

Presented by Cerini & Associates, LLP



### ACCOUNTING CHANGES TO BE DISCUSSED

- COVID-19 Funding
- SAS Nos. 142 through 148
- ASU 2016-02, Leases, Topic 842
- ASU 2023-01, Leases, Topic 842: Common Control Arrangements
- ASU 2017-04, Intangibles Goodwill and Other: Simplifying the Test for Goodwill Impairment
- ASU 2016-13, Financial Instruments Credit Losses: Measurement of Credit Losses on Financial Instruments (and subsequent amendments).
- ASU 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans
- ASU 2022-06, Reference Rate Reform, Topic 848: Deferral of the Sunset Date of Topic 848
- ASU 2022-04, Liabilities Supplier Finance Programs, Subtopic 450-50: Disclosures of Supplier Finance Program Obligations



### **COVID-19 FUNDING**

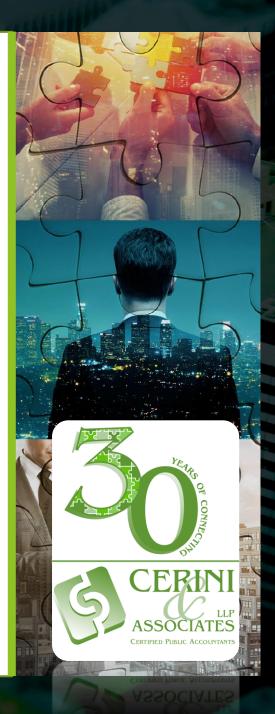
Funding and Spending as of January 31, 2023 per U.S. Government Accountability Office (GAO) Report

#### Fast Facts:

- The federal government has provided about \$4.6 trillion to help the nation respond to and recover from the COVID-19 pandemic, via six COVID-19 relief laws enacted in 2020 and 2021.
- As of January 31, 2023, \$90.5 billion in funding is available—i.e., it is unobligated and unexpired.

#### Highlights:

- Tracking federal spending is complex—especially at this unprecedented magnitude. As part of its ongoing and comprehensive review of the federal pandemic response, GAO oversees and regularly reports on this spending.
- As of January 31, 2023, the most recent date for which government-wide information was available, the federal government obligated a total of \$4.5 trillion and expended \$4.2 trillion of these relief funds as reported by federal agencies to the Department of the Treasury in accordance with Office of Management and Budget guidance.
- As of January 31, 2023, \$90.5 billion of funding provided for COVID-19 relief remained available for obligation. Additionally, \$23.7 billion was expired, meaning that this amount was not available for incurring new obligations but was available for recording eligible obligation adjustments.

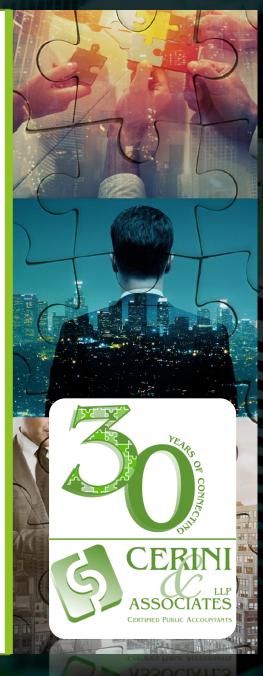


### **COVID-19 FUNDING**

#### PROVIDER RELIEF FUNDS (PRF)

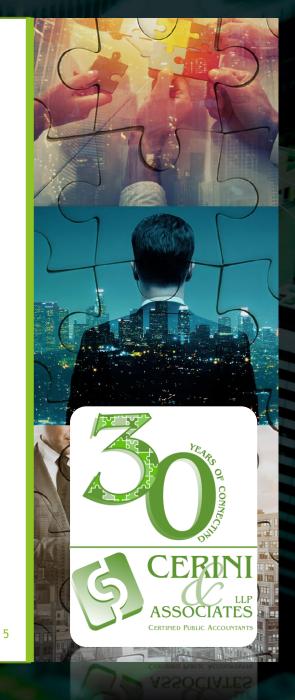
- US Department of Health and Human Services ("HHS") funding made available to healthcare providers who bill Medicaid and Medicare.
- Funding to be used for health-care related expenditures or to offset lost revenues due to the COVID-19 pandemic.
- Funding is administered by the Health Resources & Services Administration ("HRSA").
- Uniform Guidance audit requirement exists for recipients who spent more than \$750,000 in a reporting period.
- Reporting is based on the dates provided in the table listed below.

