EideBailly®

CPAs & BUSINESS ADVISORS

ACCOUNTING UPDATE

November 7, 2024

DISCLAIMER

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.

EideBailly®

CPAs & BUSINESS ADVISORS

AGENDA

- THE CURRENT ECONOMIC ENVIRONMENT
- ACCOUNTING STANDARDS EFFECTIVE
- ACCOUNTING STANDARDS ON THE HORIZON

THE CURRENT ECONOMIC ENVIRONMENT

IMPACT OF RISING INTEREST RATES ON ORGANIZATIONS

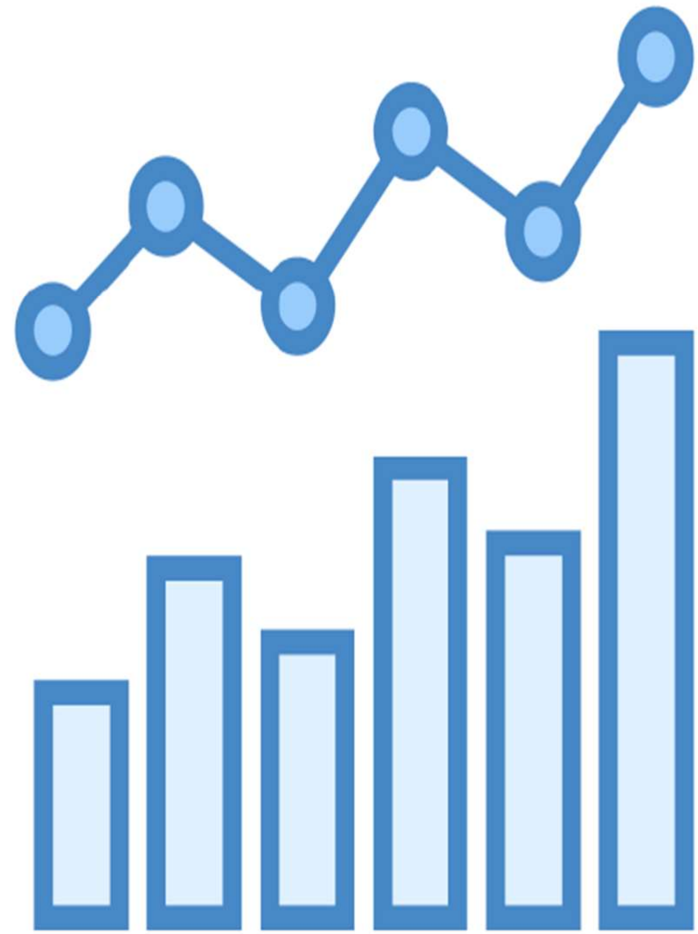
- Consideration of rates:
  - Variable rates
  - Fixed rates
  - Swaps

IMPACT OF RISING INTEREST RATES ON ORGANIZATIONS

- Increased cost of Borrowing:
  - Tightens cash flow
  - Rising cost of capital
  - Obtaining financing (or refinancing) may be more difficult

IMPACT OF RISING INTEREST RATES ON ORGANIZATIONS

- Other impacts:
  - Credit losses on accounts receivable (allowance for credit losses):
    - May not follow historical trends
    - Credit quality of customers may deteriorate
  - Fraud incentives:
    - Volatility of profits
    - Changes in demand
    - Needed results to obtain financing (refinancing)
  - Loan covenants



EideBailly

IMPACT OF RISING INTEREST RATES ON ACCOUNTING

- Accounting with discounted cash flows:
  - ASC 606 – customers with significant financing components
  - Long-term contributions
  - Investments
  - Loans and receivables
  - Credit losses
  - Certain fair value measurements
  - Pension plans
  - Leases

EideBailly

IMPACT OF RISING INTEREST RATES ON ACCOUNTING

- Accounting with discounted cash flows (cont'd):
  - Business combinations
  - Goodwill
  - Intangible assets
  - Asset retirement obligations
  - Impairments
  - Allowances
  - Estimates

ACCOUNTING CONSIDERATIONS

- Use of valuation specialist
- Going concern factors
- Fraud risk

INDICATORS OF GOING CONCERN

- Negative financial trends
- Financial difficulties
- Internal factors (labor difficulties, reducing production, etc.)
- External factors (legal issues, loss of customers, etc.)

