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2021 Financial Management Conference

FASB Updates

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October 26, 2021

Questions

- All participant lines are muted.
- Please use the **Raise Hand** feature if you would like to speak.
  - Raise hand feature is located in the Participant panel.
- You may also use the **Chat** feature to ask questions.
- Send a **Chat** to the Host if you have a technical issue.

Continuing Professional Education Requirements for CPAs

- **Polls are Required for CPEs**
  - If you are seeking CPE credits, please submit ALL polls within each session, and the conference evaluations.
  - If you miss a poll, send a **Chat** message to the Host immediately.
- We use **Polls and the Zoom attendance record** to verify participation throughout the webinar.
  - **Participants must submit ALL polls** and **be logged in no later than 10 minutes after the scheduled session start time to receive a certificate.**

Continuing Professional Education Credits (CPEs) for CPAs

- **Check your Zoom display name**
  - If the correct name is not shown, email your Zoom display name and your full name to consult.lwells@gmail.com.
- You may **request a certificate of completion via the conference evaluations.**
  - Links to the evaluations are emailed to all registrants.
- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

Poll #1

How comfortable are you with FASB?

a. Very comfortable
b. Not at all
c. Enough to be dangerous

Agreed Upon Procedure Engagement Changes

Agreed Upon Procedure (AUP) Engagement Refresher:

- An **attestation** engagement in which a practitioner is engaged to **perform specific procedures** and **report findings**.

Parties to an AUP Engagement:

- **Responsible Party** – the party taking responsibility for the subject matter. Cannot be the practitioner. May or may not be our client.

- **Engaging Party** – the party that hires the practitioner to provide the service (client). Not required to be the responsible party.

- **Specified party** - an intended user of the practitioner's report when the practitioner's report restricts its use.

Significant Changes Under SSAE 19:

- Procedures can be specified by engaging the party, users, contract/regulations, or the practitioner.
- <u>Only the responsible party</u> is required to agree to the procedures and acknowledges their appropriateness for the intended purposes
- Users are responsible only for determining whether to rely on the report
- <u>Procedures might not be agreed to until the completion of the engagement</u>

Other Attributes of AUP Engagements:

- Intended to accomplish something specific
- Diversity of types of engagements
- Common AUPs:
- REAC electronic submission, state agency submissions
- Investor tests –
  - Debt service coverage ratio
  - Rental achievement/stabilization/other tests in order to meet capital contribution requirements
  - Tenant file testing
  - Adjuster calculations
- Bond tests – 50%, 95-5, bond arbitrage rebates
- State agency/LIHTC tests – 10% carryover, LIHTC delivery

Procedures:

- Can be developed by the client, the users, or the practitioner (in the form of suggested procedures based on the our understanding of the intended purpose)
- Regardless of who develops them, the engaging party must acknowledge that the procedures are appropriate for the intended use
- If AUPs are required by a law, regulation, or contract, or done at the request of a regulator, the practitioner does not need to communicate directly or seek acknowledgement from said party
- Each procedure should have a corresponding finding based on the procedures performed

ASU 2016-13
Financial Instruments

ASU 2016-13

- Status
  - 2016-13 was first issued in June 2016.
  - For public business entities (SEC filer) effective for fiscal years beginning after Dec. 15, 2019.
  - For other public business entities, it was effective for fiscal years beginning after Dec. 15, 2020.
  - All other entities (including NFPs), it was effective for fiscal years beginning after Dec. 15, 2021.In October 2019, FASB extended for non public entities (including NFPs) to be effective for fiscal years beginning after Dec. 15, 2022.
  - In October 2019, FASB extended for non-public entities (including NFPs) to be effective for fiscal years beginning after Dec. 15, 2022.
- The amendments change the accounting and disclosure requirements for loans, debt securities, trade receivables, net investments in leases, and off-balance-sheet credit exposures.
- Current GAAP required an “incurred loss” methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred.
- GAAP restricted the ability to record credit losses that are expected, but do not yet meet the “probable” threshold.

Financing Transactions

Accounting Treatment

A debt modification may be accounted for as:

1) The extinguishment of the existing debt and issuance of new debt

2) A modification of the existing debt

- Note that the legal form of the transaction is irrelevant for purposes of concluding on whether the transaction should be accounted for as a modification or extinguishment.

Debt Modification

- It’s important to first understand the following:
  - Are you amending the terms of the existing debt?
    - Is this change in terms considered to substantial
  - Are you using the same lender?
    - If new debt is issued from one lender and at the same time satisfies the debt of another (unrelated) lender it is always accounted for as an extinguishment

**Note that the following slides and discussions are assuming that there is not a troubled debt restructuring as defined by ASC 470-60-55

Did the terms substantially Change?

