ACCOUNTING & AUDITING UPDATE

LA HFMA 2024 ANNUAL CONFERENCE

Florence Bauer, CPA, CHFP, CSAF

April 29, 2024

Accounting and Auditing Update

01

GASB Update

02

FASB Update

03

AICPA Update

GASB

Recent GASB Standards - 2022

87 – Leases

91 – Conduit Debt Obligations

All effective dates updated for postponements due to COVID-19

HO

Recent GASB Standards - 2023

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

96 – Subscription-Based Information Technology Arrangements

99 – Omnibus

All effective dates updated for postponements due to COVID-19

Upcoming GASB Standards

100 – Accounting Changes and Error Corrections

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102 – Certain Risk Disclosures

2022

GASB 87 – Leases

Effective for fiscal years ending June 30, 2022

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.*

HO

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.

HO

GASB 91 – Conduit Debt Obligations

Effective for fiscal years ending December 31, 2022

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 <u>has no obligation for such debt</u> 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.

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

2023

HO

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

Effective for fiscal years ending June 30, 2023

Public-Private Partnership (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

HO

GASB 94 –PPP Continued

Public-private partnerships at a glance

EXAMPLES	DELIVERY MODELS	CHALLENGES	JUSTIFICATIONS
Transportation Power and energy Water and wastewater Telecommunications Healthcare Education Social infrastructure	▪ 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	▪ Complex with multiple stakeholders ▪ Typically long-term, difficult to get out of ▪ High risk of cost overruns, schedule delays	▪ Value for money ▪ Risk transference ▪ Innovation ▪ Off-balance-sheet accounting

ttps://www.techtarget.com/whatis/definition/Public-private-partnership-PPP

GASB 96 – Subscription-Based nformation Technology Arrangements

Effective for fiscal years ending June 30, 2023

- 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 nformation 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 a 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

Implementation costs under SBITA grouped as:

- Preliminary Project Stage
- Initial Implementation Stage
- Operation and Additional Implementation Stage

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GASB 96 – Subscription-Based nformation 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

HO

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 the capitalization criteria

HO

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 tas

2024 and beyond

GASB 100 – Accounting Changes and Error Corrections

Effective for fiscal years ending June 30, 2024

Change in Accounting Principle

- Retroactively applied
- EX: change from straight-line to double declining balance method

Change in Accounting Estimate

- Prospectively applied
- EX: change useful life from 35 to 25 years.

HO

GASB 100 – Accounting Changes and Error Corrections

Change to or within the Reporting Entity

- Reported by *adjusting* the current reporting period's beginning balances fo the effect of the change as if the change occurred as of the beginning of t reporting period.

Error Correction

- Retroactively applied
- EX: Incorrectly had useful life as 35 instead of 25 years.

HO

GASB 100 – Accounting Changes and Error Corrections

Disclosures

- Nature of change, including identification of financial statement line item affected;
- Reason for change
- Effect on beginning net position or prior period net position

- Required Supplementary Information or Supplementary Information

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GASB 101 –Compensated Absences

Effective for fiscal years ending December 31, 2024

Leave for which employees receive <u>any combination</u> of the followin

- Cash payments when leave is used for time off;
- Cash payment for unused leave upon termination; or
- Noncash settlement, such as conversion to postemployment benefits

GASB 101 – Compensated Absences

Under the new model, a liability for compensated absences is recognized for two scenarios:

- (1) unused leave and
- (2) leave that has been used but not yet paid or settled.

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GASB 101 –Compensated Absences

For unused leave, 3 criteria must be met:

- The leave is attributable to services already rendered
  – the employee has performed the services required to earn the leave,
- The leave accumulates and carries forward to future reporting periods
  – can be carried forward when earned, where it will be used, paid or sett
- It is more likely than not to be used for time off or paid or settled through noncash means
  – likelihood of more than 50%.

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GASB 101 –Compensated Absences

Exceptions:

- When leave is more likely than not to be settled through conversion to defi benefit postemployment benefits;
- If leave is dependent upon the occurrence of a sporadic event that affects relatively small proportion of employees in a particular reporting period; o
  - Recognize only if leave has commenced
  - Sick and sabbatical lease is specifically excluded from this
- Unlimited leave and holiday leave (taken on a specific date)
  - Could only be recognized as a liability when used

HO

GASB 101 – Compensated Absences

Measurement

- Employee's pay rate as of date of financial statements

Presentation

- Should still report amount due within 1 year and amount due +1 year
  (may be combined with other long-term liabilities on the face of financial statements
- Footnotes may now show only net change

HO

GASB 101 –Compensated Absences

EXAMPLE 1

Sick leave is not paid out

- Employees unused sick leave at fiscal year end: $500,000
- Sick lease is attributed to services already rendered.
- Sick lease accumulates but does have a cap.

