

AUDIT & ACCOUNTING UPDATE

MOVING FORWARD

BKD
CPAs & Advisors



Introduction



Danielle Zimmerman, CPA
Managing Director - Dallas
dzimmerman@bkd.com
972.702.8262



Agenda

- 1 FASB Standards Update**
- 2 Provider Relief Funds – Single Audit**
- 3 GASB Standards Update**
- 4 Questions**



FASB Standards Update

The information contained in these slides is presented by professionals for your information only & is not to be considered as accounting advice. Applying specific information to your situation requires careful consideration of facts & circumstances. Consult your BKD advisor or legal counsel before acting on any matters covered.



BKD
CPAs & Advisors

LEASES (ASU 2016-02, etc.; TOPIC 842)

- A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration





Comparison of Lessee Accounting Models

Financing Lease

Balance sheet

- Right-of-use (ROU) asset
- Lease liability

Income statement

- Interest expense (on lease liability)
- Amortization expense (on ROU asset)

Cash flow

- Cash paid for principal payments (financing activities)
- Cash paid for interest payments & for variable lease payments (operating activities)

Operating Lease

Balance sheet

- Right-of-use (ROU) asset
- Lease liability

Income statement

- Lease/rent expense (straight-line)

Cash flow

- Cash paid for lease payments (generally operating)

Classification is similar to classification in Topic 840

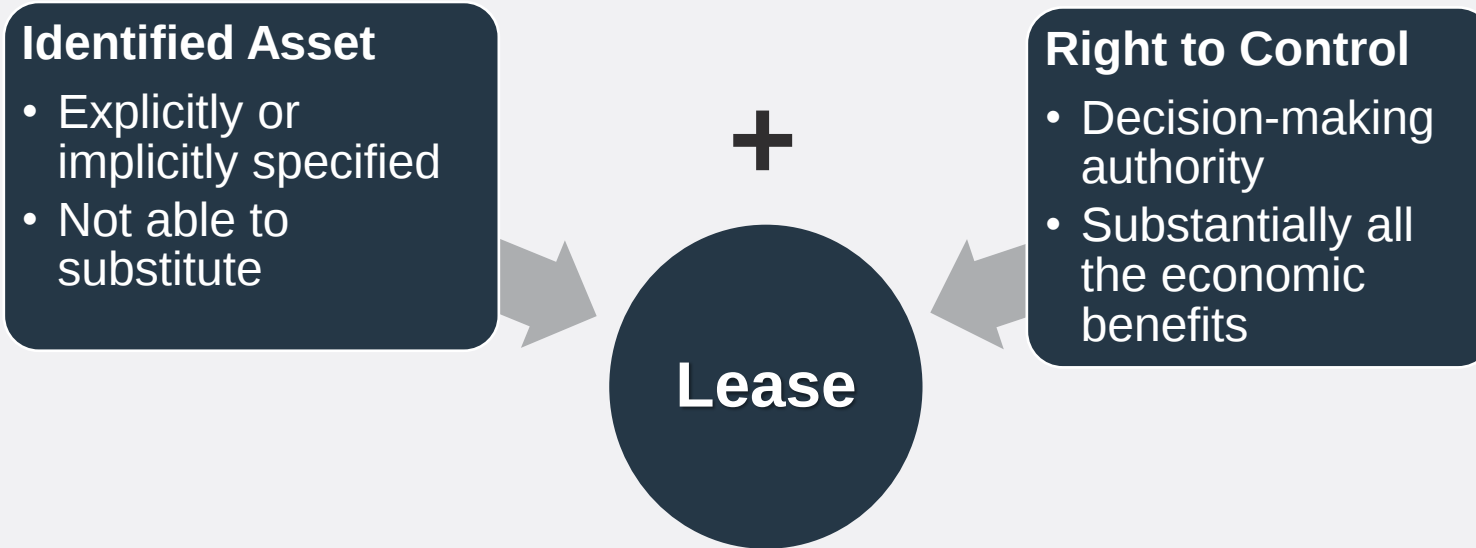
Recognition & measurement exemption or short-term leases

Other than public business entities may use risk-free rates for measurement of all lease liabilities or ASU2021-09



