Healthcare Audit & Attestation 2023 Year-End Update

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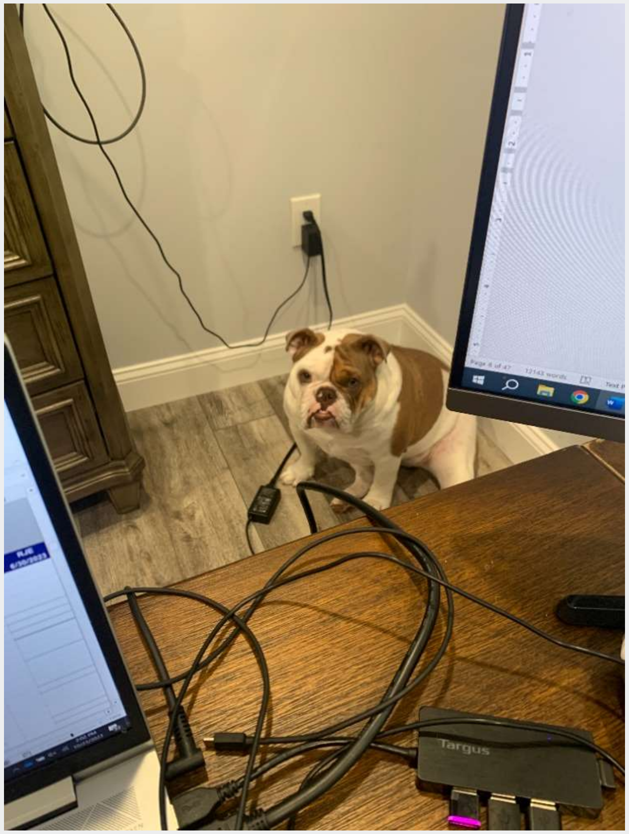
Introduction



Introduction

Agenda

- 2022-02 – Financial Instruments – Credit Losses (Topic 326)
- 2023-01 - Leases (Topic 842): Common Control Arrangements
- 2023-05 – Business Combinations – Joint Venture Formations (Subtopic 805-60)
- 2023-08 – Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60)
- 2023-07 – Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures
- 2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosure
- Review current on-going FASB Projects

2022-02 – Current Expected Credit Losses (CECL) under Topic 326

- What is CECL?
  - Measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts
- When is CECL effective and who is required to adopt the ASU?
  - Applicable to all companies preparing financial statements under US GAAP for fiscal years beginning after December 15, 2022
- Why the change?
  - Increase usefulness of financial statements by requiring timely inclusion of forecasted information in forming expectations of credit losses

2022-02 – Current Expected Credit Losses (CECL) under Topic 326

What falls within the scope of CECL?

- Financing receivables
- Off balance sheet credit exposure not classified as insurance
- Net investments in leases recognized by a lessor
- Trade receivables and contract assets recognized under Topic 606, *Revenue from Contracts with Customers*

What items fall outside the scope of CECL?

- Contributions (pledges) receivable
- Grants receivable arising under revenue recognized under contribution model
- Loans and debt measured at fair value through net income

2022-02 – Current Expected Credit Losses (CECL) under Topic 326

What are the significant differences between old vs new model?

	Expected losses (new)	**Incurred losses (old)**
Recognition	When you expect lifetime losses (no explicit probability threshold)	When you believe a loss has been incurred ("probable" threshold)
Measurement	Group assets by shared risk characteristics (required)	Grouping of assets permitted, but not required
Economic Conditions	Current conditions and expectations of future conditions	Current conditions only
Contractual terms	Consider asset's contractual life when measuring	Not required to consider contractual terms

2022-02 – Current Expected Credit Losses (CECL) under Topic 326

How do you determine expected credit losses?

- Pool assets based on similar risk characteristics such as:
  - Payor type
  - Trade receivable aging category
  - Service originating location
  - Type of service
  - Customer credit rating
- For any asset that does not have any shared risk characteristics, develop individual estimate
- Utilize historical information from prior methodology as starting point
- Add additional context for current conditions and forward-looking information such as:
  - Industry-specific factors
  - General economic environment and forecasts
  - Internal budgets
- Add additional considerations to account for services to be provided through end of contract

2022-02 – Current Expected Credit Losses (CECL) under Topic 326

What are some of the additional disclosure requirements to consider for Trade Receivables?

- Management's method for developing the allowance
- Information management uses in developing its current estimate of expected credit losses
- Circumstances that caused the changes to the allowance for credit losses, thereby impacting related credit loss expense (or reversal) for the period
- Policy for determining past-due or delinquency status
- Policy for recognizing write-offs within the allowance of credit losses
- Rollforward of the allowance to show activity for the period by portfolio segment including beginning and ending balances, current period provision and write-offs and recoveries

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

What is the purpose of 2023-01?

