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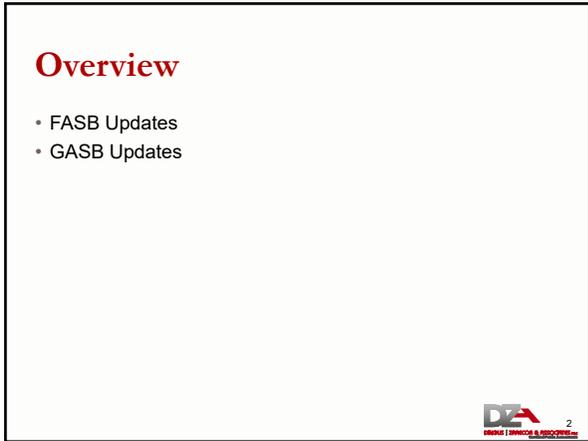
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**FASB Update—  
Implementation Costs in a Hosting  
Arrangement (Cloud Computing)**

- Effective for December 31, 2021, year ends and later
- Treat the same as internal-use software, except record it as a prepaid expense.
- Preliminary project stage – expense
- Application development stage – capitalize as a prepaid expense, amortize over the term of the hosting arrangement
  - Excludes training and data conversion costs
- Post-implementation and operation stage – expense
- Include the expense with the software expense.



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**FASB Update—  
Implementation Costs in a Hosting  
Arrangement (Cloud Computing)**

- Amortization period is the fixed noncancelable term plus:
  - a. Periods covered by an option to extend the hosting arrangement if the entity (customer) is reasonably certain to exercise that option
  - b. Periods covered by an option to terminate the hosting arrangement if the entity (customer) is reasonably certain not to exercise that option
  - c. Periods covered by an option to extend (or not to terminate) the hosting arrangement in which exercise of the option is controlled by the vendor.



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**FASB Update—  
Implementation Costs in a Hosting  
Arrangement (Cloud Computing)**

- “Reasonably certain”
  - 90% certainty
  - Consider all economic factors
    - Contract-based – contractual terms for the optional periods
    - Market-based – comparison of terms to market rates
    - Entity-based – importance of the software to operations, time and cost of terminating the contract and signing a new one



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## Polling Question 1

- What is cloud computing?
  - a) Like when some people look for animal shapes in the clouds, but for accountants
  - b) Lando Calrissian's occupation
  - c) A hosting arrangement in which the user entity does not have possession of the software
  - d) All of the above



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## FASB Update— Presentation and Disclosure of Contributed Nonfinancial Assets

- Effective June 30, 2022, year end and after
- Includes contributions of property, equipment, supplies, services, etc. (excludes cash and investments)
- Present as a separate line item – “Contributions – nonfinancial assets”
- Disclosures:
  - Amounts by type
  - Monetized vs. utilized
  - Restrictions
  - Valuation techniques



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## FASB Update— Leases

- Effective December 31, 2022, year end and later for nonpublic entities
- See Luke Zarecor presentation on October 26, 2021, at 10am or November 9, 2021, at 1pm for details.



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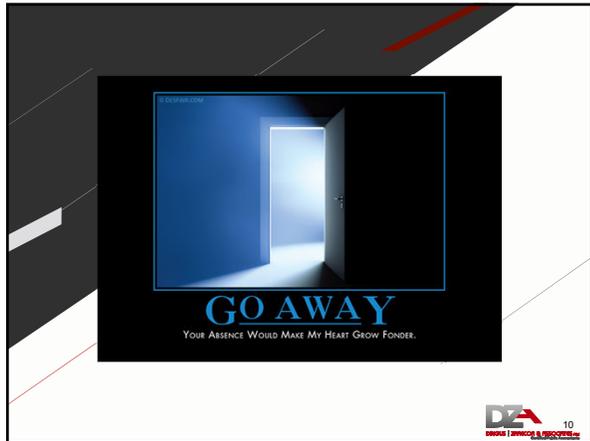
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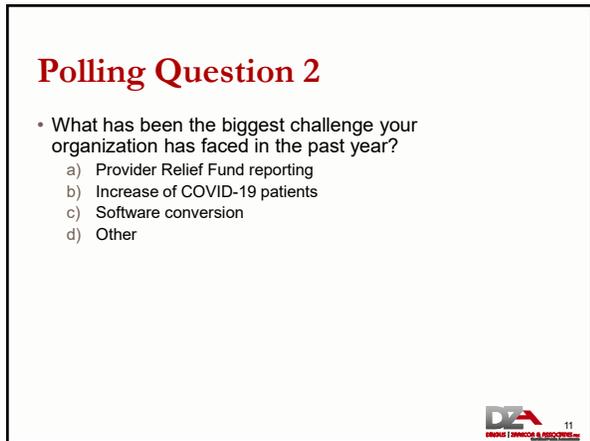
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## GASB Update Effective in 2020-2021