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GASB 101 –Compensated Absences

XAMPLE 1	GASB 16	GASB 101
ability Concept	Considers whether the leave will be paid out	Considers an estimate for the leave to be use based on *more likely than not* use for time off.
ability Calculation	Portion to be paid is recorded ($500k sick leave x 0% = $-0-)	Based on historical trends, its probable that **60%** of sick lease is more likely than not to be used. ($500k x 60% = $300k)
ability Amount	$-0-	$300,00

HO

GASB 101 – Compensated Absences

EXAMPLE 2

Sick leave paid out at 50% after 5 years of service

- Employees unused sick leave at > 5 yrs of service: $600,000
- Employees unused sick leave at < 5 yrs of service: $1,800,000
- Sick lease is attributed to services already rendered and accumulat

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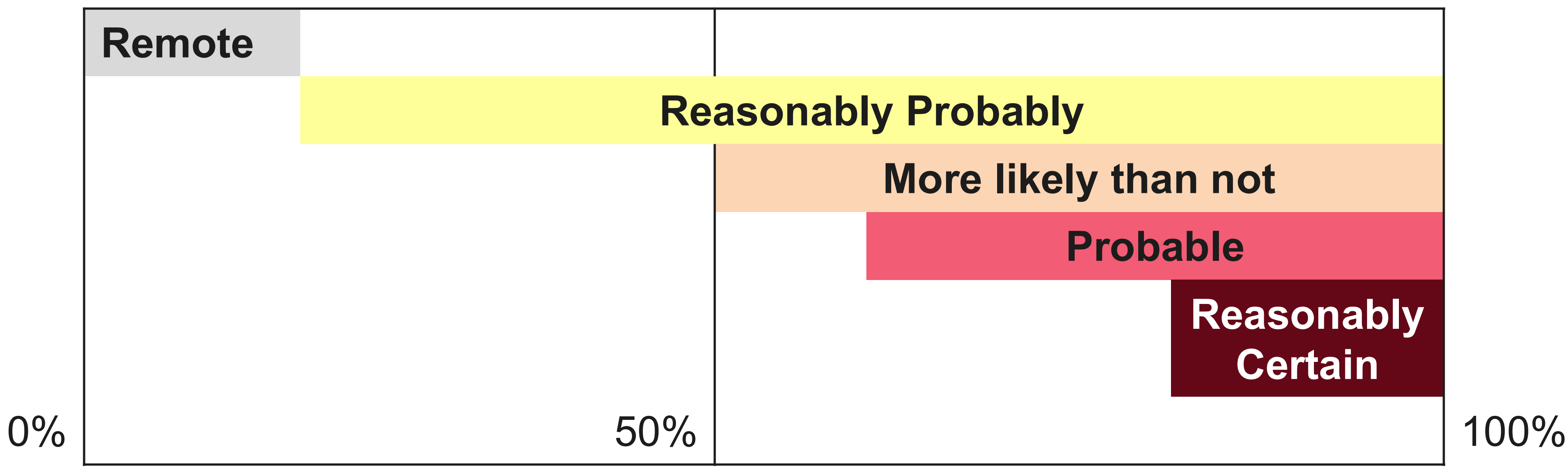
GASB 101 –Compensated Absences

XAMPLE 2	GASB 16	GASB 101
ability Concept	Considers the lease that will be paid out upon termination (vested portion) and an estimate of the nonvested portion based on *probability of retirement.*	Considers leave that will be paid out upon termination (vested portion) and an estimate for the nonvested portion based on *more likely than not* use for time off or future retirement.
ability Calculation	Vested portion recorded at 50% ($300k) For employees < 5 yrs, based on historical trends, its probably that **45%** will stay on for more than 5 yrs ($1.8m x 45% x 50% = $405k + $300k)	Vested portion recorded at 50% ($300 For employees < 5 yrs, based on historical trends, its probably that **80%** of sick lease is more likely than not to be used or employee will stay on for more than 5 yrs and receive pay out. ($1.8m x 80% x 50% = $720k + $300k
ability Amount	$705,000	$1,020,00

GASB 101 – Compensated Absences



GASB 102 – Certain Risk Disclosures

Effective for fiscal years ending June 30, 2025

Concentration = lack of diversity related to an aspect of a significan inflow / outflow of resources.

