

GASB Update

2019 NC Auditing, Reporting and Review

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GASB Statement No. 83

Certain Asset Retirement Obligations



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Overview of Standard

- Provides guidance on retirement of capital assets *that potentially create long-term liabilities related to closure*
 - Similar concept to landfill closure/post-closure and pollution remediation obligations

Examples of Asset Retirements

- Decommission a nuclear reactor
- Remove and dispose an x-ray machine
- Remove and dispose of wind turbines
- Closure and removal of a sewage treatment facility

Potential Retirement Costs Excludes....

- Cost of *planning* to sell/dispose tangible capital assets
- Prepping an asset for alternative use
- Pollution mitigation and landfill closure
- Routine maintenance
- Replacement of capital asset parts

When is an obligation incurred?

- Timing is based on a *combination* of an *external* and an *internal* event
- External?
 - Approval of federal/state/local law/regulation
 - Creation of a legally binding contract
 - Issuance of a court judgment
- Internal?
 - Contamination
 - Actual use of the asset itself
 - Permanent abandonment before even placed in use

Other Elements of the Standard

- Valuation calculations
 - “...should be based on the best estimate of current value of the outlays expected to be incurred”
- Outflows of resources / deferred outflows of resources recognized
- After initial measurement – current value of ARO adjusted annually
- Required note disclosures (of course!)
- Implementation date – FY beginning after 12/15/18

GASB Statement No. 84

Fiduciary Activities

Fiduciary Fund Reporting

- Fiduciary fund types for *legally entrusted* arrangements
 - Pension (and other employee benefit) trust funds
 - Pension plans
 - OPEB trust
 - Investment trust funds – external investment pools
 - Private-purpose trust funds
 - Legally entrusted assets that are *not* pension or OPEB assets
 - Government named as trustee but *not* the beneficiary
 - May be expendable or nonexpendable in nature

Fiduciary Fund Reporting (cont.)

- Fiduciary fund type for such activities *not legally entrusted*
 - Custodial funds
 - Such funds may have equity

Fiduciary Financial Statements

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

Implementation Date

- Fiscal years that begin *after* December 15, 2018

GASB Statement No. 87

Leases



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Scope and Approach

- “A lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”
- All leases are financings of the right to use an underlying asset
 - Therefore, single approach applied to accounting for all leases with a few exceptions
 - Lessee recognizes a liability and a capital asset
 - Lessor recognizes a receivable and a deferred inflow of resources
- Statement does not apply to leases for intangible assets (computer software), biological assets, service concession arrangements, supply contracts

Initial Reporting - Lessor

- Recognize lease receivable
 - PV of payments received over lease term
- Recognize deferred inflow of resources
- Lessor should not derecognize asset underlying the lease
 - Accounting for depreciation and impairments continue
 - If asset must be returned in original condition, do not depreciate

Subsequent Reporting - Lessee

- Lease asset amortized in a systematic and rational manner
 - Shorter of lease term or underlying life of asset
 - If lease contains purchase option that lessee is reasonably certain to exercise, amortize over useful life of asset
 - For non-depreciable assets, no lease amortization
- Lease amortization reported as an outflow of resources – expense
- Discount on present value is amortized in a systematic way as an outflow of resources (interest expense)

Subsequent Reporting - Lessor

- Discount on receivable amortized as interest revenue at a constant periodic rate of return
- Recognize inflows of resources (revenues) over lease term in a systematic and rational manner

Other Items

- Governmental Fund accounting – no real change from current GAAP
- Implementation for periods beginning after 12/15/19

GASB Statement No. 89

*Accounting for Interest Cost Incurred Before the
End of a Construction Period*



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Interest Capitalization

- *Accounting for Interest Cost during the
Period of Construction*
- Issued June 2018
- Effective for fiscal periods beginning after
12/15/19

Interest Capitalization (cont.)