- Fiduciary activities
  - Key indicators
    - Separate entity (e.g. in a trust)
    - Financial burden (only applies to defined benefit plans)
    - Control
  - Include fiduciary component units in the financial statements
  - Subsequent pronouncements have made this only applicable to defined benefit plans unless the plan has a separate board appointed by your board or you control the assets
  - No control of assets if employees direct their investments
  - 457 plans that are similar to other defined contribution plans are treated the same



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## GASB Update Effective in 2020-2021

- Fiduciary activities – key takeaways
  - Defined contribution plan – not applicable unless the plan has a separate board appointed by your board or you control the assets.
  - Defined benefit plan administered by another entity, such as the state – not applicable
  - Defined benefit plan administered by your organization – likely applicable



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## GASB Update Effective in 2021-2022

- Capitalized interest
  - Expense when incurred
  - For construction in progress at the time of implementation, begin expensing at the beginning of the fiscal year of implementation
  - Cost-based reimbursement will still follow current rules



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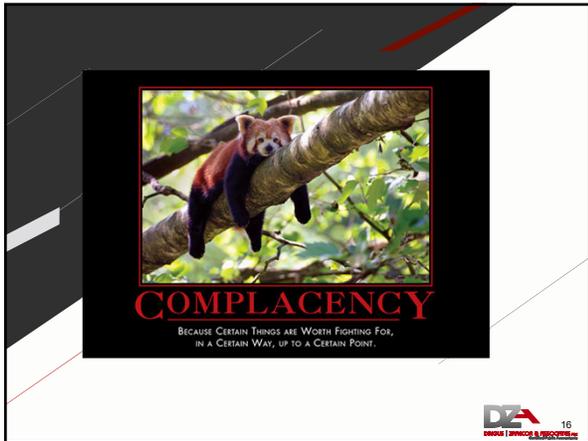
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### Polling Question 3

- Do you expect to have to include a fiduciary component unit in your financial statements?
  - a) Yes
  - b) No
  - c) Not sure
  - d) N/A – nongovernment entity

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### GASB Update Effective for June 30, 2023

- Subscription-based IT arrangements (cloud computing)
- Right-to-use asset and related liability (similar to lease standard)
  - Include implementation costs in the right-to-use asset if during the initial implementation phase.
  - Training costs are expensed when incurred.
- Lease term includes options to extend if reasonably certain to exercise the option and termination periods if reasonably certain not to exercise.

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## GASB Update Effective for June 30, 2023

- Reasonably certain
  - Consider all economic factors
    - Contract-based – contractual terms for the optional periods
    - Market-based – comparison of terms to market rates
    - Entity-based – importance of the software to operations, time and cost of terminating the contract and signing a new one
  - Also consider past history of exercising options



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## GASB Update Effective for June 30, 2023

- Exception for “short-term” contracts or month-to-month contracts.
  - Short-term is 12 months or less for the **maximum possible term** including options to extend, regardless of the probability they will be exercised.
  - These payments are expensed when incurred, including implementation costs.
  - Also applies if both parties can terminate without approval.



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## GASB Update Leases

- Effective June 30, 2022, year end and later for nonpublic entities
- See Luke Zarecor presentation on October 26, 2021, at 10am or November 9, 2021, at 1pm for details.



