Accounting and financial reporting update

HFMA Meeting

- September 30, 2021

Topics for discussion

Relevant accounting pronouncements

- Leases (ASC 842): Codification Improvements
- ASU 2018-15: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement
- ASU 2018-17: Targeted improvements to Related Party Guidance for Variable Interest Entities
- ASU 2020-07: Presentation and disclosures by NFPs for Contributed Non-Financial Assets
- ASU 2021-03: Intangibles – goodwill and Other (Topic 350)

Single Audit Update

Leases (ASC 842): Codification Improvements

ASU 2020-05: Effective Dates for Certain Entities

On June 3, 2020, the FASB issued ASU 2020-05 as a limited deferral of the effective dates of the Revenue and Leases standards (including amendments issued after the issuance of the original standards). The following table shows the leasing standard's effective dates:

	Public Entities	Public NFP Entities	All Other Entities
As originally issued (ASU 2016-02)	Fiscal years beginning after December 15, 2018, and interim periods therein	Fiscal years beginning after December 15, 2018, and interim periods therein	Fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020
As amended by ASU 2019-10	No changes	No changes	Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021
As amended by ASU 2020-05	No changes	Fiscal years beginning after December 15, 2019, and interim periods therein	Fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022

Disclosure requirements

ASC 842 introduces significant new quantitative disclosures for lessees, including:

- Lease Costs
- Weighted averages
- Maturity analysis
- Cash flow information

Cash Flow Information

- Requirements:
  - — Cash paid from operating leases and finance leases, separately
  - — Noncash information on lease liabilities arising from obtaining right-of-use-assets

Other information		
(Gains) and losses on sale and leaseback transactions, net	$(XXX)	$XXX
Cash paid for amounts included in the measurement of lease liabilities	XXX	XXX
Operating cash flows from finance leases	XXX	XXX
Operating cash flows from operating leases	XXX	XXX
Financing cash flows from finance leases	XXX	XXX
Right-of-use assets obtained in exchange for new finance lease liabilities	XXX	XXX
Right-of-use assets obtained in exchange for new operating lease liabilities	XXX	XXX

Lessons learned from public companies – subsequent accounting

Lease population maintenance

– **Establish a process for ensuring lease population remains current (complete and accurate)**

Lease modifications and remeasurements

– **Changes in term and payments**

Lease terminations and expiry

Impairments and abandonments

ASU 2018-15

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement

Effective Date and Transition

	Effective date
Public companies – **Annual and interim** reporting periods for fiscal years beginning after	December 15, 2019
All other companies – **Annual** reporting periods for fiscal years beginning after	December 15, 2020
All other companies – **Interim** reporting periods for fiscal years beginning after	December 15, 2021
Early adoption allowed, including interim periods?	Yes.

Transition	
Prospective transition	All CCA implementation costs for activities performed on or after the effective date, including costs for (1) new CCAs entered into on or after the effective date and (2) existing CCAs entered into before the effective date; **or**
Retrospective transition	Apply the ASU as if it had always been US GAAP (including in comparative periods).

Polling question 1

Did you early adopt ASU 2018-15?

A. Yes
B. No

FASB update

Implementation costs incurred in cloud computing arrangements (CCA)	• The FASB issued ASU 2018-15 based on a consensus of the FASB's Emerging Issues Task Force (EITF). • The ASU requires implementation costs incurred by customers in cloud computing arrangements (CCAs) to be deferred and recognized over the term of the arrangement, if: • those costs would be capitalized by the customer in a software licensing arrangement under the internal-use software guidance in ASC 350-40.

The new deferred implementation cost assets would affect companies' financial ratios and deferred tax accounting.

Scope of ASU 2018-15

What is a cloud computing arrangement (CCA)?

- A hosting arrangement* that does <u>not</u> 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 <u>do</u> transfer a license to the hosted software to the customer).

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

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**

Key changes

	Current guidance	ASU 2018-15
Accounting for CCAs	The CCA is accounted for as a service arrangement; no software license is conveyed to the customer.	No change.
Implementation costs	Most implementation costs are expensed as the related implementation activities are performed.	Implementation costs should be deferred if those same costs would be capitalized by the customer if incurred in a software licensing arrangement.

The ASU requires companies to defer potentially significant, specified implementation costs that are often expensed as incurred under current GAAP.

Costs incurred to implement a CCA

- Costs to implement a CCA will be (1) deferred or (2) expensed as incurred in accordance with the guidance for the capitalization or expensing of such costs under existing internal-use software guidance.
- Not all implementation costs will be deferred under the ASU
- Companies will need to allocate costs between deferrable and non-deferrable implementation activities on a relative fair value basis.
- The EITF decided that implementation costs did not need to be defined since internal use software guidance already provided sufficient guidance.

