



ACCOUNTING & AUDITING UPDATE

HFMA ALABAMA FALL INSTITUTE

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October 13, 2022

Accounting & Auditing Update



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Agenda

- Discuss upcoming accounting standards
 - GASB
 - FASB
- AICPA update
- Introduction to ESG

GASB



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Upcoming GASB Standards

- 87 – Leases
- 89 – Accounting for Interest Cost Incurred before the End of a Construction Period
- 91 – Conduit Debt Obligations
- 92 – Omnibus
- 93 – Replacement of Interbank Offered Rates
- 94 – Public-Private and Public-Public Partnerships and Availability of Payment Arrangements
- 96 – Subscription-Based Information Technology Arrangements
- 98 – The Annual Comprehensive Financial Report

**All effective dates updated for postponements due to COVID-19*



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

Effective for reporting periods beginning after December 15, 2020

Main Provision:

- ❖ Interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred.
- ❖ Interest will no longer be capitalized as part of the historical cost of a capital asset.
- ❖ Makes it easier to compare the information about capital assets and borrowing costs for government activities and business-type activities by state and local governments.

GASB 87 – Leases

Effective for reporting periods beginning after June 15, 2021

Lease = a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction.

Main provision:

- ❖ Establish a single model for lease accounting
- ❖ Lessee required to recognize a lease liability and intangible right-to-use asset
- ❖ Lessor required to recognize a lease receivable and deferred inflow of resources

**Leases that transfer ownership / bargain purchase option would be accounted for as financed purchases and would not be accounted for under the lease guidance.*



GASB 87 – Leases

- **Lease term** = period during which a lessee has a noncancelable right to use an underlying asset, plus/minus the following:
 - Option to extend lease if reasonably certain, based on relevant factors
 - Option to terminate lease if reasonably certain, based on relevant factors
- Lease liability would be measured at the present value of certain lease payments to be made over the lease term.
 - *If lease rate not listed on contract, use client's incremental borrowing rate.
- Amortization of the lease liability will be reported as an outflow of resources (interest expense).



GASB 87 – Leases

- Disclosures would include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments.
- Major effect to our client's balance sheet as all operating lease will now be reclassified and presented accordingly. Could significantly impact a client's debt covenants.

GASB 91 – Conduit Debt Obligations

Effective for reporting periods beginning after December 15, 2021

Conduit debt obligations - refers to certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

- Main Provision:
 - Defines conduit debt obligations and established related standards for recognition, measurement, and disclosures for issuers.



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GASB 91 – Conduit Debt Obligations

Conduit debt obligations must have ALL of the following characteristics:

- Involves 3 parties: issuer, third-party obligor, and debt holder/debt trustee
- Issuer and third-party obligor are not within the same financial reporting entity
- Debt obligation isn't a parity bond of the issuer or cross-collateralized with other debt of the issuer
- The third-party obligor – not the issuer – ultimately receives the proceeds from debt issuance
- The third-party obligor – not the issuer – is primarily responsible for the payment of all amounts associated with the debt obligation



GASB 91 – Conduit Debt Obligations

- Lease arrangements - capital assets are constructed or acquired with the proceeds from a conduit debt obligation, and payments from third-party obligors are intended to cover and coincide with the debt-service payments
 - ❖ Issuers shouldn't report these arrangements as leases, recognize a liability, or recognize a receivable for the payments



GASB 98 – Annual Comprehensive Financial Report

Effective for reporting periods beginning after December 15, 2021

- Annual Comprehensive Financial Report ("ACFR")
- Comprehensive Annual Financial Report ("CAFR")




GASB 94 – Public-Private and Public- Public Partnerships and Availability of Payment Arrangements

Effective for reporting periods beginning after June 15, 2022

- PPP or P3 = an arrangement in which a government contracts with an operator (gov or non-gov) to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange like transaction.
- Standard provides guidance for accounting and financial reporting