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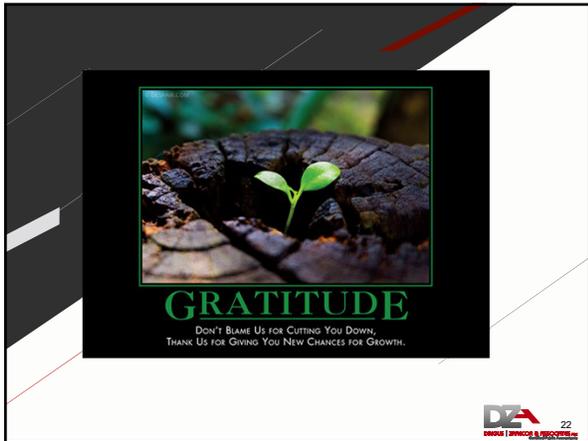
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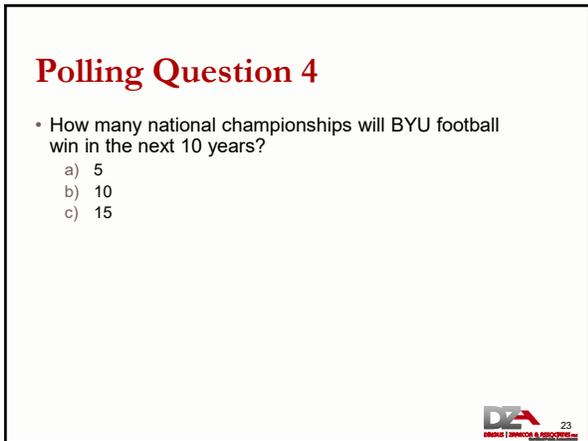
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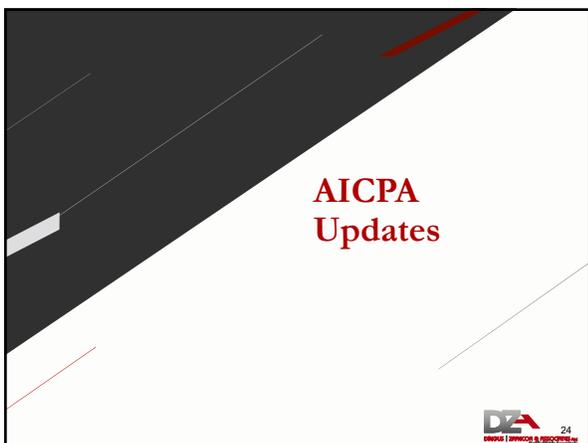
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## New Auditor Reports – SAS 134

- Effective for December 31, 2021, year ends and later
- Changes
  - Move opinion to the beginning
  - Add more titles
  - Key audit matters
  - Expanded disclosure of auditor responsibilities



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## New Auditor Reports – SAS 134

- Reasonable assurance
  - Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



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## New Auditor Reports – SAS 134

- Independence
  - We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits.
- Auditor responsibilities
  - **Exercise professional judgment and maintain professional skepticism** throughout the audit.
  - **Identify and assess the risks of material misstatement of the financial statements**, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.



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## New Auditor Reports – SAS 134

- Auditor responsibilities
  - **Obtain an understanding of internal control** relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.
  - **Evaluate the appropriateness of accounting policies** used and the **reasonableness of significant accounting estimates** made by management, as well as evaluate the overall presentation of the financial statements.
  - Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a **going concern** for a reasonable period of time.
  - We are required to **communicate with those charged with governance** regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control—related matters that we identified during the audit.



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## Polling Question 5

- Who is your favorite Star Wars character?
  - a) Luke
  - b) Darth Vader
  - c) Han Solo
  - d) Princess Leia
  - e) Boba Fett
  - f) The Mandalorian
  - g) Baby Yoda
  - h) Obi-Wan Kenobi
  - i) Darth Sidious
  - j) Rey



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Questions?



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**DZA**  
DINGUS, ZARECOR &  
ASSOCIATES

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