- Per ASC 470-50-40-10: *“From the debtor's perspective, an exchange of debt instruments between or a modification of a debt instrument by a debtor and a creditor… is deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. If the terms of a debt instrument are changed or modified and the cash flow effect on a present value basis is less than 10 percent, the debt instruments are not considered to be substantially different..”*

Applying the 10% test

	Pre-Amendment	Amendment
Effective date	2/9/2018	2/9/2018
Maturity date (All Extensions Made)	5/15/2020	2/9/2023
Maturity date (w/o extensions)	5/15/2018	2/9/2020
Principal	442,826,754	450,000,000
Stated interest rate[1]	6.06%	5.60%
Payment tenor	P=Balloon + I=Monthly	P=Balloon + I=Monthly
Fees paid to lender[3]	-	4,500,000
Fees paid to third parties[3]	-	4,684,846
Other discount/(premium)[3]	-	-
Accrued interest	2,318,075	975,625
Non-cash items[4]	-	-
Outstanding balance at amendment date	442,826,754	450,000,000
Net carrying value	440,508,679	445,500,000

Applying the 10% test

10% Test - Base Case		
	Amended debt PV	432,941,587
Less:	Pre-Amendment PV	440,508,679
	Difference	(7,567,092)
	Change in cash flows	1.72%

Accounting Differences

Extinguishment

- The original debt is derecognized and the new debt is recorded at fair value. The difference is shown as a gain or loss on extinguishment.
- Financing fees related to the old debt are written off and any new fees are recognized over the term of the new debt

Modification

- Only additional proceeds are shown in the cash flow as the debt balance remains intact
- Any new financing fees paid are expensed. Amortization on previous fees are adjusted

Differences in Accounting

Guidance [1]		
	Modification	**Extinguishment**
Fees between debtor and creditor	Adjust carrying value of discount; amortize using effective interest method	Include in calculation of gain/loss
Costs incurred with third parties directly related to modification/exchange, e.g. legal fees	Expense as incurred	Include in calculation of discount on new debt; amortize using effective interest method
Previously deferred costs for existing debt	Adjust carrying value of discount; amortize using effective interest method	Include in calculation of gain/loss

[1] See ASC paragraphs 470-50-40-17 through 40-18 and EY Guide, page 94. Also reflects ASU 2015-03, which is currenly effective and applies retrospectively. This ASU precludes an entity from separately capitalizing debt issue costs.

Poll #2

How do you feel about working in a remote environment?

a. Love it – much more efficient
b. I prefer a hybrid model
c. Don't like it and would rather be in person

Developer Fee Revenue Recognition Under 606

Developer Fee Revenue Recognition

Overview:

- ASU 2014-09 (aka 606) was first issued in 2014
- Non public entities were first required to adopt the revenue recognition standards for reporting periods beginning after December 15, 2018 (fiscal year 2019)
- FASB delayed implementation one year in May 2020 (fiscal year 2020)

An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (that is, an asset) to a customer.

Developer Fee Example

- The development service agreement (DSA) is divided into 3 performance obligations (proposed revenue recognition timing in parenthesis):
  - PO 1 - Management's approval to proceed (recognized at point in time)
  - PO 2 - Investor closing (recognized as services are provided over time)
  - PO 3 - Construction 100% complete (recognized as services are provided over time)
- PO 1 and 2 could be combined into 1 PO if no evidence of right to payment exists or customer does not have intent and ability to pay
- In order for the DSA to be divided into 3 performance obligations, and not more for each service or promise in the contract (primarily an issue with PO 1 and 2), management needs to conclude the services provided are NOT distinct in accordance with ASC 606-10-25-19

Developer Fee Example

- Performance obligation to be satisfied over time, it must meet one of three criteria (ASC 606-10-25-27):
  - the customer simultaneously receives and consumes the benefits provided
  - the entity's performance creates or enhances an asset that the customer controls or
  - the entity's performance does not create an asset with an alternative use to the entity.
- If a performance obligation does not meet any of these three criteria it is deemed to be satisfied at a point in time.