GASB 94 –PPP Continued

Public-private partnerships at a glance

| EXAMPLES | DELIVERY MODELS | CHALLENGES | JUSTIFICATIONS |
|--|---|--|---|
| <ul style="list-style-type: none">■ Transportation■ Power and energy■ Water and wastewater■ Telecommunications■ Healthcare■ Education■ Social infrastructure | <ul style="list-style-type: none">■ Design-Build (DB)■ Operation & Maintenance Contract (O&M)■ Design-Build-Finance-Operate (DBFO)■ Build-Own-Operate (BOO)■ Build-Own-Operate-Transfer (BOOT)■ Buy-Build-Operate (BBO)■ Build-lease-operate-transfer (BLOT)■ Operation License■ Finance Only | <ul style="list-style-type: none">■ Complex with multiple stakeholders■ Typically long-term, difficult to get out of■ High risk of cost overruns, schedule delays  | <ul style="list-style-type: none">■ Value for money■ Risk transference■ Innovation■ Off-balance-sheet accounting |

<https://www.techtarget.com/whatis/definition/Public-private-partnership-PPP>



GASB 96 – Subscription-Based Information Technology Arrangements

Effective for reporting periods beginning after June 15, 2022

- SBITAs defined
- Establishes right-to-use subscription asset (intangible)
- Establishes corresponding subscription liability
- Capitalization criteria for outlays, such as implementation costs
- Footnote disclosure requirements



GASB 96 – Subscription-Based Information Technology Arrangements

- Subscription term ("ST") follows GASB 87
 - ❖ Noncancellable
 - ❖ Includes periods covered by option to extend / terminate
- Subscription liability ("SL") recognized when subscription asset (intangible) is placed into service
- SL initially measured at PV of subscription payments during ST
- Discount using the interest rate per the vendor or the entity's incremental borrowing rate if interest rate not readily determinable
- Amortization of the discount recognized as interest expense

GASB 96 – Subscription-Based Information Technology Arrangements

- Subscription asset ("SA") initially measured as sum of:
 - ❖ Initial subscription liability amount
 - ❖ Payments made to vendor before commencement of ST
 - ❖ Capitalizable implementation costs, less incentives received from vendor at or before commencement of ST
- SA should be amortized over the shorter:
 - ❖ SA useful life
 - ❖ ST
- Amortization of the SA recognized as amortization expense



GASB 96 – Subscription-Based Information Technology Arrangements

- Activities associated with SBITA grouped as:
 - ❖ Preliminary Project Stage
 - ❖ Initial Implementation Stage
 - ❖ Operation and Additional Implementation Stage

GASB 96 – Subscription-Based Information Technology Arrangements

- Preliminary Project Stage
 - ❖ Activities include conceptual formulation and evaluation of alternatives, determination of the existence of needed technology, final selection of alternatives for the SBITA
 - ❖ Outlays associated should be expensed as incurred



GASB 96 – Subscription-Based Information Technology Arrangements

- Initial Implementation Stage
 - ❖ Activities included ancillary charges related to designing the chosen path (configuration, coding, testing) and installation
 - ❖ Other ancillary charges necessary to place the SA into service should be included in this stage.
 - ❖ This stage is complete when the SA is placed into service.
 - ❖ Outlays associated should be capitalized as part of the SA

GASB 96 – Subscription-Based Information Technology Arrangements

- Operation and Additional Implementation Stage
 - ❖ Activities include maintenance, troubleshooting, and other activities associated with ongoing access to the IT assets.
 - ❖ Other activities include additional implementation activities, such as the addition of supplementary or auxiliary modules after the SA is placed into service
 - ❖ Outlays associated should be expensed as incurred, unless they meet one of the capitalization criteria

GASB 96 – Subscription-Based Information Technology Arrangements

- Capitalization Criteria
 - ❖ Increase the functionality of the SA
(able to perform tasks that it could not previously perform with SA)
 - ❖ Increase the efficiency of the SA
(increase in the level of service provided by the SA, without the ability to perform additional tasks)