MANAGEMENT'S RESPONSIBILITY FOR GOING CONCERN EVALUATION

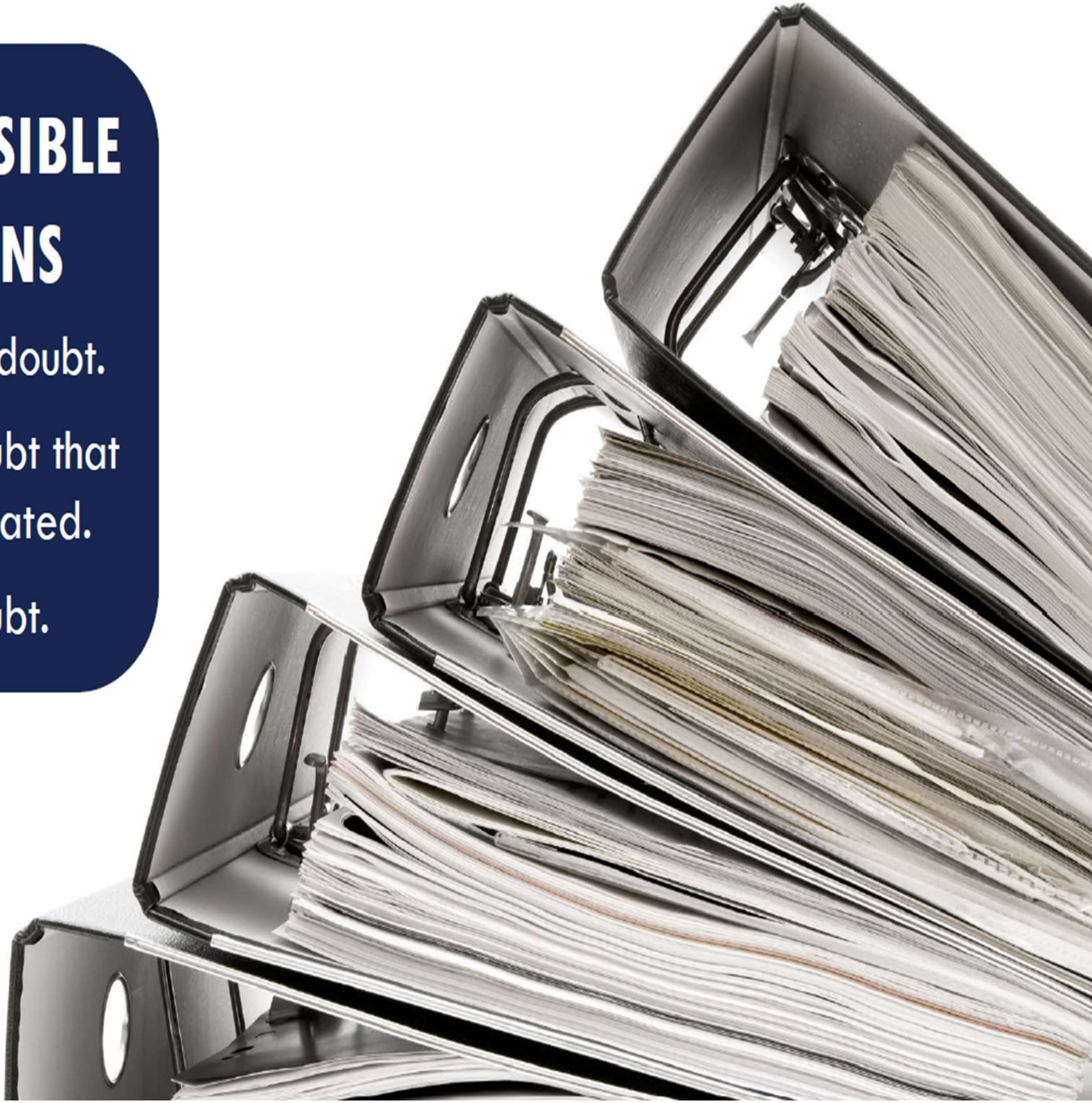
FASB – 1 year after financial statements are issued or available to be issued.