Identifying a lease

(The New Primary Determinant For On/Off Balance Sheet Treatment)



An Identified Asset

A leased asset must be specifically identifiable as either

Explicitly, e.g., by a serial number

Implicitly, e.g., only asset that would satisfy lease contract

- Supplier does not have practical ability to substitute alternative asset, e.g., customer can prevent substitution
- Supplier would not benefit from substituting alternative asset

*A physically distinct portion of a larger asset could represent a specified asset ,e.g., **one floor of a building**. A capacity portion of a larger asset generally is not a specified asset ,e.g., **percentage of a storage tank***

Right to Control the Use of the Asset

A lease contract conveys the right to control the use of the identified asset for a specified period of time. A customer controls an identified asset when the customer has both of the following

1

Right to direct its use

The right to direct how & for what purpose the asset is used, including the right to change how & for what purpose the asset is used

2

Right to obtain substantially all economic benefits from its use

By having exclusive use of the asset throughout the period



Practical Expedients and Accounting Policy Elections

- Expedient package – identification, classification, initial direct costs
- Hindsight
- Land easements
- Prior period presentation
- Separation of lease and non-lease components
- Portfolio approach
- Short-term leases
- Discount rate (non-public business entities only)
- Discount rate relief for NFPs & Private Companies



Contracts With Multiple Components

Lease Component

- A separate ROU for an asset
- Lessee can benefit from the ROU of the underlying asset either on its own or together with other readily available resources. The use is neither highly dependent on nor interrelated with other assets
- Payments accounted for as a separate lease

Nonlease Component

- An activity that transfers a separate good or service to the customer, e.g., supplies/disposables
- **Includes maintenance services**
- Allocated payments are nonlease period expense

Not a Separate Component

- Related to administrative tasks to initiate the lease & payment of lessor costs that do not transfer a separate good or service separate from the ROU asset
- **Includes payments for insurance or property taxes**
- Payments are part of lease payment, not separately allocated



Finance Lease (Similar To Capital Lease)

1

Ownership of asset transfers to lessee by end of lease term

2

Lessee has purchase option that it is reasonably certain to be exercised

3

Lease term is for major part of economic life of asset (n/a for leases that commence “at or near the end” of the underlying asset’s economic life, e.g., in the final 25 percent of an asset’s economic life)

4

PV of minimum lease payments amounts to at least substantially all of fair value of leased asset

5

NEW: 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



Transition & Effective Date

Transition

Effective Date

Public Entities:

- Years beginning after 12/15/2019

Nonpublic Entities:

- Years beginning after 12/15/2021

COVID 19 Relief:

- June ASU 2020-05 issued to provide an additional year to implement

Lease Accounting

FY 20X1

(comparative period)

FY 20X2

(year of initial adoption)

Original Transition method provided in Update 2016-02

842

842

Cumulative-Effect Adj. 7/1/X0

Additional Transition method provided in Update 2018-11

840

842

Cumulative-Effect Adj. 7/1/X1



Goodwill and Intangibles for NFPs

(ASU 2019-06)

- Extends Private Company Alternatives here to NFPs, as a package:
 - Amortize Goodwill over 10 years (or less)
 - Subsume certain Customer Related Intangibles, all Noncompete Agreements into Goodwill & amortize
 - Test Goodwill for impairment upon triggering event, instead of annually
 - Option to do impairment test at entity level, instead of reporting unit level
- Similar open-ended effective date as private companies – one-time ability to elect without having to demonstrate preferability.



Cloud Computing Arrangements

(ASU 2018-15)

Why? To address the diversity in practice

Implementation costs of CCAs that are service contracts are to be accounted for in accordance with the guidance in Subtopic 350-40: most would be capitalized

Amortization period of costs are the term of the arrangement including periods covered by renewal options of the CCA that are reasonably certain to be exercised

Amortization of costs are to be recorded in same line item on income (activities) statement as fees for the CCA

Results in consistent capitalization of implementation costs across CCAs with & without a license as well as internal-use software.