FASB



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Upcoming FASB Standards

- ASU No. 2016-02, Leases (Topic 842)
ASU 2021-09, Leases (Topic 842): Discount Rate for Lessees that are not Public Business Entities
- ASU No. 2018-15, Intangibles—Goodwill and Other— Internal-Use Software
- ASU No. 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities



ASU No. 2018-15 Internal-Use Software

Effective for reporting periods beginning after December 15, 2020

- The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software



ASU No. 2018-17 Consolidation (Topic 810): Variable Interest Entities

Effective for reporting periods beginning after December 15, 2020

- Alternative Accounting Treatment
- No longer required to consolidate entities with private company common control arrangements

ASU No. 2016-02 Leases (Topic 842)

Effective for reporting periods beginning after December 15, 2021

- Lease now defined as a contract, or part of contract, that conveys the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration.
- Control means that the customer has both:
 - The right to obtain substantially all the economic benefits from the use of the asset, and
 - The right to direct the use of the asset
- Economic benefit include using, holding or subleasing the asset.
- Economic benefits for the use of an asset include its primary output and by-products.

ASU No. 2016-02 Leases (Topic 842)

- **Two types of leases:** operating or finance
- Finance Lease:
 - The lease transfers ownership of the underlying asset to the lessee 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.
 - The present value of the sum of lease payments and any residual value guaranteed by the lessee equals or exceeds substantial all of the fair value of the underlying 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.



ASU No. 2016-02 Leases (Topic 842)

- Lease Recognition
 - All lessees should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term
- Lease Liability
 - Measured at the present value of lease payments
 - The present value should also include the exercise price of an option to purchase the underlying asset if the lessee is reasonably certain to exercise that option.
 - The liability should also include present value of payments for penalties for terminating the lease / amounts probable of being owed by the lessee under residual value guarantees.
 - Payments to be made in optional periods should be included only if the lessee is reasonably certain to exercise the option to extend the lease.

**Discount rate for PV calculation should be implicit rate in lease if readily determinable or the entity's incremental borrowing rate.*



ASU No. 2016-02 Leases (Topic 842)

- Right-of-Use Asset
 - Measured as sum of initial measurement of the lease liability
 - + any lease payments made to lessor at or before the commencement date
 - - any lease incentives received
 - + any initial direct costs incurred by the lessee
- Subsequent Measurement
 - Finance Lease
 - Calculate interest on lease liability using discount rate
 - Lease liability adjusted each period to recognize an increase reflecting interest which would be reduced by a payment made during the period.
 - Right-of-use asset is amortized each period and presented at cost less any accumulated amortization and any accumulated impairment losses.

ASU No. 2016-02 Leases (Topic 842)

- Subsequent Measurement
 - Operating Lease
 - Recognize a single lease cost (lease expense, rent expenses, etc.) each period.
 - Single lease cost allocates the total of all remaining lease payments to be made during the lease term on a straight-line basis
- Entities must now perform impairment testing on operating leases
- Cash Flow
 - Finance Lease
 - Financing section: payments of principal
 - Operating section: interest payments
 - Operating Lease
 - Operating section: entire lease cost



Upcoming FASB Standards

Effective 12/31/2022 and beyond

- ASU No. 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans
- ASU No. 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes
- ASU No. 2020-07 Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets
- ASU No. 2021-03 Intangibles - Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events
- ASU No. 2021-10 Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance

AICPA Updates



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AICPA Update

Effective for reporting periods beginning after December 15, 2021

- SAS No. 134, Auditor Reporting and Amendments – Addressing Disclosures in the Audit of Financial Statements
- SAS No. 135, Omnibus Statement of Auditing Standards – 2019
- SAS No. 137, The Auditor’s Responsibility Relating to Other Information Included in Annual Reports
- SAS No. 138, Amendments to the Description of the Concept of Materiality
- SAS No. 139, Amendments to Incorporate Auditor Reporting Changes (SAS 134)
- SAS No. 140, Amendments to Incorporate Auditor Reporting Changes (SAS 137)
- SAS No. 141, Deferral of Effective Dates