AUDITOR RESPONSIBILITY

- Discuss with management.
- Determine whether conditions, indicators or events raise doubt.
- If applicable – evaluate management plans and conclude on need for disclosure and emphasis-of-matter in auditor's report.

FASB – 3 POSSIBLE CONCLUSIONS

- No substantial doubt.
- Substantial doubt that has been alleviated.
- Substantial doubt.



FASB – EVALUATION

NO SUBSTANTIAL DOUBT	SUBSTANTIAL DOUBT ALLEVIATED	SUBSTANTIAL DOUBT
• Available cash and investment balances. • Undrawn line of credit or other available borrowings. • Historical cash flows trends. • Financing or credit agreements in place.	• Management has plan and evidence of implementation. • Signed financing arrangements. • Signed equity infusions agreement and collectability validated.	• Management has plans, but no signed agreements in place. • NOTE: Representation letter that owner/investors will make equity or debt contributions insufficient.

FRAUD RISKS

- Operational results for lenders and investors.
- Loan covenants.
- Susceptibility of accounts to changing interest and discount rates.
- Employee satisfaction and potential layoffs.

ACCOUNTING STANDARDS EFFECTIVE AND ON THE HORIZON

EFFECTIVE FOR 2024 YEAR-ENDS

ASU 2021-08, *BUSINESS COMBINATIONS (TOPIC 805) ACCOUNTING FOR CONTRACT ASSETS AND CONTRACT LIABILITIES FROM CONTRACTS WITH CUSTOMERS*

ASU 2021-08 BUSINESS COMBINATIONS (TOPIC 805) ACCOUNTING FOR CONTRACT ASSETS AND CONTRACT LIABILITIES FROM CONTRACTS WITH CUSTOMERS

Who is Affected?

- All entities that enter a business combination within the scope of Topic 805-10 (Business Combinations).

Main Provisions

- Require that an acquiring entity recognize and measure contract assets and contract liabilities in accordance with Topic 606 on revenue from contracts with customers and other contracts to which the provisions of Topic 606 apply.
- At acquisition date, acquirer should account for the related revenue contracts in accordance with Topic 606.

Difference from Current GAAP

- Acquirer recognizes assets acquired and liabilities assumed including contract assets and liabilities arising from revenue contracts with customers at fair value whereas Topic 606 is applied with this ASU.

ASU 2021-08, BUSINESS COMBINATIONS

- Effective Dates:
  - Public Business Entities – fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.
  - All Other Entities – fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.
  - Amendments applied prospectively.

ASU 2022-04, *DISCLOSURE OF SUPPLIER FINANCE PROGRAM OBLIGATIONS*

ASU 2022-04, DISCLOSURE OF SUPPLIER FINANCE PROGRAM OBLIGATIONS

- To enhance transparency of supplier finance programs.
- Amendments require buyers in a supplier finance program disclose:
  - Key terms of the program.
  - Amount outstanding that remains unpaid.
  - Where the obligation is presented in the balance sheet.
  - Roll forward of the obligations.
- Effective for fiscal years beginning after December 15, 2022, and interim periods within, except the roll forward information which is effective for fiscal years beginning after December 15, 2023.
- Early adoption is permitted.

EideBailly

ASU 2022-04, EXAMPLE DISCLOSURE

Note X – Supplier Financing Program

Under a supplier finance program, the Company has agreed to pay a bank the stated amount of confirmed invoices from its designated suppliers on the original maturity dates of the invoices, an annual subscription fee for the supplier finance platform, and service fees for related support. The Company or the bank may terminate the agreement upon at least 90 days' notice. The supplier invoices that have been confirmed as valid under the program require payment in full within 90 days of the invoice date. Confirmed and outstanding obligations are collateralized by the Company's inventories. The maximum amount of confirmed and outstanding obligations the Company may have at any one time under the program is $5,000,000. The outstanding liabilities under the program are presented within accounts payable in the accompanying consolidated balance sheets.