- Respond to issues related to applying Topic 842 to related party arrangements between entities under common control for private company stakeholders
  - Terms and conditions to be considered
  - Accounting for leasehold improvements

Who can apply 2023-01?

- Private companies and not-for-profit entities that are not conduit bond obligors for terms and conditions; all entities for leasehold improvements

When is 2023-01 effective?

- Fiscal years beginning after December 15, 2023, including interim periods within those fiscal years with early adoption permitted. Adoption can be handled retrospectively or prospectively.

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

What are the changes for terms and conditions?

- Creation of practical expedient to use written terms and conditions to determine whether a lease exists, and if so, the classification and accounting for that lease
- Eliminate need to evaluate whether the terms and conditions are enforceable
- Organizations are able to elect the practical expedient on an arrangement-by-arrangement basis
- Unwritten terms will need to be assessed for legal enforceability
- Ability to document existing unwritten terms and conditions in writing before the date of the first annual FS are available to be issued

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

What are the changes for accounting for leasehold improvements?

- Amortization of leasehold improvements can be adjusted to the useful life of the asset to the common control group not term of lease if lessee continues to control the use of the underlying asset throughout a lease
- When lessee no longer controls the underlying asset, any remaining unamortized leasehold improvements are accounted for as a transfer between entities under common control with adjustment to equity or net assets
- Leasehold improvements will be subject to impairment requirements in Topic 360, *Property, Plant and Equipment*

2023-05 – Joint Ventures

What is the purpose of 2023-05?

- Standardize the accounting for contributions made to a joint venture when it is formed by applying a new basis of accounting to recognize its assets and liabilities at fair value

What are the key changes in the accounting treatment for a new joint venture?

- Measurement of identifiable net assets and goodwill at formation date
- Net assets plus goodwill and any non-controlling interest will equal the fair value of 100% of its equity at formation date

When is 2023-05 effective?

- Effective prospectively for all joint ventures with formation dates on or after January 1, 2025

2023-08 – Intangibles – Goodwill and Other – Crypto Assets

What is the purpose of 2023-08?

- Clarify the best approach for accounting for crypto-related assets and address issues with current accounting treatment as an indefinite-lived intangible asset

Current issues with Crypto-Asset Treatment

- Recording at cost (less impairment) which does not provide useful information as only decreases in value are recorded until sold
- Complexity exists in testing for impairment

When is 2023-08 effective?

- Effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted.

How will 2023-08 be adopted?

- Adoption will take place through a cumulative-effect adjustment to the opening balance of retained earnings or net assets as of the beginning of the reporting period in which the entity adopts the amendments

2023-08 – Intangibles – Goodwill and Other – Crypto Assets

What is the new requirements for crypto-assets for Healthcare Organizations?

- Measure crypto assets at fair value with changes recognized in net income each reporting period
- Present crypto assets at fair value separately from other intangible assets in the balance sheet or statement of financial position
- Show changes in fair value measurement of crypto assets separately from changes in the carrying amounts of other intangibles assets in the income statement or statement of activities

2023-08 – Intangibles – Goodwill and Other – Crypto Assets

What are the footnote disclosure requirements for crypto asset holdings?

- The name of the crypto asset, cost basis, fair value, and number of units for each significant crypto asset holding and the aggregate fair values and cost bases of the crypto asset holdings that are not individually significant
- For crypto assets subject to restrictions, the fair value of those crypto assets, the nature and remaining duration of the restrictions that could cause the restrictions to lapse
- Reconciliation, in the aggregate, of activity from opening to closing balances in the reporting period, including additions (and description of activities yielding additions), dispositions, gains, and losses
- The method for determining the cost basis of crypto assets
- For any dispositions of crypto assets in the reporting period, total amount of cumulative realized gains and cumulative realized losses from dispositions and a description of the activities that resulted in the dispositions
- Additional disclosures required for crypto assets subject to contractual sale restrictions

2023-08 – Intangibles – Goodwill and Other – Crypto Assets

What is the scope of 2023-08?