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AICPA Update

- SAS No. 134, Auditor Reporting and Amendments – Addressing Disclosures in the Audit of Financial Statements
 - Current format for audit opinion:
 - Report on the Financial Statements
 - Management’s responsibilities
 - Auditor’s responsibilities
 - Opinion
 - Updated format for audit opinion:
 - Opinion
 - Basis of Opinion (now required)
 - Responsibilities of management
 - Auditor’s responsibilities

AICPA Update

- SAS No. 135, Omnibus Statement of Auditing Standards – 2019
 - Aligns ASB guidance more closely with that of PCAOB
 - Clarifies the definition of ‘significant unusual transactions’ as significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size or nature.
 - Enhances the requirements around identifying undisclosed related parties or significant related party transactions.

AICPA Update

- SAS No. 137, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports
 - Clarifies the auditor's responsibility to consider whether a material inconsistency exists between the other information and the audited financial statements and to remain alert for indications that a material misstatement of fact exists.
 - Enhances requirements, when the auditor has obtained all of the other information at the date of the auditor's report, the auditor to include a separate section in the auditor's report with the heading "Other Information," or other appropriate heading. The intent is to bring transparency to the auditor's responsibilities with respect to other information.



AICPA Update

- SAS No. 138, Amendments to the Description of the Concept of Materiality
 - ASB's current concept of materiality is consistent with the definition used by IASB. This update aligns the materiality concepts discussed in AICPA Professional Standards with the description of materiality used by the U.S. judicial system, PCAOB, SEC, and FASB.

AICPA Update

- SAS No. 139, Amendments to Incorporate Auditor Reporting Changes from SAS No. 134
 - Applies changes from SAS No. 134 to audits of financial statements prepared under a special purpose framework.
 - Special purpose framework, which is a cash, a tax, a regulatory, a contractual, or any other basis of accounting.
 - Provides additional transparency into the basis for the auditor's opinion and the responsibilities of both management and auditors.

AICPA Update

- SAS No. 140, Amendments to Incorporate Auditor Reporting Changes from SAS No. 137
 - AU-C sections 725 and 730 include requirements for the auditor to report on supplementary information and required supplementary information.
 - These sections are amended to require reporting in a separate section of the auditor's report as opposed to in an other-matter paragraph.
 - Also provides revisions for consistency regarding recent issuances of Uniform Guidance, OMB Compliance Supplement, and Yellow Book.

ESG



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What is it?





ENVIRONMENTAL

Considers how a company performs as a steward of nature.

E.g., climate change, energy emission, waste management, and resource depletion



SOCIAL

Examines how a company manages its relationships with employees, suppliers, customers and the community

E.g., health and wellbeing, building safety, employee relations, diversity, and impact on communities



GOVERNANCE

Deals with how a company is governed

E.g., executive pay, shareholder rights, board diversity, and structure audits



ESG Drivers

- Global Reporting Standard Proposals
 - European Union (EU) /
Corporate Sustainability Reporting Directive (CSRD)
 - European Union (EU) /
Corporate Sustainability Due Diligence Directive (CSDDD)
 - International Sustainability Standards Board (ISSB)
 - US Security and Exchange Commission (SEC)

“Rarely do governments, policymakers and the private sector align behind a common cause. However, all agree on the importance of high-quality, globally comparable sustainability information for the capital markets”

- ISSB Chair Emmanuel Faber
on March 31, 2022



ESG in Healthcare

- "Healthcare's new imperative" via Modern Healthcare.com
- The inherent mission and values of healthcare organizations make them ideal stewards of the ESG Framework.
- With the COVID-19 pandemic there has been pressure to adopt and invest in more socially responsible principles and values.
 - Quality improvement
 - Health equity
 - Energy costs
 - Federal priorities
 - Local ordinances and incentives
 - Consumer and employee expectation



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Questions?

THANK YOU!

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