The Company's outstanding obligations confirmed as valid under the supplier finance program for the years ended December 31, 20CY and 20PY, are as follows:

	20CY	20PY
Confirmed obligations outstanding at the beginning of the year	$ -	$ -
Invoices confirmed during the year	-	-
Confirmed invoices paid during the year	-	-
Confirmed obligations outstanding at the end of the year	$ -	$ -

EideBailly

ON THE HORIZON (IN ORDER OF EFFECTIVE DATE)

ASU 2023-09 — *INCOME TAXES (TOPIC 740): IMPROVEMENTS TO INCOME TAX DISCLOSURES*

ASU 2023-09

BACKGROUND

- Includes amendments primarily related to:
  - (1) the disclosure of differences between the statutory tax rate and the effective tax rate by jurisdiction; and
  - (2) disaggregated information about income taxes paid.
- Amendments are intended to provide investors with additional information about an entity's global tax risks.

APPLICABILITY

- Applicable to all entities subject to ASC 740, *Income Taxes.*
- Certain disclosure requirements are applicable only to PBEs.

EFFECTIVE DATES

- PBEs:
  - Annual periods beginning after December 15, 2024.
- Non-PBEs:
  - Annual periods beginning after December 15, 2025.
- Early adoption permitted.

ASU 2023-09: RATE RECONCILIATION FOR NON-PBES

- Consistent with current guidance, ASU 2023-09 does not require entities other than PBEs to disclose a numerical reconciliation between the statutory tax rate and the effective tax rate.
- Amendments in this Update require an entity other than a PBE to qualitatively disclose:
  - the nature and effect of specific categories of reconciling items listed above.
  - individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

ASU 2023-09: RATE RECONCILIATION EXAMPLE (NON-PBES)

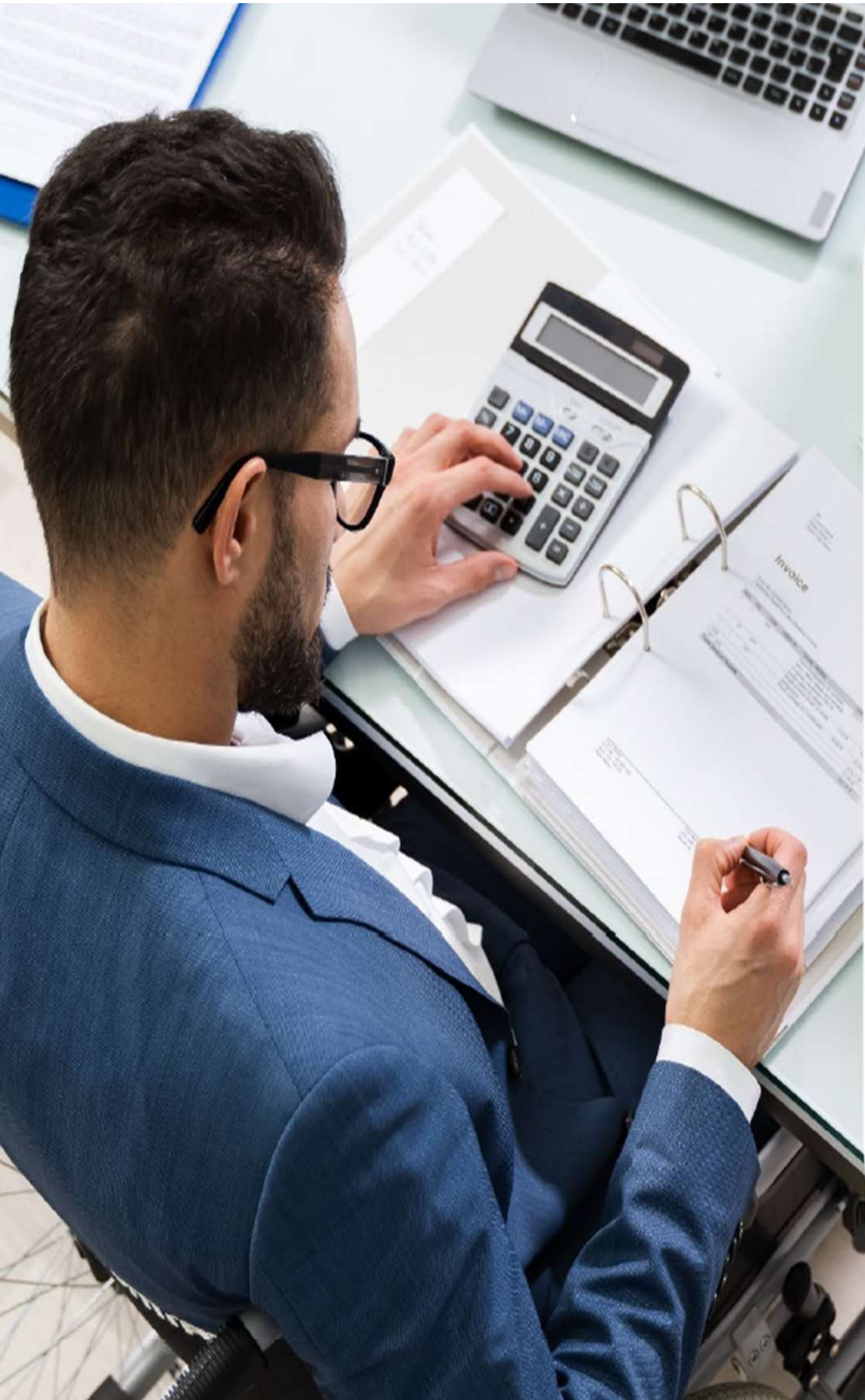
- ASC 740-10-55-233 provides the following example of significant reconciling items disclosure for an entity other than a PBE:
  - "The difference between Entity W's effective tax rate and its statutory tax rate is primarily attributable to tax credits, state taxes, and foreign taxes. More specifically, the foreign tax effects of Entity W's operations in Ireland had a decreasing effect on its effective tax rate, while the foreign tax effects of Entity W's operations in France had an increasing effect on its effective tax rate. Entity W received federal research and development tax credits, which decreased its effective tax rate, while state taxes in California increased its effective tax rate."