Developer Fee Example

- Determine the transaction price
  - If a standalone selling price is not directly observable, an entity shall estimate the standalone selling price
  - Adjusted market assessment approach or expected cost plus a margin approach would likely be the most suitable method(s) for determining the transaction price of a DSA
- Is there a financing component - developer fee receivables outstanding beyond completion would likely a financing component, unless:
  - The practical expedient of payment within one year is met, or
  - The arrangement already considers a market interest rate
  - Do not believe revising the initial calculation is required for the estimated financing component

Impairment/Going Concern Indicators

Impairment

- Held for sale -- property to be disposed of by sale is required to be reported at the lower of its carrying amount or fair value less selling costs
- Held and used -- assessed if changes suggest carrying amount may not be fully recoverable:
  - Decrease in market value
  - Change in property's use, or business climate
  - Change in property's physical appearance
  - Cost overruns or operating losses
  - Lack of demand
  - 50% or more chance the property will be sold or disposed of before end of useful life

Impairment

- Management should own the assertion regarding the carrying value and impairment and avoid relying on audit firms to identify indicators and complete a calculation
- COVID-19 may increase the risk a property will be impaired
- Can consider whether or not the changes leading to consideration of impairment are temporary
- Budgeted NOI divided by a market capitalization rate is a good quick test to determine impairment against net book value

Going Concern

- Topic is not new but was refined with ASU 2014-15, effective for fiscal year ends beginning Dec. 15, 2016
  - Requires management to evaluate whether conditions and events raise substantial doubt about ability to continue as a going concern
  - Requires management's evaluation to be based on the effect of known and reasonably knowable conditions and events at the date the financial statements are available to be issued AND for a period one year after that date
  - Identifies principles for considering whether management's plans mitigate the substantial doubt
  - Requires certain disclosures when consideration of management's plans alleviates substantial doubt
- COVID-19 may increase the going concern risk
- Auditor is required to consider management's evaluation

Liquidation Basis vs Going Concern Basis

Liquidation vs Going Concern

- The basis of presentation of the financial statements of an entity depends on circumstances.
  - If survival is uncertain, the statements shall continue to be presented on a going concern basis (i.e. normal GAAP)
  - Whenever an entity is to be liquidated, it’s historical costs are no longer relevant and a new basis of accounting applies

Liquidation Basis

- Liquidation basis applies if
  - Whose survival is not probable
  - Who are in the process of liquidation
  - Who are not in financial difficulty but have adopted a plan of liquidation

Liquidation Basis- Presentation

- If liquidation applies, the following is required
  - A statement of net assets in liquidation (not a balance sheet)
    - All assets are reported at estimated realizable amounts and liabilities are reported at settlement amounts
  - A statement of changes in net assets in liquidation
    - Which reports the estimated gains and losses on liquidation
  - Notes to the financial statements describing the plan of liquidation and basis of presentation (as well as all other required disclosures normally required under GAAP

Liquidation Basis and HUD

- A common instance where liquidation basis applies is a HUD TPA audit, however HUD does not want the TPA audit to be in liquidation basis as we just described.
- In order to comply with HUD, one option is to prepare special purpose financial statements

Other Considerations

Are assets considered held for sale?

Are there impairment indicators and was this considered?

Do we know the correct period under audit and is REAC updated?

Lease Accounting for Lessees

Lease Accounting for Leases

Overview:

- ASU 2016-02 was originally issued in Feb. 2016 to be effective for fiscal year ends beginning after Dec. 15, 2019
- In May 2020, FASB delayed effective date until fiscal year ends beginning after Dec. 15, 2021Measure leases at the beginning of the earliest period presented using a modified retrospective approach

Transition:

- The modified retrospective approach includes a number of optional practical expedients
- Leases that commenced before the effective date may be able to follow previous GAAP, except
  - For a lease that is modified, and/or
  - Lessees are required to recognize a right-of-use asset and a lease liability for all operating leases (PV of remaining minimum rental payments that were tracked and disclosed under previous GAAP).

For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities.

Lease Accounting for Leases

Finance Leases - lease meets **<u>any</u>** of the following criteria at lease commencement:

- The lease transfers ownership of the underlying asset to the lessee by the end of term.
- The lease grants an option to purchase the asset and it is reasonably certain to exercise.
- The lease term is for the major part of the remaining economic life of the underlying asset. (unless the commencement date falls at or near the end of the economic life of the underlying asset).
- The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially 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.

Operating Leases - From the perspective of a lessee, any lease other than a finance lease.

