requires
  - Information about the nature of the transactions and the related accounting policy used to account for the transactions
  - Line items on the balance sheet and income statement that were affected by the government assistance, and the amount(s) that are applicable to each of the financial statement line items
  - Significant terms and conditions of the transactions, including commitments and contingencies

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

- Not-for-Profits are required to present contributed nonfinancial assets (i.e., PPE) as a separate line item in the statement of activities, separate from contributions of cash or other financial assets
- The update also requires disclosure of the following
  - Contributed nonfinancial assets recognized within the statement of activities disaggregated by category that illustrates the type of contributed nonfinancial assets
  - For each category of contributed nonfinancial assets recognized
    - If any of the contributed nonfinancial assets were monetized or used, additional information on each scenario
    - Valuation techniques used to arrive at a fair value measurement

ASU 2022-03, *Fair Value Measurement: Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*

- This amendment clarifies that a contractual restriction on the sale of an equity security is not considered a part of the unit of account of the equity security
- This means that the contractual restriction is not considered when measuring the equity security's fair value

GASB 94, *Subscription-Based Information Technology Arrangements*

- Provides accounting guidance for subscription-based information technology arrangements (SBITAs)
  - Defined a SBITA as a contract that conveys control of a vendor's IT software, either by itself or in combination with tangible capital assets
  - Requires governments to recognize a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability (of note, there is an exemption for short-term SBITAs, those defined as having a maximum possible term of 12 months or less)

GASB 101, *Compensated Absences*

- The standard aims to align, under a unified model, when a government should appropriately recognize a liability for compensated absences
- There are three primary criteria that should be met to recognize a compensated absence as a liability
  - It is attributable to services already performed,
  - It accumulates, and
  - Is more likely than not to be used for time off or otherwise paid or settled

GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

- The standard removes the ability to capitalize interest cost incurred during the construction period of a capital asset
- It is effective for reporting periods beginning after December 15, 2020
- Interest amounts previously capitalized do not have to be removed

How Can We HELP?

PYA

A national healthcare advisory services firm providing consulting, audit, and tax services