Constraint = limitation imposed on government by external party or formal action of a government's highest level of decision-making authority.

HO

GASB 102 –Certain Risk Disclosures

Government Assessment:

- Whether a concentration or constraint is known?
- Does C or C make entity vulnerable to the risk of substantial impact?
- Whether an event(s) associated with C or C have occurred, begun to occur are more likely than not to begin to occur within 12 months of the date of financial statement issuance.

HO

GASB 102 – Certain Risk Disclosures

Concentration Example:

- Airport
- Revenue debt outstanding rely on landing fees as sole source of repaymen
- Summer 2023, a customer that accounts for significant % of revenue notif airport that they are discontinuing services as of 12/31/2023.
- Financial statements were issued 10/15/2023.

HO

GASB 102 –Certain Risk Disclosures

Make Assessment:

- Evaluate GASB 102 criteria
- Concentration exists that Airport is vulnerable to risk of substantial impact
- Event occurred when customer informed them of the discontinuation of services

RESULT: GASB 102 Disclosure required

HO

GASB 102 –Certain Risk Disclosures

Disclosure:

FN X. Concentration of Financial Resource Provider

The Airport has $XX million of revenue bonds outstanding on June 30, 20
The bond indentures state that the revenue generated by airport operation
pledged as the sole source of repayment for the bonds. XX percent of
revenues are associated with a single customer who has notified the Airport
it plans to discontinue services to the airport by December 31, 20X0. A los
revenue from that customer could adversely affect the Airport.

HO

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

40TH

ANNIVERSARY

1984-2024

GASB in 2024

2 New Final Rules

Exposure Drafts and Preliminary Views

On-Going Projects
Post Implementation Review

HO

FASB

Recent FASB Standards - 2022

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

All effective dates updated for postponements due to COVID-19

HO

ASU No. 2021-03 Intangibles

Effective for fiscal years ending March 30, 2022

Accounting alternative treatment, only consider impairment triggering event at FYE

Apply on prospective basis

FASB maintained the requirement that goodwill impairment is not reversible.

HO

ASU No. 2020-07 Contributed Nonfinancial Assets

Effective for fiscal years ending June 30, 2022

- New presentation and disclosure requirements about contributed nonfinancial assets to not-for-profits
- Contributed cash and nonfinancial items presented separately on the financial statements
- Disclose nonfinancial assets by category
  - For each category, provide qualitative information

HO

ASU No. 2021-10 Government Assistance

Effective for fiscal years ending December 31, 2022

Increase transparency with disclosure of:

- Types of assistance;
- Accounting for assistance; and
- Effect of assistance on financial statements.

Recent FASB Standards – 2022 & 2023

ASU No. 2016-02, Leases (Topic 842)

- ASU 2021-09 – Discount Rate
- ASU 2021-05 – Variable Lease Payments
- ASU 2023-01 – Common Control

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326

All effective dates updated for postponements due to COVID-19

HO

2022

ASU No. 2016-02 Leases (Topic 842)

Effective for fiscal years ending December 31, 2022

- Lease now defined as a contract, or part of contract, that conveys the righ 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.

HO

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.

HO

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.*

HO

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.

HO

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

HO

2023

ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326)