Period	Payment Received	Period of Availability	Period of Availability	Reporting Time
	Period	for Eligible Expenses	for Lost Revenues	Period
1	April 10, 2020, to	January 1, 2020, to	January 1, 2020, to	July 1, 2021, to
	June 30, 2020	June 30, 2021	June 30, 2021	September 30, 2021
2	July 1, 2020, to	January 1, 2020, to	January 1, 2020, to	January 1, 2022, to
	December 31, 2020	December 31, 2021	December 31, 2021	March 31, 2022
3	January 1, 2021, to	January 1, 2020, to	January 1, 2020, to	July 1, 2022, to
	June 30, 2021	June 30, 2022	June 30, 2022	September 30, 2022
4	July 1, 2021, to	January 1, 2020, to	January 1, 2020, to	January 1, 2023, to
	December 31, 2021	December 31, 2022	December 31, 2022	March 31, 2023
5	January 1, 2022, to	January 1, 2020, to	January 1, 2020, to	July 1, 2023, to
	June 30, 2022	June 30, 2023	June 30, 2023	September 30, 2023
6	July 1, 2022, to	January 1, 2020, to	January 1, 2020, to	January 1, 2024, to
	December 31, 2022	December 31, 2023	June 30, 2023	March 31, 2024
7	January 1, 2023, to	January 1, 2020, to	January 1, 2020, to	July 1, 2024, to
	June 30, 2023	June 30, 2024	June 30, 2023	September 30, 2024
8	July 1, 2023, to	January 1, 2020, to	January 1, 2020, to	January 1, 2025, to
	December 31, 2023	December 31, 2024	June 30, 2023	March 31, 2025
9	January 1, 2024, to	January 1, 2020, to	January 1, 2020, to	July 1, 2025, to
	June 30, 2024	June 30, 2025	June 30, 2023	September 30, 2025

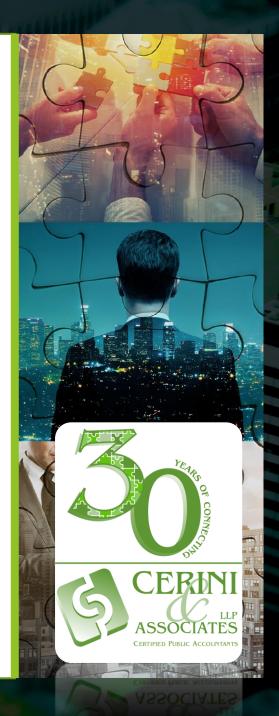


#### **STATEMENTS ON AUDITING STANDARDS ("SAS") 142 to 148**

- SAS 142 effective beginning with 2022 calendar year-ends. SAS 143-145 effective beginning with 2023 calendar year-ends. SAS 146 effective with 2025 calendar year-ends. SAS 147 effective with 2023 fiscal year-ends. SAS 148 is effective in part for 2022 calendar year-ends and in part for 2023 calendar year-ends.
- No significant outward changes to reporting. The changes are more behind the scenes, to audit procedures.
- Enhanced focus on audit risk
  - Understanding and identifying significant auditing risks
  - Evaluating risk at each assertion level
  - Increased focus on accounting estimates
    - Use of specialists and related evaluation of information obtained from specialists
- Greater emphasis on audit evidence, especially with respect to use of technology
- The need to assess the IT control environment
- Revised requirements relating to audit documentation
- Increased professional auditor skepticism
- More internal monitoring/self assessment



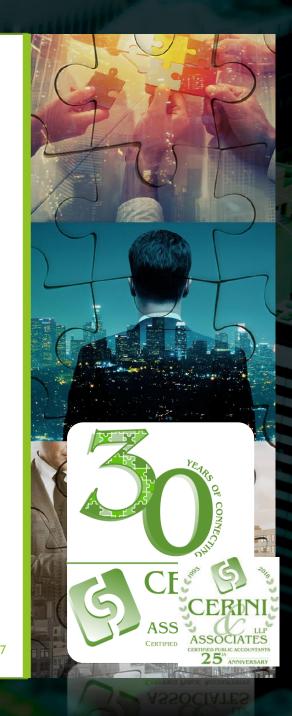
- In February 2016, the FASB issued ASU 2016-02 (ASC Topic 842). ASC Topic 842 supersedes lease accounting standards under ASC Topic 840. Topic 842 focuses on increasing transparency and comparability to provide financial statement users with more information about an entity's leasing activities and to eliminate "off-balance sheet" accounting.
- Per ASU 2020-05, non-public entities (including nonprofits) could delay implementation to calendar 2022 year-end, or 2023 fiscal year-end.
- Early adoption was permitted.
- A contract is (or contains) a lease when two criteria are met:
  - 1. The contract explicitly or implicitly specifies the use of an identifiable asset, and
  - 2. The customer controls the use of the asset for that period of use.
- Comparative statements must be restated using a modified retrospective transition method.
- ASC Topic 842 applies to substantially all leases, but there is still a distinction between operating leases and finance (capital) leases because different recognition and presentation is required on the statements of activities and cash flows.