Customer’s accounting for implementation costs incurred in a cloud computing arrangement (continued)

Example implementation activities and general treatment of their costs when incurred

Activity	ASU 2018-15	Pre-ASU 2018-15
Interfacing (customer’s environment)	Defer	Defer
Interfacing (provider’s environment)	Defer	Expense
Configuration	Defer	Expense
Testing	Defer	Expense
Customization of the hosted software	Defer	Expense
Training	Expense	Expense
Data conversion/migration	Expense	Expense
Business process reengineering	Expense	Expense

Customer’s accounting for implementation costs incurred in a cloud computing arrangement (continued)

Determining the recognition period

Recognition period = the *term of the hosting arrangement*

Non-cancellable period	Periods for which the customer has an option to extend (or not to terminate)	Periods for which the vendor has option to extend
Include	Include if the customer is ‘reasonably certain’ to extend*	Include

“Periodically reassess” the recognition period

* ‘Reasonably certain’ assessed consistent with new leases guidance

Presentation & disclosures

Financial statement presentation	
Balance sheet:	Include deferred costs in same line item would present prepayment of fees for the CCA.
Income statement:	Include over-time expense in same line item as the CCA fees paid to the cloud service provider
Cash flow statement:	Cash payments 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

ASU 2018-17:

Targeted improvements to Related Party Guidance for Variable Interest Entities

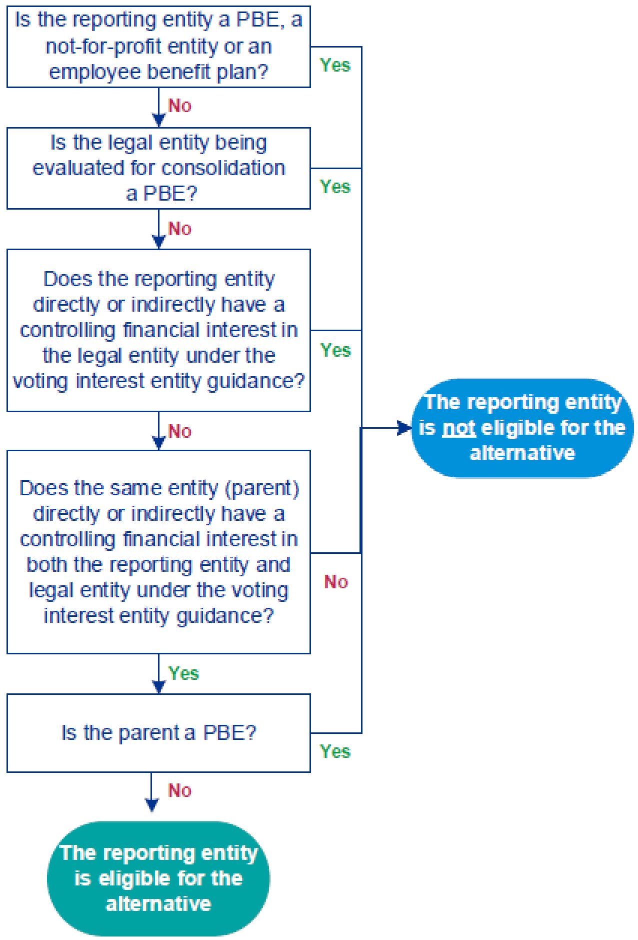
Targeted improvements to related-party guidance for VIEs

Original <u>proposal</u> - Private company accounting alternative	— New private company accounting alternative that would exempt private companies from applying the VIE consolidation guidance to interests in other private companies that are under common control - The reporting entity, common control parent, and the legal entity being evaluated for consolidation cannot be public business entities - The alternative would be an accounting policy election and require enhanced disclosures
Other <u>proposed</u> changes	— Align the evaluation of whether a decision maker's fee is a variable interest with the guidance in the primary beneficiary test — Remove the related-party tie-breaker test — Amend the consolidation guidance for situations in which a related-party group has the characteristics of a controlling financial interest but no reporting entity within the group individually has a controlling financial interest