ective for fiscal years ending December 31, 2023

educe complexity by decreasing the number of credit impairment models

prove timeliness of recognition by using an expected loss model

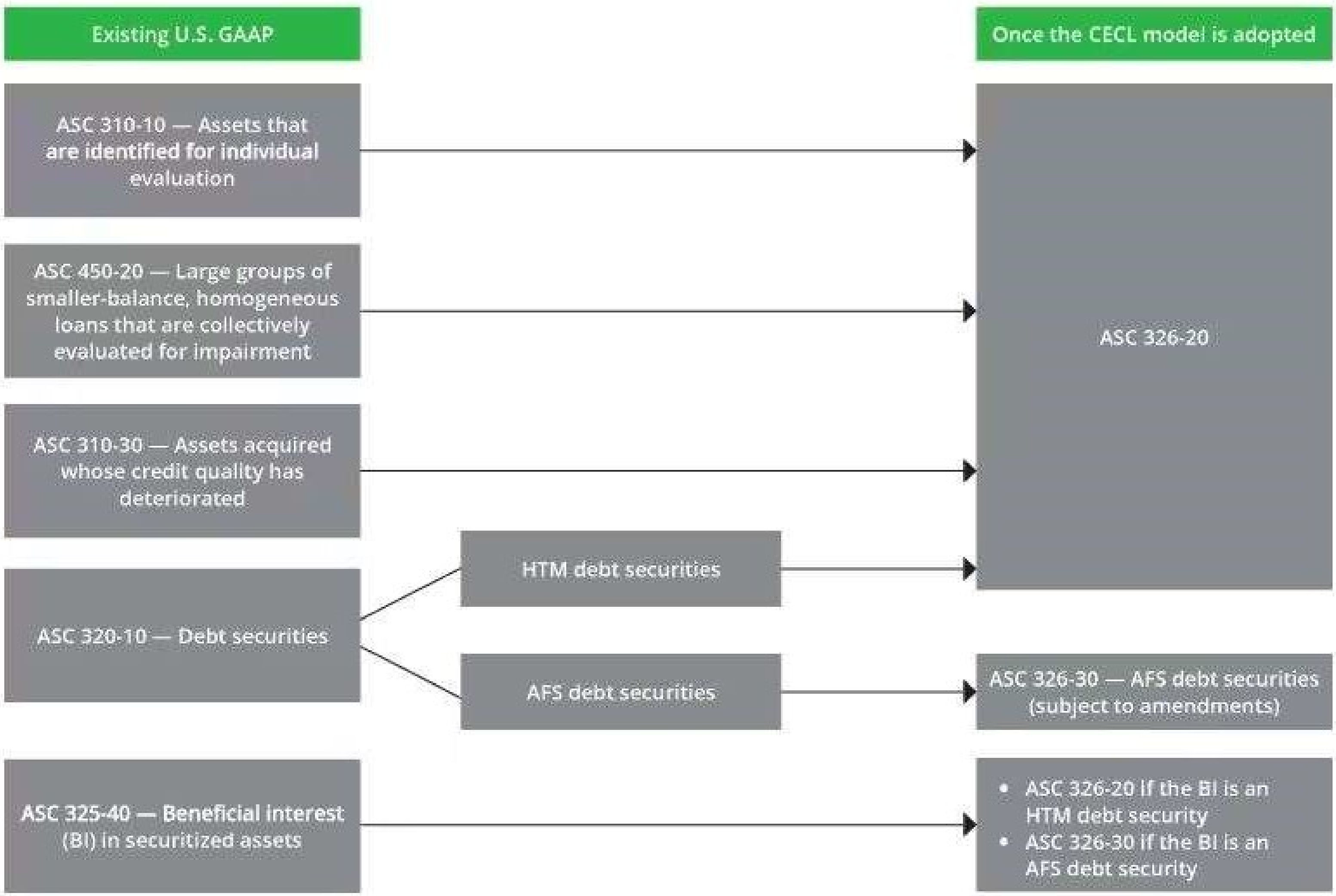
equire entities to recognize an allowance of lifetime expected credit losses

ot require a specific method for entities to use in estimating expected credit
sses

HO

ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326)

n below depicts the impairment models in current US GAAP that are being replaced by the CECL model.



Current Expecte Loss (Cl Impleme Insights

HO

ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326)

curred vs expected model

rect write-down vs recognize allowance (contra-asset)

ECL = current expected credit loss model

HO

ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326)

neral Model Process

01 → 02 → 03 → 04

01 Historical credit loss experience

02 Adjustments for differences in asset-specific risk characteristics

03 Current conditions and reasonable / supportable forecasts

04 Reversion to adjusted historical credit loss information

ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326)

nancial assets includes:

- Trade receivables
- Loan / note receivables
- Held-to-maturity debt securities
- Loan commitments
- Standby letters of credit
- Financial guarantees and similar

HO

ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326)

hat should you do?

- Need to assess balance sheet impact and write up scoping memo
  - Implementation memo if significant impact
- If assets present, pool financial assets with similar risk characteristics and measure credit losses accordingly
- Gather historical loss experience for each pool
- Evaluate whether current conditions differ from the conditions in which the historical losses were incurred, and provide adjustments to the historical rates based on this information
- Establish estimate model for each pool

HO

ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326)

ealthcare Considerations

- Implicit price concessions vs credit losses
  - Credit assessments / checks

- Allowance for doubtful accts = allowance for credit loss?
- Bad debt expense = credit loss expense?