#### **Accounting for Lessees**

#### Leases on the Statement of Financial Position

- Lessees will recognize all leases, including operating leases, with a term greater than twelve months on the statement of financial position with a rightof-use (ROU) asset and corresponding lease liability.
- This will affect key statement of financial position measures and ratios which could affect compliance with contractual covenants.
- At lease commencement, the lessee will determine if a lease is either a finance lease or an operating lease based on the five criteria:
  - Ownership transfers,
  - Purchase option,
  - Lease term is the major part of the asset's remaining economic life,
  - > Present value of lease payments equals or exceeds the fair value of the asset, and
  - Asset has a specialized nature that has no alternative use.



#### **Accounting for Lessees**

Lease Liability Initial and Subsequent Measurement

Lease Liability

Pre

Present Value of Unpaid Lease Payments

Lease payments exclude variable or contingent payments and must be discounted at the rate implicit in the lease, if available. Lessees may determine a single discount rate for a portfolio of similar type leases. Lessees may also elect an accounting policy to use a risk-free discount rate for all leases or by class of underlying asset, rather than at the entity level.

#### **ROU Asset Initial Measurement**



ASC Topic 842 has a narrow definition of initial direct costs and only includes those costs that are directly attributable to obtaining the lease and would not have otherwise been incurred. Some origination costs incurred in negotiating and arranging a lease that are capitalized under current standards will now be expensed, such as fixed employee salaries, cost of advertising leases, and unsuccessful origination efforts.

#### **Accounting for Lessees**

**ROU Asset Subsequent Measurement** 

**Finance Lease** 

**ROU** Asset

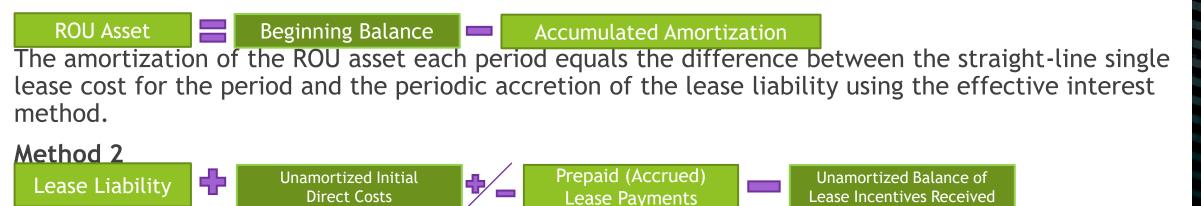
Beginning Balance

Accumulated Amortization

The ROU asset is amortized on the straight-line basis over the lease term.

#### **Operating Lease**

Method 1



The carrying amount of the ROU asset is derived from the carrying amount of the lease liability at the end of each reporting period. This is inherently a manual process.

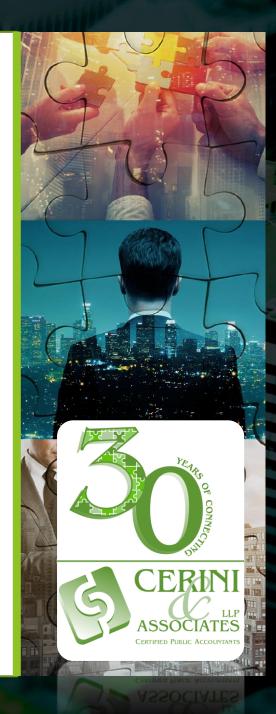
#### **Accounting for Lessees**

#### **Other Key Considerations**

- Lease and non-lease components:
  - Non-lease components such as consumables, service costs, and maintenance should be accounted for separately from the lease unless the lessee elects to account for non-lease components as part of the lease to which they relate.