Cloud Computing Arrangements

Require existing disclosures in paragraph 350-40-50-1 for implementation costs of a hosting arrangement that is a service contract, supplemented with description of hosting arrangement

Transition Method Options

- * Prospectively to arrangements entered into, renewed or materially modified after effective date
- * Retrospectively

Effective Date: periods beginning after December 15, 2020; early adoption permitted

REFERENCE RATE REFORM (ASU 2020- 04)

TWO AREAS OF FOCUS

**Contract
Modifications**

**Hedge
Accounting**

Current Accounting

High volume
modifications results in
burdensome
accounting evaluations

Hedge accounting
discontinued when
contracts are modified

Hedge accounting
discontinued if
hedging relationships
are not highly effective
during the temporary
transition period

Optional Relief

Simplified accounting
evaluations scaled for high
volume of modifications

Hedge accounting
preserved when contracts
are modified

Hedge accounting
preserved during the
temporary transition period,
with any hedge
breakage/ineffectiveness
visible in the financial
statements

ASU 2020-04 is effective for all entities as of March 12, 2020,
through December 31, 2022.



Disclosure Framework—Fair Value Measurement

(Topic 820)

Removals

- Amount of and reasons for transfers between Level 1 and Level 2
- Policy for timing of transfers between levels
- Valuation processes for Level 3
- **Nonpublic Entities Only:** Unrealized gains and losses in earnings for Level 3 held at period end

Modifications

- Net asset value disclosure
- Measurement uncertainty disclosure
- **Nonpublic Entities Only:** Transfers, purchases and issues into or out of Level 3 in lieu of a rollforward

Additions

- Unrealized gains and losses in other comprehensive income for Level 3 held at period end (public entities only)
- Range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements (public entities only)

ASU 2018-13 is effective for all entities for fiscal years, beginning after December 31, 2019. Can early adopt removals and modifications without having to early adopt additions.

Provider Relief Funds GAAP & Single Audit Considerations





Reporting Requirements

	Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received)	Deadline to Use Funds	Reporting Time Period
Period 1	April 10, 2020 – June 30, 2020	June 30, 2021	July 1, 2021 – September 30, 2021
Period 2	July 1, 2020 – December 31, 2020	December 31, 2021	January 1, 2022 – March 31, 2022
Period 3	January 1, 2021 – June 30, 2021	June 30, 2022	July 1, 2022 – September 30, 2022
Period 4	July 1, 2021 – December 31, 2021	December 31, 2022	January 1, 2023 – March 31, 2023

Everyone needs a trusted advisor.
Who's yours?

BKD



Uniform Guidance – Single Audit

- Items typically requested by auditors performing Single Audit
 - Schedule of Expenditures of Federal Awards (SEFA)
 - › Reconcile Amounts to General Ledger
 - Copies of Attestations and Portal Submissions
 - › Expense Inclusion will Present Additional Data Needs
 - Internal Control Narratives/Policies and Procedures – PRF and Balance Billing
 - Patient Detail Listing for Presumptive and Actual COVID Diagnoses Indicating In or Out of Network
 - Detail List by Patient of All Reimbursement from Uninsured Patient program



Single Audit Considerations

- First time PRFs will be on SEFA for FYE June 30, 2021

June 30, 2021 - December 30, 2021

SEFA total expenditures
and/or lost revenues from
Period 1

December 31, 2021 - June 29, 2022

SEFA total expenditures
and/or lost revenues and
Period 1 and Period 2

June 30, 2022 & Beyond

Guidance will be provided
later

- “In-relation-to” financial statements will be off due to different measurement periods

Everyone needs a trusted advisor.
Who's yours?

BKD



2021 Compliance Supplement

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Program Number 93.498	Y	Y	N	N	N	N	N	N	N	Y	N	Y



Everyone needs a trusted advisor.
Who's yours?

BKD



Single Audit Considerations

➤ 2021 Compliance Supplement – Special Tests & Provisions

N. Special Tests and Provisions

1. Out-of-Network Patient Out-of-Pocket Expenses

Compliance Requirements Under the terms and conditions of the award, the recipient certifies that it will not seek to collect from the patient out-of-pocket expenses in an amount greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider, for patients with presumptive or actual case of COVID-19 from January 31, 2020 through the end of the Public Health Emergency.