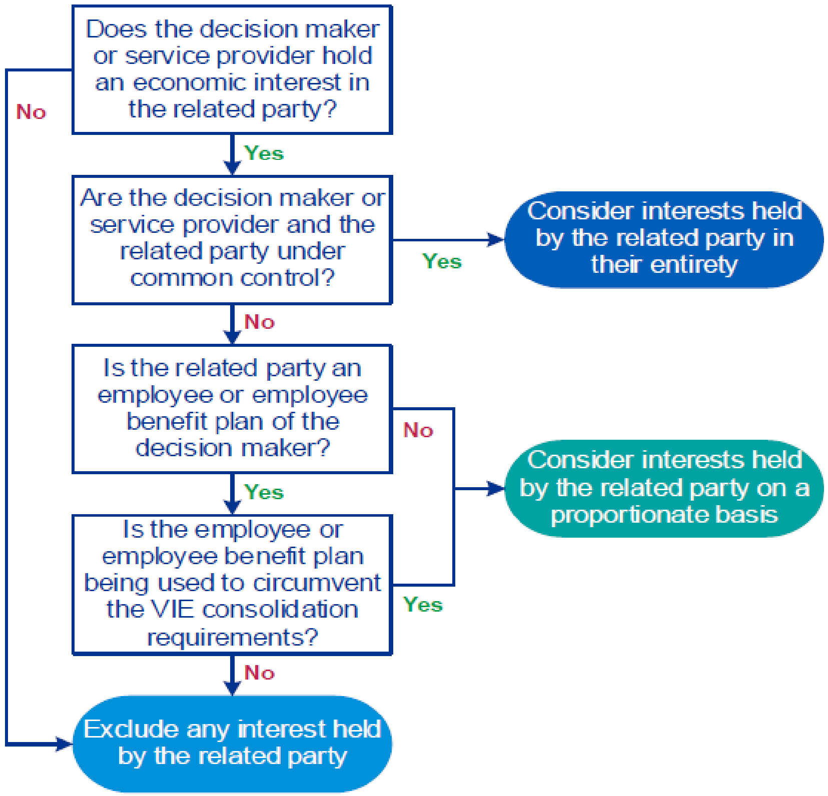
ASU 2018-17: Private Company Accounting Alternative

ASU 2018-17	***Private Company Accounting Alternative*** — Allows a private company (reporting entity) to elect an accounting alternative through an accounting policy election to not apply variable interest entity (VIE) guidance to legal entities under common control if both the parent and the legal entity being evaluated for consolidation are not public business entities. If elected, a private company should: 1. Apply the accounting alternative to all current and future legal entities under common control that meet the criteria for applying this alternative 2. Continue to apply other consolidation guidance, particularly the voting interest entity guidance, unless another scope exception applies 3. Provide detailed disclosures about its involvement with and exposure to the legal entity under common control. The Board clarified that a private company reporting entity cannot apply the private company accounting alternative to a legal entity in which it has a direct or indirect controlling financial interest when considering the voting model.

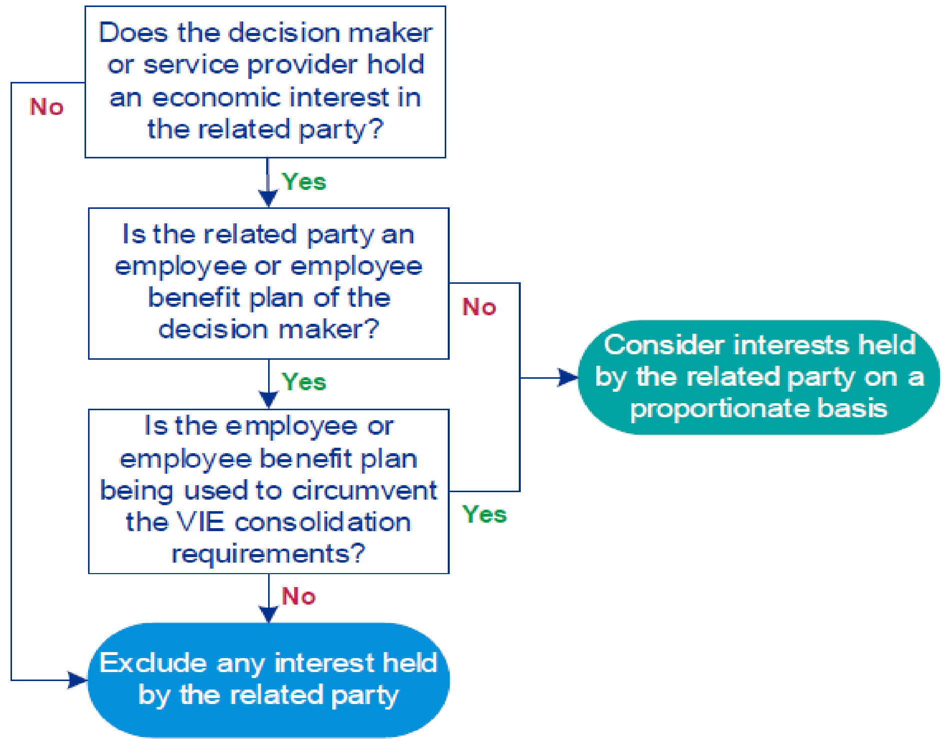
Private Company Accounting Alternative - Flowchart