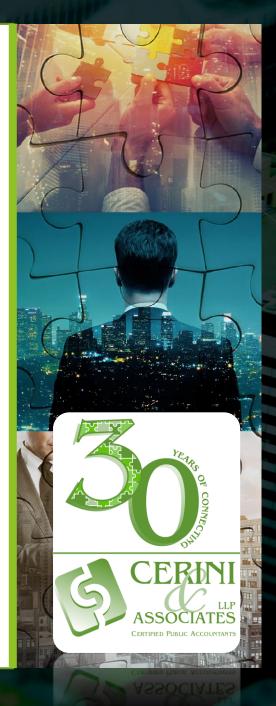
#### Short term leases:

- Lessees may elect not to recognize leases with a lease-term, including optional renewal periods, of twelve months or less as long as they don't include a bargain purchase option.
- Expanded Qualitative and Quantitative Disclosures:
  - Lease terms and conditions, extension and termination options, purchase options, etc.
  - Operating lease costs, amortization of finance lease ROU assets and interest on finance lease liabilities, variable lease cost, etc.



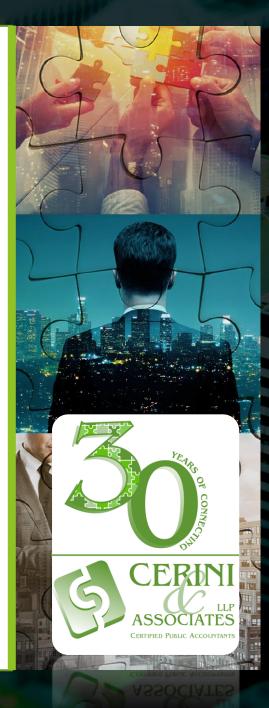
#### **Accounting for Lessors**

- ASC Topic 842 does not significantly change the way lessors account for leases. Lessors will continue to classify their leases as sales-type, direct financing, and operating leases at lease commencement.
- There are changes to how lessors will classify leases. It is expected that fewer leases will qualify as direct financing leases, and lessors will classify the vast majority of leases as sales-type or operating.
- Minor tweaks are made to the accounting for sales-type and direct financing leases, and ASC 842 eliminates the existing special guidelines when accounting for leases involving real estate.



ASU 2023-01, Leases (Topic 842): Common Control Arrangements

- Effective for 2024 calendar year-ends, 2025 fiscal year-ends.
- Amendments provide not-for-profit organizations that are not conduit bond obligors with a practical expedient to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease.
- In addition, the ASU requires all entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group, not the lease term if shorter.

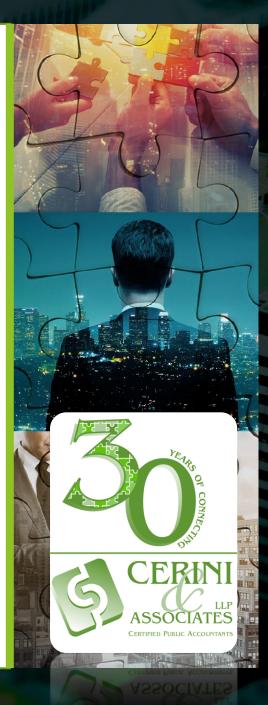


## **ACCOUNTING FOR GOODWILL**

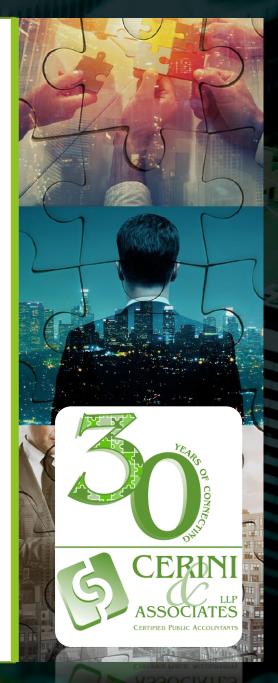
ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment

- Effective for 2023 calendar year-end, 2024 fiscal year-end, as per ASU 2019-10.
- Eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

Eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

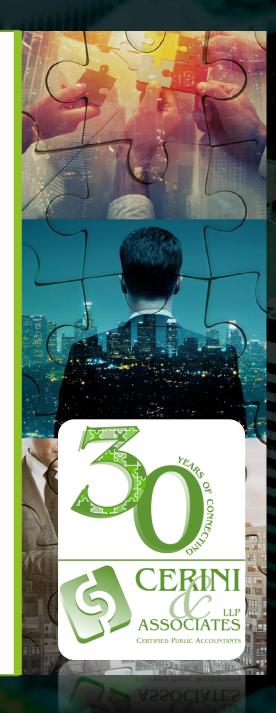


- ASU 2016-13, Financial Instruments —Credit Losses: Measurement of Credit Losses on Financial Instruments
- Effective date For nonprofit entities, 2023 calendar year-ends, 2024 fiscal year-ends.
  - Current expected credit loss ("CECL") model requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts, replacing the previous incurred loss methodology. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates.
  - Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses.
  - Amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.