- A crypto asset must be the definition of an intangible asset as defined in the Codification's Master Glossary
- The crypto asset does not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
- Crypto asset must be created or reside on a distributed ledger based on blockchain technology by a 3rd party
- The crypto asset must be secured through cryptography
- The crypto asset must be fungible (sorry no non-fungible tokens)

2023-07 – Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures

- Segment information is critical to understand different business activities. It enables investors to better understand an entity's overall performance and assists in assessing potential future cash flows
- The Board wants to improve financial reporting by requiring incremental segment information on an annual and interim basis to allow for more decision-useful financial analyses

2023-07 – Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures

Applies to all public entities that are required to report segment information in accordance with Topic 280, Segment Reporting

- On an annual and interim basis, disclose:
  - Significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss (collectively referred to as the "significant expense principle")
  - An amount for other segment items by reportable segment and a description of its composition. The other segment items category is the difference between segment revenue less the significant expenses disclosed under

2023-07 – Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures

- Provide all annual disclosures about a reportable segment's profit or loss and assets currently required by Topic 280 in interim periods
- Clarify that if the CODM uses more than one measure of a segment's profit or loss, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) should be most consistent with the principles used in measuring the corresponding amounts in the public entity's consolidated financial statements (i.e., under US GAAP)
- Require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this proposed Update and all existing segment disclosures in Topic 280

2023-07 – Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures

Effective date

- All public entities = for fiscal years beginning after December 15, 2023 and for interim periods within fiscal years beginning after December 15, 2024

Transition

- Retrospectively apply to all prior periods presented in financial statements
- Segment expense categories disclosed in prior periods should be based on significant segment expense categories identified in period of adoption

2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosure

- The Board wants to enhance the transparency and decision usefulness of income tax disclosures
- Investors suggested enhancements to better:
  - Understand an entity's exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities
  - Assess income tax information that affects cash flow forecasts and capital allocation decisions, and
  - Identify potential opportunities to increase future cash flows

2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosure

- Applies to all entities that are subject to income taxes
  - Some disclosures are only required for public business entities
- Updates to the rate reconciliation and income taxes paid disclosures improve the transparency of income tax disclosures by requiring:
  - Consistent categories and greater disaggregation of information in the rate reconciliation
  - Income taxes paid disaggregated by jurisdiction.

2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosure

Other amendments:

- Add disclosures of pretax income (or loss) and income tax expense (or benefit) to be consistent with U.S. Securities and Exchange Commission (SEC) Regulation S-X 210.4-08(h), Rules of General Application—General Notes to Financial Statements: Income Tax Expense, and
- Remove disclosures that no longer are considered cost beneficial or relevant

2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosure

For public business entities, on an annual basis, require:

- Disclosure of specific categories in the rate reconciliation
- Additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income [or loss] by the applicable statutory tax rate)
- Tabular reconciliation, utilizing both percentages and reporting currency amounts
- Descriptions of state and local jurisdictions
- Explanation of individual reconciling items, if not otherwise evident

2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosure

For entities other than public business entities, require:

- Qualitative disclosure about the specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate
- The qualitative disclosure should cover the same categories described in the section covering public business entities, the difference being public business entities must provide quantitative information

2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosure

All entities disclose the following information about income taxes paid on an annual basis:

1. The year-to-date amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes on both an interim and annual basis
2. The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received)

All entities disclose the following information:

1. Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign
2. Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign

2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosure

Other Amendments:

Eliminate the requirement for all entities to disclose:

- The nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months, or make a statement that an estimate of the range cannot be made
- The cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures

2023-09 – Income Taxes (Topic 740): Improvements to Income Tax Disclosure

Effective date

- Public business entities = for annual periods beginning after December 15, 2024
- For all other entities = for annual periods beginning after December 15, 2025
- Early adoption is permitted

Transition

- Apply prospectively, but retrospective application is also permitted

On-Going FASB Projects

- Accounting for and Disclosure of Software Costs
  - Goals of project –
    - Modernize the accounting for software costs
    - Enhance the transparency about an entity's software costs
  - Current tentative decisions provided by FASB
    - Require capitalization of software costs to begin at the point when the software project is probable of being completed
    - Support for defining the unit of account as a software project – may group together one or more activities together that together will achieve an overall objective
    - End capitalization and begin amortization when the project is substantially complete and the software is placed into service

On-Going FASB Projects

- Accounting for Government Grants (For-Profit Entities)
  - Goals of project
    - Create recognition, measurement, and presentation requirements for business entities that receive government grants
  - Current tentative decisions provided by FASB
    - Scoped in – transfers of monetary and tangible nonmonetary assets from a government to a business entity, including forgivable loans
    - Scoped out – exchange transactions with governmental entities that fall under Topic 606, below-market interest rate loans, and government guarantees
    - Recognition, Measurement, and Presentation –
      - Recognize a government grant when it is probable that (1) the entity will comply with the conditions of the grants and (2) the grant will be received
      - Grants related to income should be recognized in the income statement in the periods in which the entity incurs the grant-related costs
      - Grants related to assets should be recognized as part of the cost of the assets