Decision Maker fees: Interests Held Through Related Parties That Are Under Common Control – Pre ASU 2017-18



Decision Maker fees: Interests Held Through Related Parties That Are Under Common Control – Amended by ASU 2017-18



Targeted improvements to related-party guidance for VIEs (continued)

ASC 810 not amended for the following:	***VIE Related Party Guidance*** — The Board decided to **<u>not</u>** make any amendments to the VIE related party guidance for determining the primary beneficiary of a VIE (related party tie-breaker test).

The Board added a project to its research agenda to determine whether any amendments to the VIE related party guidance may be required after implementation of the private company accounting alternative and the amendments to the decision-making fee guidance.

ASU 2020-07:

Presentation and disclosures by NFPs for Contributed Non-Financial Assets

Topic 958, Not-for-profit entities

Scope and key impacts

Scope

- All contributed nonfinancial assets, including fixed assets, use of facilities or utilities, materials and supplies, intangible assets and services.
- Does not include contributed securities and other financial assets.

Key impacts

- Enhances presentation and disclosure of contributed nonfinancial assets.
- Does not change recognition and measurement.

Presentation and disclosure requirements

- Contributed nonfinancial assets are presented in a separate line item in the statement of activities (i.e. apart from contributions of cash and other financial assets).
- The amount of these contributions is disaggregated by type in the notes.
- For each type, the following is disclosed:
  - qualitative information about whether the contributions were either monetized or used during the reporting period;
  - description of the programs or other activities in which the contributions were used, if applicable;
  - policy (if any) about monetizing contributed nonfinancial assets;
  - donor-imposed restrictions (if any);
  - valuation techniques and inputs used in the fair value measurement at initial recognition; and
  - the principal (or most advantageous) market used in the fair value measurement if it is a market in which the NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial asset.

Effective date and transition

Effective date

- Annual periods – fiscal years beginning after June 15, 2021 (FY2022 for June year ends; CY 2022 for December year ends)
- Interim periods - fiscal years beginning after June 15, 2022
- Early adoption is permitted.

Transition

- Retrospective application is required.

Polling question 2

When will your entity adopt ASU 2020-07:

A. Early adopt
B. At the effective date
C. Not applicable, no contributed nonfinancial assets

ASU 2021-03:

Intangibles – goodwill and Other (Topic 350)

Accounting alternative for evaluating triggering events

ASU 2021-03: Intangibles—Goodwill and Other — Accounting Alternative for Evaluating Triggering Events

- Project Objectives:
- Provides an accounting alternative for private companies and not-for-profit entities (NFPs) to assess goodwill impairment triggering events only at reporting dates (interim or annual).
- Background:
- The FASB added the accounting alternative to address private companies' concerns about the challenges of evaluating triggering events between reporting dates.
  - Received stakeholder feedback that many private companies and NFPs find it challenging to identify and evaluate triggering events and/or perform impairment tests between reporting dates.
  - Stakeholders noted most private companies and NFPs perform the goodwill triggering event analysis as part of their annual financial reporting process, which can make it more challenging to retrospectively evaluate triggering events that occur earlier in the year.
- This issue has become more apparent during the COVID-19 pandemic because of the economic uncertainty and the significant changes in facts and circumstances throughout calendar year 2020

Polling question 3

Does your entity have any goodwill:

A. Yes
B. No

ASU 2021-03: Intangibles—Goodwill and Other — Accounting Alternative for Evaluating Triggering Events

- Key Impacts:
  - Provides eligible private companies and NFPs the ability to a perform a goodwill triggering event assessment on as of their financial reporting date (interim or annual) instead of throughout the reporting period.
  - Does not require an entity to elect the goodwill amortization accounting alternative to qualify for this accounting alternative.
  - Allows adoption through an unconditional one-time election after the effective date without the requirement to assess the preferability of the change.
  - Requires entities that elect the alternative, but later become ineligible (e.g. after an IPO), to reverse the effects of the accounting alternative. The consequences may include assessing triggering events during interim periods, without using hindsight, to determine if goodwill was impaired.
  - Does not affect triggering events for impairment of other assets (e.g. long-lived assets).