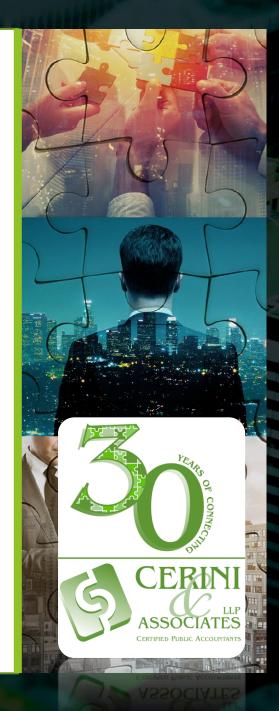
#### ASU 2016-13, Financial Instruments –Credit Losses: Measurement of Credit Losses on Financial Instruments

- Information considered when estimating expected credit losses may include:
  - Borrower's financial condition and/or ability to make scheduled payments;
  - Remaining payment terms of the financial assets and their maturity dates;
  - Nature and volume of financial assets, including volume/severity of past due or adversely classified financial assets;
  - Value of underlying collateral on financial assets;
  - Entity's lending policies and procedures;
  - Experience, ability, and depth of the entity's management, and other relevant staff; and
  - Environmental factors of a borrower and the areas in which the entity's credit is concentrated.



# ASU 2016-13, Financial Instruments –Credit Losses: Measurement of Credit Losses on Financial Instruments

- Disclosures required by portfolio segment and major security type of financial instrument include the following:
  - Description of how expected loss estimates are developed;
  - Description of entity's accounting policies and methodology to estimate the allowance for credit losses, as well as a discussion of the factors that influenced management's current estimate of credit losses;
  - Discussion of risk characteristics relevant to each portfolio segment;
  - > Discussion of the changes in the factors that influenced management's current estimates;
  - Identification of changes to accounting policies and/or the methodologies from the prior period, a rationale for such changes, and the quantitative impact of such changes;
  - Reasons for significant changes in the amounts of write-offs;
  - Discussion of the reversion method applied for periods beyond the reasonable and supportable forecast period;
  - > Amount of any significant purchases of financial assets during each reporting period; and
  - Amount of any significant sales of financial assets or reclassifications during each reporting period.

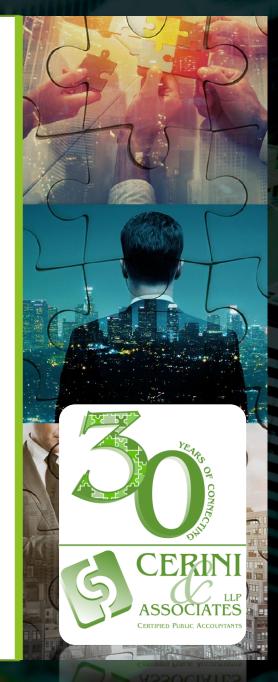


#### ASU 2018-19, Codification Improvements Financial Instruments–Credit Losses

- Effective date same as ASU 2016-13; For nonprofit entities, 2023 calendar yearends, 2024 fiscal year-ends.
- The guidance clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the new lease standards.

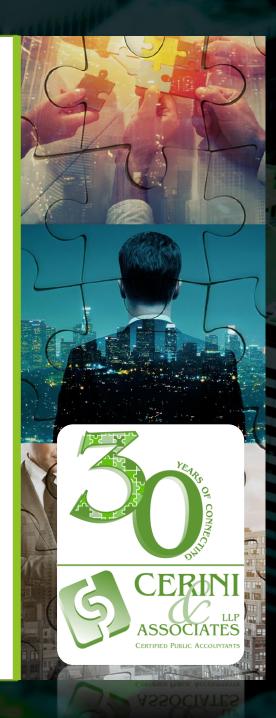
ASU 2019-04, Codification Improvements to Financial Instruments—Credit Losses, Derivatives and Hedging, and Financial Instruments

- Effective date same as ASU 2016-13; For nonprofit entities, 2023 calendar yearends, 2024 fiscal year-ends.
- These amendments clarify and improve areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement.