Lease Accounting for Leases

Finance Leases

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments
- Recognize interest on the lease liability separately from amortization of the right-of-use asset
- Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities
- Private companies are allowed to use a risk-free discount rate for a comparable lease term (must be applied to all leases)

Operating Leases

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis
- Classify all cash payments within operating activities

Lease Accounting Disclosures

- General description of leases
- Basis/term/conditions on which variable lease payments were determined
- Existence and terms of options to extend/terminate leases
- Significant assumptions/judgements on if a contract contains a lease and classification between lease and non-lease components
- Any transactions with related parties
- Options recognized or not recognized to determine ROU asset/liability
- Existence of any residual value guarantees
- Restrictions on covenants imposed by the leases
- Significant leases that have not yet commenced

Lease Accounting Disclosures

- Determination of the discount rate
- Election of practical expedient to not separate lease/non-lease components
- Quantitative disclosures
- Lease cost (segregated between amortization/interest for finance leases)
- Sublease income
- Net gain/loss on sale-leaseback transactions
- Maturity analysis (separate finance/operating leases)
- Cash paid for amounts included in measurement of lease liabilities (separate finance/operating leases)
- Supplemental non-cash information on lease liabilities (separate finance/operating leases)
- Weighted average remaining lease term and discount rate (separate finance/operating leases)

Lease to Dos

- Don’t wait until 2022
- Review your leases of land
- Make a list of leases and lease details
- Consider software if you have a lot of leases

Sales of Property: NBV vs. Asset Purchase Accounting

Sales of Property: Asset Purchase

- ASC 360-10-30-1 notes the historical costs of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use.
- ASC 805-50-30-5 describes the accounting for a transfer of assets between entities under common control.
  - The entity that receives the assets shall initially measure the recognized assets and liabilities at their carrying amounts in the accounts of the transferring entity at the date of transfer.
- Is ASC 805-50-30-5 applicable to the buyer?
  - ASU No. 2017-01 updated the definition of a business, and has determined that a real estate entity, such as the typical buyer in our industry, is not deemed to meet the definition of a business as there is no substantive process transferred.
  - ASC 805-50-15-4 notes in the Acquisition of Assets Rather than a Business Subsection does not apply to the initial measurement and recognition by a primary beneficiary of the assets and liabilities of a VIE when the VIE does not constitute a business.
- In the event the parent and the buyer presented consolidated financial statements, for example:
  - Guidance would suggest the parent would eliminate the increase in property value in the buyer's financial statement via an elimination or other entry
  - Avoids recognizing a gain to arrive at the end result of transferring the property at net book value suggested by quoted guidance above.

Sales of Property: Asset Purchase

- Other factors in the argument:
  - The acquisition cost is supported by the economics of the transaction
  - Purchase price supported by an appraisal
  - Underwriting activities of the investor member, lenders, and regulatory agency
  - Timing - what if the property is wholly owned for a brief time?

Sales of Property: NBV Accounting

- After determination that the sale is not a business combination you must consider whether the entities transferring and receiving property are under common control

- Control is defined in the glossary of ASC 805 as follows:

The direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise.

Sales of Property: NBV Accounting

- In order to determine if entities are under common control consider the following
  - majority voting ownership interest
  - Variable interest
  - Contractual or legal arrangements
  - Rights of a sole general partnership

- Assessment is based on ALL of the facts and circumstances surrounding the relationship

Sales of Property: NBV Accounting

Accounting when common control is concluded is as follows:

- ASC 805-50-30-5 – When accounting for the transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interests shall initially measure the recognized assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer.

Poll #3

What is your current office status?

a. Fully remote
b. Hybrid
c. In the office

Internal Controls in Remote Auditing

Internal Controls

- Financial Statement Audit
- Get an understanding of the controls
- Document controls
- Perform tests on the design of controls

Internal Controls

Considerations when one versus multiple control environments:

- A single control environment is one in which the control environment has stayed the same for the entire period of time during which transactions related to the fiscal year occurred.
- Multiple control environments could exist when the control environment changes significantly due to unforeseen events:
  - Staffing changes
  - Technology changes
  - Changes related to COVID

Internal Control

- Planning Discussion Topics
  - Amended/created policies and procedures to addresses extraordinary circumstances such as those caused by COVID-19
  - Changes in processes/controls related to grants management
    - Expenditure approval
    - Procurement
    - Cash management
    - Tenant eligibility certifications
  - Agency and/or program-specific waivers
    - Mortgage forbearance
    - Eviction moratorium
    - Tenant certifications – self-certifications, use of electronic signatures/documentation
    - Delay of move-in inspections