EideBailly®

ASU 2023-09: INCOME TAXES PAID (ALL ENTITIES)

- This Update requires for each annual period presented that all entities disclose the amount of income taxes paid (net of refunds received) disaggregated by:
  - federal (national)
  - state
  - foreign
- Further disaggregation is required for each individual jurisdiction in which income taxes paid (net of refunds received) equals or exceeds "5 percent of total income taxes paid (net of refunds received)".

EideBailly.



ASU 2023-09: DISCLOSURE OF DISAGGREGATED AMOUNTS (ALL ENTITIES)

- Additional disclosures related to pretax income and expense required to be presented for each annual reporting period include:
  - Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign.
  - Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state and foreign.

ASU 2023-09: DISCLOSURES REMOVED (ALL ENTITIES)

- Disclosure requirements previously included in ASC Topic 740 which have been removed include:
  - The nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months (or to 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.[2]

[2] - *disclosure of the types of temporary differences for which a deferred tax liability has not been recognized under ASC 740-30-50-2(a), (c) and (d) should continue to be made*

EideBailly

FASB CURRENT PROJECTS

RECOGNITION AND MEASUREMENT

- Accounting for Government Grants
  - Feedback on the need to codify accounting for government grants by business entities.
  - Project to create recognition, measurement, and presentation requirements for business entities that receive government grants.
  - Status – Decided to leverage the accounting framework within IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, for government grants and to include targeted improvements to the guidance and to provide limited implementation guidance.

RECONNECT

- Current RUS borrowers providing an audit conducted in accordance with GAGAS (Generally accepted government auditing standards) are not required to undergo a single audit.
- Subsidiaries previously reporting under consolidated unit required to have stand-alone audit for ReConnect

AMERICAN RESCUE PLAN ACT (ARPA)

- Federal awards distributed by the state, subject to single audit compliance (2 CFR 200, Subpart F) which applies to all federal awards.
- Expenditures over $750,000 for 2024 ($1,000,000 for year-ends after 9/30/25) require a single audit, due nine months after year end

BROADBAND, EQUITY, ACCESS AND DEPLOYMENT (BEAD)

- Appears to be subject to single audit compliance

QUESTIONS?

THANK YOU!

Tracey Welcher, CPA
Partner
twelcher@eidebailly.com
918.388.6698

EideBailly®

CPAs & BUSINESS ADVISORS