- Interest cost will simply be expensed in the period incurred
- Interest will *not be* capitalized prospectively

Common Accounting and Financial Reporting Challenges

Terminology

- “Net position” rather than “net assets”
- “Capital assets” rather than “fixed assets”
- “Unmodified opinion” rather than “unqualified opinion”
- “Net investment in capital assets” rather than “investment in capital assets, net of related debt”

Terminology (continued)

- “Issuance of debt” rather than “proceeds of debt”
- “Fair value” rather than “market value”

MD&A

- Missing analysis for all major funds concerning changes in fund balances
- Amounts in the MD&A should be consistent with the CAFR presentations
- Condensed financial data should include “deferred outflows of resources” and “deferred inflows of resources” below the required “total assets” and “total liabilities” line-items

Basic Financial Statements

- Typically, net pension liability should be reported with noncurrent liabilities due in one year
- Net investment in capital assets calculation
 - Unspent debt proceeds incorrectly included
 - Asset titles not held by reporting government

Governmental Fund Financial Statements

- Lack of proper major fund reporting
- Only the general fund should report nonspendable fund balance for the following:
 - Long-term loans
 - Long-term receivables
 - Property held for resale

Proprietary Funds

- Schedule of noncash investing and financing activities should be reported on the statement of cash flows when applicable, such as:
 - Noncash capital contributions
 - Material changes in the fair value of investments
 - Entering into a material capital lease arrangement

Note Disclosures

- Lack of sufficient disclosure as to why components units are either blended or discretely presented
- Donated capital asset disclosures should state “acquisition value” and not “fair value”
- Inventories are reported at cost; inventory held for resale should be reported at the lower of cost or market

Note Disclosures (continued)

- Note disclosures for pension plans should clearly indicate whether the plan is single-employer, agent multiple-employer, or cost-sharing multiple-employer plan
- Significant encumbrances should be reported in total for each major fund and for the nonmajor funds in the aggregate

Note Disclosures (continued)

- Increases/decreases in compensated absences should be reported at individual gross amounts rather than at net
- Reimbursements are not transfers but rather should be treated as a reduction of the applicable expense/expenditure
- Amounts in the note disclosures should be consistent with the financial statements

Preliminary Views

Financial Reporting Model Improvements

Background

- Preliminary Views issued September 2018
- Exposure Draft anticipated in June 2020
- Final standard anticipated in February 2022

Governmental Fund Recognition Concepts

- Short-term financial resources measurement focus replaces the current financial resource measurement focus
 - Balances, outflows and inflows of resources from short-term transactions recognized as they occur
 - Balances, outflows and inflows of resources from long-term transactions recognized when payments are due

Proprietary Fund Financial Statements

- Multiple categories on the resource flows statement
 - Operating revenues/expenses
 - Nonoperating revenues/expenses
 - Subsidies
 - Financing revenues/expenses
 - Resources from capital disposals
 - Investment revenue/expenses
 - Other (e.g., capital contributions)

Budgetary Comparisons

- Budgetary information reported one way – Required Supplementary Information (RSI)
- Original and final budget amounts presented
- Final budget vs. actual amounts reported

Other Issues Addressed

- Major component units
 - Report individually either as currently done at government-wide or as combining financial statements following the fund financials
- Schedule of government-wide expenses by function or program
 - Only by entities that prepare a CAFR
 - Presented as supplementary information

Revenue and Expense Recognition

- Invitation to Comment issued January 2018
- Preliminary Views anticipated May/June 2020
- Exposure Draft anticipated December 2021
- Final standard Spring 2023

Key Considerations in the ITC

- Exchange/nonexchange model
- Performance obligation/no performance obligation model
- Alternative model

Exchange/Nonexchange Model

- Exchange transaction?
 - Recognize revenue and expense on an earnings recognition approach
 - Government controls a resource or incurs an obligation, AND
 - Event not applicable to a future period
- Nonexchange transaction?
 - Recognize based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
 - Derived tax revenues
 - Imposed nonexchange revenues
 - Government-mandated and voluntary nonexchange transactions

Performance Obligation/No Performance Obligation Model

- Performance obligation defined:
 - A promise in a binding arrangement between a government and another party to provide distinct goods or services to a specific beneficiary
 - A binding arrangements includes contracts, grant agreements, enabling legislation, etc.
 - Recognize revenue when there is a transfer of goods and services to a beneficiary for consideration expected to be received
 - Recognize expense when there is a receipt of goods or services from another party in return for consideration committed to be paid

Performance Obligation Determinants

- Determine consideration
- Allocate consideration to performance obligation
- Recognize revenue/expense as each performance obligation is fulfilled

No Performance Obligation

- Recognize based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*

Alternative Models

- Exchange transaction?
 - Follow the performance obligation approach
- Nonexchange transaction?
 - Recognize based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*