HO

ASU No. 2016-13 Financial Instruments - Credit Losses (Topic 326)

sclosures

- ❑ Differ depending on the financial asset
- ❖ Allowance for credit losses noted on face of balance sheet
- ❖ Roll forward of allowance for credit losses included in notes
- ❖ Current description of management's policies and methodology should be expanded to include any changes related to adopting the new accounting standard

-report-December-2023-FASB-ASC-326-Current-expected-credit-loss-standard-(CECL)-trade-
ables-disclosures-Checklist-and-illustrations.pdf

HO

Upcoming FASB Standards

Effective for fiscal years ending January 31, 2025

- ASU No. 2023-05 Business Combinations – Joint Venture Formatio

  - ❖ Upon formation, JV will recognize and initially measure its assets and liabilities at fair value

  – Apply prospectively to joint venture formations occurring on or after Jan 1, 2025.

  – Joint ventures formed prior to ASU may elect to apply retrospectively

  – Early adoption is permitted

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FASB in 2024

New website

Review of Private Company Council

On-Going Projects

AICPA Updates

AICPA Update

Effective for fiscal years ending December 31, 2022

- SAS No. 134, Auditor Reporting and Amendments – Addressing Disclosure 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
- SAS No. 140, Amendments to Incorporate Auditor Reporting Changes (SAS
- SAS No. 141, Deferral of Effective Dates

HO

AICPA Update

SAS No. 134, Auditor Reporting and Amendments – Addressing Disclosures in the Audit of Financial Statements

- Updated format for audit opinion:
  - Opinion
  - Basis of Opinion (now required)
  - Responsibilities of management
  - Auditor's responsibilities

HORNE

INDEPENDENT AUDITOR'S REPORT

Addressee
Name
Address

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type act
________ (the "Hospital") as of and for the years ended September 30, 2023 and 2022,
related notes to the financial statements, which collectively comprise the Hospital's basic
statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in al
respects, the respective financial position of the business-type activities of the Hospi
September 30, 2023 and 2022 and the respective changes in financial position an
applicable, cash flows thereof for the years then ended in accordance with accounting
generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in th
States of America ("GAAS") and the standards applicable to financial audits contained in Go
Auditing Standards ("GAS"), issued by the Comptroller General of the United Sta

AICPA Update

- SAS No. 135, Omnibus Statement of Auditing Standards – 2019
  - Aligns ASB guidance more closely with that of PCAOB
- SAS No. 138, Amendments to the Description of the Concept of Materiality
  - This update aligns the materiality concepts discussed in AICPA Professiona Standards with the description of materiality used by the U.S. judicial system, PCAOB, SEC, and FASB.

HO

AICPA Update

Effective for fiscal years ending December 31, 2023

- SAS No. 142, Audit Evidence
- SAS No. 143, Auditing Accounting Estimates and Related Disclosures
- SAS No. 144, Amendments to AU-C Sections Related to the Use of Speciali
- SAS No. 145, Understanding the Entity and Its Environment and Assessing
  Risks of Material Misstatement

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AICPA Update

SAS No. 142, Audit Evidence

- Professional skepticism
- Relevance and reliability of audit evidence
- Emerging technologies; and
- Use of external information sources

AICPA Update

SAS No. 143, Auditing Accounting Estimates and Related Disclosures

- requires auditors to delve deeper into the uncertainties surrounding accounting estimates and identify any potential bias;
- detailed guidance on designing audit procedures that are responsive to the assessed risks of material misstatement associated with accounting for estimates; and
- includes assessing the suitability of the models used and the integrity of the underlying data.

HO

AICPA Update

SAS No. 144, Amendments to AU-C Related to the Use of Specialist and the Use of Pricing Information Obtained From External Information Sources

- enhance guidance about evaluating the work of the management's specialist;
- enhance guidance related to using the work of an auditor's specialist; and
- provides guidance on the use of pricing information obtained from external information sources to be used as audit evidence for estimates related to the fair value of financial instruments.

HO

AICPA Update

SAS No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

- it mandates a more detailed risk assessment process and enhances certain aspects of the identification of risk factors;
- revised and enhanced the requirements of the auditor in understanding and evaluating the design and implementation of the entity's IT environment and internal controls;

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Questions?

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THANK YOU!

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