ASU 2021-03: Intangibles—Goodwill and Other — Accounting Alternative for Evaluating Triggering Events

- Effective date and transition:
  - Effective on a prospective basis for fiscal years beginning after December 15, 2019
  - Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021.

Single Audit Update

2020 Uniform guidance revision

- The Uniform Guidance (UG) was revised in August 2020 through issuance of a Federal Register notice, *Guidance for Grants and Agreements.*
- FAQs were issued to address revised UG.
- Federal agencies need to adopt the updated regulations in their individual agency regulations.
- Appendix II of the 2021 Compliance Supplement has a chart of status of adoption by agency

Effective on November 12, 2020, if agency has adopted prior to that date

- Revised UG will generally apply to new awards after the adoption date
- The revised UG requirements may be imposed on existing federal awards or incremental funding
- Recipients must update their internal policies to reflect the revised UG requirements

There is no provision for entity-wide adoption as of the effective date

Revised UG- Key changes

- Procurement thresholds are now tied to the FAR
  - Micro-purchase threshold increased from $3,500 to $10,000
    - May request a threshold higher than $10,000
  - Simplified acquisition threshold increased from $150,000 to $250,000
- Requirements for pass-through entities (PTEs)
  - PTEs are responsible for addressing only a subrecipients audit findings that are specifically related to their subaward(s)
  - PTEs are to use the subrecipient’s NICRA (negotiated indirect cost rate agreement)
    - If no approved rate exists, the rate used is either the de minimis indirect cost rate or another rate negotiated between the PTE and the subrecipient
    - The PTE must not require use of a de minimis indirect cost rate if the subrecipient has a Federally approved rate
- Indirect costs
  - Expanded use of the de minimis method
  - No documentation is required to justify the 10% de minimis rate indirect cost rate

Provider Relief Fund (PRF) – 93.498

- PRF is considered a “higher risk” program for 2021 in the 2021 Compliance Supplement
- PRF reported on the Schedule of Expenditures of Federal Awards (SEFA) is tied to the amounts reported in the PRF Reporting Portal.

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

- Reporting to the PRF Reporting Portal is based on the payment received period (no early reporting allowed).

Provider Relief Fund (PRF) – 93.498 (continued)

- September 10, 2021 HHS Press Release:
  - HHS announced a final **60-day grace period** to help providers come into compliance with their PRF Reporting requirements if they fail to meet the deadline on September 30, 2021, for the first PRF Reporting Time Period. While the deadlines to use funds and the Reporting Time Period will not change, HHS will not initiate collection activities or similar enforcement actions for noncompliant providers during this grace period

This extension will delay the commencement date of the Single Audit.

Polling question 4

Regarding the PRF Portal reporting for Period 1, will you:

A. File the report by 9/30/21
B. Use the 60-day extension
C. Not applicable, no report required

Coronavirus Relief Fund (CRF) – 21.019

- CRF is considered a “higher risk” program for 2021 in the 2021 Compliance Supplement
- Uniform Guidance cost principles do not apply to CRF
  - Use Treasury’s guidance for testing the allowability of costs requirement
- Pass-through entity agreements with “subrecipients”
  - If you are not a direct recipient, you may need clarification from the pass-through entity as to whether you are a subrecipient or a beneficiary
  - Funds received as a beneficiary are not reported on the SEFA

HRSA COVID-19 Uninsured Program– 93.461

- 93.461 is considered a “higher risk” program for 2021 in the 2021 Compliance Supplement
- The program is for Health care providers who have conducted COVID-19 testing or provided treatment for uninsured individuals with a COVID-19 diagnosis on or after February 4, 2020, or administered FDA authorized or FDA-licensed COVID-19 vaccines on or after December 14, 2020, can electronically request claims reimbursement through the program and will be reimbursed generally at Medicare rates, subject to available funding.
- This funding can be challenging to identify as it is often administered by individuals in the entity’s billing department and accounted for within fee-for-service revenue.

Single audit extension

<u>OMB Memo 21-20</u>
Provides six-month extension for audits not submitted on March 19, 2021 through June 30, 2021 year-ends

Fiscal year end	Normal due date	Extended due date
June 30, 2020	March 31, 2021	September 30, 2021
September 30, 2020	June 30, 2021	December 31, 2021
December 31, 2020	September 30, 2021	March 31, 2022
March 31, 2021	December 31, 2021	June 30, 2022
June 30, 2021	March 31, 2022	September 30, 2022

Thank you