Audit Objectives Determine whether provider billed out-of-network patients with a presumptive or actual case of COVID-19, for out-of-pocket expenses in an amount greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider.



OIG/HRSA Audit

- Ongoing audit testing from federal oversight and granting agencies should be expected
- Maintaining all documentation regarding federal funds is necessary
- Document...document...document...

GASB Standards Update

The information contained in these slides is presented by professionals for your information only & is not to be considered as accounting advice. Applying specific information to your situation requires careful consideration of facts & circumstances. Consult your BKD advisor or legal counsel before acting on any matters covered.



BKD
CPAs & Advisors



GASB 87, Leases

- Effective for fiscal years beginning after June 15, 2021
- Definition of a Lease – Key Terms
 - Contract
 - › Legal enforceability
 - › May not be written
 - Control of the right to use
 - › Not the asset itself
 - › Not all benefits & burdens of ownership are transferred

Contracts that transfer ownership should be reported as a financed purchase/sale of the underlying asset. Those contracts are not leases – asset vs. right to use the asset.



GASB 87, Leases

- Leases are financings
- Exceptions
 - Short-term leases
 - Contracts that transfer ownership
- At commencement of lease term, lessee recognizes lease liability and right-to-use asset
- During the lease term, lessee recognizes interest expense and amortization expense



GASB 87, Leases - Lessors

- Financed giving up of the right to use an asset
- Lease receivable
- Deferred inflow of resources
- Lease revenue & interest revenue
- No derecognition of underlying asset



GASB vs. FASB – Key Differences

Topic	GASB Statement 87	FASB Topic 842
Definition	Exchange or exchange-like transaction	In exchange for consideration
Lease classification	No classification	Classify as operating or financing
Multiple components	Must separate – best estimate	Policy election not to separate
Initial direct costs –lessee	Expense or capitalize consistent with capital assets & debt issuance	Capitalize
Initial direct costs – lessor	Expense when incurred	Expense or capitalize, depending on type of lease



GASB vs. FASB – Key Differences

Topic	GASB Statement 87	FASB Topic 842
Lessor model	Substantial changes	Not substantially changed
Short-term leases	Required exception if meets definition	Policy election
Short-term lease definition	Maximum possible term of 12 months	Lease term of 12 months
Sale-leaseback gain/loss	Deferred over term of lease	Recognized immediately
Related-party leases	Economic substance rather than form	Legally enforceable rights & obligations



What other key GASB standards?

- GASB No. 93, Replacement of Interbank Offered Rates
 - Effective for periods ending after December 31, 2021
 - Preserve the consistency and comparability of reporting hedging derivative instruments and leases after governments amend or replace agreements to replace LIBOR



What other key GASB standards?

➤ GASB No. 96, Subscription-Based Information Technology Arrangements

- Prior to the release of this guidance, there was no authoritative governmental accounting literature for these significant investments. Governments analogized to other guidance that—not surprisingly—has given rise to diversity in practice for recognizing and reporting these substantial costs.
- There are multiple types of arrangements available—software as a service, infrastructure as a service, and platform as a service. To capture this variety of products and services, GASB has chosen the term subscription-based information technology arrangements (SBITA). The standard defines a SBITA, establishes that a SBITA would result in a right-to-use (RTU) asset and a corresponding liability, provides capitalization criteria, and requires new note disclosures. Effective for periods beginning after June 15, 2022
- The statement's language and concepts closely mirror the lease guidance provided in Statement 87, Leases.



SAS 134 – 140 Changes

- The AICPA issued several new SASs, with the primary impacts as follows:
- The form and content of the auditor's report has changed (*SAS Nos. 134 and 136-140*)
 - Engagement teams are required to evaluate related parties (and transactions) in more detail, with a stronger focus being placed on understanding the business purpose of the transaction being with a related party versus an unrelated party (*SAS No. 135*)
 - Additional communications with the governance committee regarding our views on related-party matters and transactions that are "significant unusual transactions" (*SAS No. 135*)

Questions?



BKD
CPAs & Advisors

Thank You!

bkd.com/hc | [@BKDHCH](https://twitter.com/BKDHCH)



BKD
CPAs & Advisors