

# GASB Update

2019 NC Auditing, Reporting and Review

*Presented by*  
Gregory S. Allison, CPA  
Teaching Professor



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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

## Lease Term

- Period during which a lessee has a noncancelable right to use an underlying asset
  
- Fiscal funding/cancellation clauses should not affect the lease term unless it is reasonably certain that it is going to be exercised
  
- *A short term lease has a maximum ORIGINAL term of one year; lessees and lessors reflect outflows and inflows of resources, respectively*

## Initial Reporting - Lessee

- Recognize lease liability
  - PV of payments expected to be made in lease term
- Recognize capital asset
  - Sum of lease liability adjusted for lease payments at or before the lease started and initial direct costs necessary to place asset into service



## 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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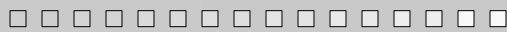
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## Interest Capitalization

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



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## 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

## Proprietary Funds (continued)

- In the basic financial statements, major fund reporting is required for the enterprise funds
  - Internal service funds *must* be reported by fund type
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## Fiduciary Funds

- In the basic financial statements, *all* fiduciary funds must be reported by fund type
  - Major fund reporting does not apply to fiduciary funds



## 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

## Governmental Fund Recognition (cont.)

- Examples
  - Concept of availability as currently known replaced
  - Accrued interest on long-term debt reported on the balance sheet
  - Inflows = Revenue
  - Outflows = Expenditures

## Governmental Fund Financial Statements

- Short-term Financial Resources Balance Sheet
- Statement of Short-term Financial Resource Flows
- Short-term assets/liabilities, deferred inflows/outflows
- Inflows and outflows would be reported for both current and non-current activity
  - E.g., Salaries vs. debt service

## 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*