#### ASU 2019-05, Financial Instruments—Credit Losses: Targeted Transition Relief.

- Effective date For non-profit entities that have not yet adopted ASU 2016-13, 2023 calendar year-ends, 2024 fiscal year-ends (as per ASU 2019-10).
- These amendments provide entities that have certain instruments with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments. The fair value option election does not apply to held-to-maturity debt securities.
- The amendments should be applied on a modifiedretrospective basis by means of a cumulative-effect adjustment to the opening net asset balance in the statement of financial position as of the date that an entity adopted ASU No. 2016-13.



#### ASU 2019-11, Improvements to Topic 326, Financial Instruments—Credit Losses

- Effective date For non-profit entities that have not yet adopted ASU 2016-13, 2023 calendar year-ends, 2024 fiscal year-ends (as per ASU 2019-10).
  - These amendments provide clarified guidance around how to report expected recoveries.
  - "Expected recoveries" describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. This ASU permits organizations to record expected recoveries on purchased credit deteriorated ("PCD") assets (assets that have more than insignificant deterioration in credit quality since origination).
  - This ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities.
  - The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening net asset balance in the statement of financial position as of the date that an entity adopted ASU No. 2016-13.



# **ACCOUNTING FOR DEFINED BENEFIT PLANS**

- ASU 2018-14, Changes to the Disclosure Requirements for Defined **Benefit Plans** 

  - Effective date 2022 calendar year-ends, 2023 fiscal year-ends. These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including but not limited to the following:

#### **Disclosure Requirements Deleted:**

- The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.
- The amount and timing of plan assets expected to be returned to the employer. Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.

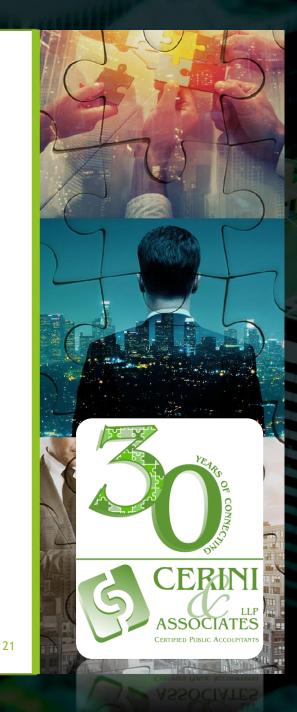
#### **Disclosure Requirements Added:**

- The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates.
- An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.
- The amendments also clarify the disclosure requirements related to the following:
  - ▶ The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets.
  - > The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.



### **REFERENCE RATE REFORM (ASC 848)**

- ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848
  - In July 2017, the Financial Conduct Authority ("FCA"), which oversees the London Interbank Offered Rate ("LIBOR"), announced that the LIBOR rate would be phased out by December 31, 2021. This phase out was later delayed by the FCA until June 30, 2023. A significant volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, will need to be modified to replace references to LIBOR with replacement rates.
  - ASC 848 provides for optional expedients related to accounting for contract modifications within the scope of the following topics:
    - ASC Topic 310, Receivables should be accounted for by prospectively adjusting the effective interest rate.
    - Topic 840/842, Leases should be accounted for as continuations of existing contracts with no reassessments of lease classification and the discount rate or remeasurement of lease payments that otherwise would be required.
    - Subtopic 815-15, Derivatives and Hedging Embedded Derivatives not required to reassess original conclusion about whether the contract contains an embedded derivative.
  - Topic 848 had an original sunset date of December 31, 2022. The amendments in this ASU defer the sunset date to December 31, 2024.



#### **LIABILITIES - SUPPLIER FINANCE PROGRAMS**

- ASU 2022-04, Liabilities Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations
  - Effective date 2023 calendar year-ends, 2024 fiscal year-ends, to be applied retrospectively to each period presented.
  - Supplier finance programs allow a buyer to offer its suppliers the option for access to payment in advance of an invoice due date, which is paid by a third-party finance provider or intermediary on the basis of invoices the buyer has confirmed are valid.
  - ASU requires a buyer in a supplier finance program to disclose sufficient information about the program to allow financial statement users to understand the program's nature, activity during the period, changes from period to period, and potential magnitude.
  - Qualitative and quantitative disclosures include:
    - Key terms of the program including payment terms and assets pledged as security or other guarantees
    - For obligations that the buyer has confirmed as valid to the finance provider:
      - The amount outstanding that remains unpaid by the buyer;
      - A description of where those obligations are presented in the financial statements;
      - A roll-forward of those obligations during the annual period, including the amount of obligations confirmed and the amount of obligations subsequently paid.





### **THANK YOU!**

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