Internal Control

- Evaluation of Potential Findings
  - If there are KNOWN/published temporary program exceptions/allowances, these should be considered in the Auditor's evaluation of potential control deficiencies
  - Client's responses to adapt to program-specific changes should be captured within the Auditor's testing of controls (if related to a key control) and workpapers should reflect adequate documentation of the Auditor's understanding of the changes, including any impact to:
    - Timing of changes
    - Extent of changes
    - Whether the change was a "CAN" or a "MUST"

SEFA Completeness

Planning discussion items:	Responsibility to understand the source and nature of the funds and whether they need to be reported on the SEFA
• Are there any new federal grant awards and if so, how much will be spent during the audit period? • Were any existing grants modified or expanded as a result of emergency funding? • Gain an understanding of when expenditures were incurred during audit period	• Funding received through additional allocations under existing programs • Funding received through new loan/grant programs

Additional CARES Act allocations under existing programs – HUD Multifamily

PBRA CARES Act supplemental appropriations

- Additional subsidy allocations

Supplemental Payments (Updated Notice on November 24th)

- Tier I Standard Payments - Allows for the reimbursement of expenses up to a capped amount for each of the two designated operating periods (3/27 – 7/31, 8/1 – 11/30), based on a formula that considers:
  - Property size ($2,000 base amount, plus $60 per assisted unit),
  - Whether the property has a service coordinator funded from HUD rental receipts (up to $3,000 additional),
  - Whether the property's rental assistance contract or other controlling documents specify that the property house elderly residents (additional $1,000)
- Tier II Exceptional Cost Payments - Additional requests to address cost increases associated with responding to reported COVID-19 outbreaks among property residents or in response to extensive community exposure that creates a threat to the health and safety of residents within the community

Special Claims

- Vacancy claims for 60 days starting from the prior Tenant's Move-out Date as opposed to the Ready-for-Occupancy Date, in instances where preparation of the unit for occupancy was prevented due to the impact of COVID 19

New COVID Grants: Subject to Single Audit

Program Title	CFDA
Coronavirus Emergency Supplemental Funding Program	16.034
Coronavirus Relief Fund (CRF)	21.019
Disaster Assistance Loans (EIDL)	59.008
Stabilization Fund	84.425
Uninsured COVID Testing and Treatment	93.461
Provider Relief Fund	93.498*
Grants for New and Expanded Services under the Health Center Program	93.527
Emergency Grants to address Mental and Substance use Disorders During COVID 19 Pandemic	93.665
Rural Health Clinic Testing	93.697

** Includes for profit entity requirements*

New COVID Grants: NOT Subject to Single Audit

Coronavirus Food Assistance Program	10.130
Coronavirus Relief – Pandemic Relief for Aviation Workers	21.018
COVID-19 Telehealth Program	32.006
OED Resource Partners Training Portal	59.074
Economic Injury Disaster Loan **Emergency Advance ***	59.072
Payroll Protection Program Loans	59.073

** - Not to be confused with Emergency Injury Disaster Loans (EIDL) received for purposes related to the COVID-19 pandemic under the SBA's existing EIDL program (CFDA 59.008) are subject to single audit.*

SEFA Completeness

Federal Grantor/Pass-Through Grantor/Program Title	CFDA	Expenditures
US Department of HUD: (Direct Programs)		
Section 8 - Housing Assistance Payments		
COVID-19 - Section 8 - Housing Assistance Payments	14.195	9,000
Section 8 - Housing Assistance Payments	14.195	800,000
Subtotal Public and Indian Housing		809,000
Mortgage Insurance for Rental and Cooperative Housing - Section 221(d)(4)	14.135	15,000,000
Total Expenditures of Federal Awards		**15,809,000**

Observations from Performing and Audit in a Remote Environment

Electronic Information

Availability of electronic information helps both the auditors and the Organization

- Remote environments often sped up implementation of electronic record keeping

Beware of providing too much information

- Can create inefficiencies in sorting through information and could result in providing information that was not intended

Availability of time

Advantages

- Working remotely allows flexibility in completing work
- This environment can also help with better “focused” time

Disadvantages

- Without having the traditional “fieldwork” it can be out of sight out of mind
- Priorities can easily be shifted when there is not scheduled time

Resolution of Issues

- Working through more technical issues is always better to do in person when possible
- Key is to schedule specific time to discuss
  - Best in person, but video work as well.
- If questions take more that one email to resolve it's better to discuss over the phone or in person
- Need to be more deliberate and proactive in communication and updates

CPE Feedback Poll

- If you are seeking CPEs, please complete this brief feedback poll.
- Note: All registrants will receive links to the conference evaluations via email.
  - Please complete the conference evaluations to request CPE credit and to provide qualitative feedback.

Questions?

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