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GASB EMERGENCY TOOLBOX

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New Tools

- ❑ Disclosures related to the outflow of resources
- ❑ Donated inventory
- ❑ Nonexchange financial guarantees
- ❑ Nonexchange transactions
- ❑ Operating and nonoperating revenue and expenses
- ❑ Property tax revenues
- ❑ Subsequent events

Rusty Tools

- ❑ Capital Asset Impairment
- ❑ Contingencies
- ❑ Debt Extinguishments
- ❑ Demand Bonds
- ❑ Disposal of Operations
- ❑ Extraordinary and Special Items
- ❑ Going Concern
- ❑ MD&A
- ❑ Prior Period Adjustments and Accounting changes
- ❑ Revenue and Expense/expenditure Recognition
- ❑ Revenue and Receivable Recognition
- ❑ Significant Violations of Finance-related Legal or Contractual Provisions
- ❑ Termination of Benefits
- ❑ Troubled Debt Restructuring

Disclosers Related to Outflow of Resources

- ❑ In response to COVID-19
 - No specific disclosure criteria is required
 - Only disclose important and material items if considered necessary
 - Unnecessary disclosures clutter the financial statements and omitted disclosures can be misleading
 - Use your judgement

Donated Inventory

- In response to donated personal protection equipment
 - Does not qualify under non-exchange transaction guidance
 - Valued at fair value unless fair values are not determinable within reasonable limits
 - Use materiality

Nonexchange Financial Guarantees

- ❑ Record liability if more likely than not, the government will need to make payment
- ❑ Discounted present value of the future outflows expected to be incurred as a result of the guarantee
- ❑ Record as revenue if the government is legally released as an obligor

Nonexchange Transactions

- If eligibility requirements are no longer met or cannot comply with the purpose restrictions with the specified time limit
 - Recognition of a liability for the amount that the provider is expected to cancel or reclaim

Operating and Nonoperating Revenue and Expenses Classification of Transactions Not Specifically Addressed

- ❑ First consider accounting principles for similar transactions or events within a source of authoritative GAAP
- ❑ Second consider nonauthoritative accounting literature from other sources
- ❑ Nonauthoritative can not contradict authoritative guidance

Property Tax Revenues

- ❑ Property Tax should be recognized in the period levied, provided the “available” criteria are met
- ❑ Available to be used to pay liabilities of the current period and shall not exceed 60 days
- ❑ Disclosure is required to define the available period and if because of unusual circumstances, the period is greater than 60 days, the government should disclose the period being used and the facts that justify it

Subsequent Events

☐ Recognized Events

- Events that provide additional evidence that effect the estimates in preparing financial statements
- Requires adjustment to the financial statements

☐ Non-recognized Events

- Essential to a user's understanding of the financial statements
- Do not result in adjustment to the financial statements

Capital Asset Impairment

- ❑ A significant decline in the service utility of a capital asset
- ❑ Circumstances that lead to impairments are not considered normal and ordinary
 - Not considered to occur during the asset's useful life
- ❑ Decreases in utilization that are not associated with a decline in service utility are not considered to be impaired

Capital Asset Impairment

- ❑ Identification of events or changes in circumstances that may indicate impairment
 - Evidence of physical damage
 - Enactment or approval of laws and regulations
 - Technological development or evidence of obsolescence
 - The change in the manner or expected duration of use of a capital asset
 - Construction stoppage

Capital Asset Impairment

□ Impairment Test

- Magnitude of the decline in service utility is significant
- The decline in service utility is unexpected
- Not required to perform additional procedures to identify potential impairment of capital assets beyond those already performed as part of normal operations

Capital Asset Impairment

- Measurement of Impairment
 - Assets continued to be used
 - Restoration cost approach
 - Service units approach
 - Deflated depreciation replacement cost approach
 - Capital assets no longer used
 - Lower of carrying value or fair value

Contingencies

□ Loss contingencies

- The likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability (can range from probable to remote)
- Accrual is required when:
 - Information is available prior to issuance of the financial statements and is probable that an asset is impaired, or a liability has been incurred
 - The amount of loss can be reasonably estimated
- Disclosure may be necessary even if an accrual is not made or the probability of a loss is remote

Debt Extinguishments

- ❑ Current Refunding – New debt proceeds may be used to repay old debt immediately (when callable)
- ❑ Advance Refunding – New debt proceeds are placed in escrow and invested until they are used to pay the old debt
 - Results in debt defeasance
 - Legal defeasance – legally satisfied even if not fully paid
 - In-substance defeasance – accounting for as defeased but legal defeasance has not yet occurred

Debt Extinguishments

- ❑ Current and advance refunding proceeds are reported in other financing resources
- ❑ Advance refundings payments are reported as a deposit to the escrow agent in other financing resources
- ❑ Current refundings payments are reported as debt service
- ❑ The difference between the carrying value of the old debt and the new debt is reported as a deferred inflow/outflow as a deferred refunding loss and amortized

Debt Extinguishments

□ Disclosures

- Description of the transaction including:
 - Cash flow savings
 - Economic gain or loss (difference in PV between the old and new debt service)
- Amount of defeased debt outstanding from advanced refundings (updated each year until maturity)

Demand Bonds

□ Demand Bonds

- Reported as long-term liabilities if all are met:
 - The issuer has entered into a financing (take out) agreement
 - The take out agreement does not expire within one year
 - The take out agreement is not cancelable by the lender

□ Bond, tax, and revenue anticipation notes

- Reported as fund liabilities unless refinanced to a long-term basis

Disposal of Operations

- ❑ Gains or losses on disposals should be reported as a special item in the period the disposal occurs
- ❑ Only includes costs that are directly associated with the disposal of operations
- ❑ Disposal costs include:
 - Costs of benefits provided to involuntary terminations
 - Contract termination costs
 - Other directly related costs

Extraordinary and Special Items

- ❑ Extraordinary – transaction or events that are both unusual and infrequent in occurrence
- ❑ Special items – within the control of management that are either unusual or infrequent in occurrence
- ❑ Reported separately at the bottom of the statement of activities

Going Concern

- ❑ Evaluation of the entity's ability to continue as a going concern for 12 months beyond the financial statement date

- ❑ Indicators of substantial doubt of a government's ability to continue as a going concern
 - Negative trends
 - Financial difficulties
 - Internal matters
 - External matters

Going Concern

□ Disclosure

- Conditions and events giving rise to the assessment of the government's ability to continue as a going concern
- The possible effects of such conditions and events
- Government officials' evaluation of the significance of the conditions and events and any mitigating factors
- Possible discontinuance of operations
- Government officials' plans
- Information about the recoverability or classification of recorded asset or liabilities

MD&A

- Should include the following that are expected to have a significant effect on the financial statements:
 - Current known facts
 - Management's decisions
 - Conditions

Prior-period Adjustments and Accounting Changes

- ❑ Change in accounting principle
 - Reported as an adjustment to net position
- ❑ Change in accounting estimate
 - Not reported as a restatement
- ❑ Change in estimate effected by a change in accounting principle
 - Not reported as a restatement
- ❑ Change in the reporting entity
 - Reported as an adjustment to net position
- ❑ Correction of an error
 - Reported as an adjustment to net position

Prior-period Adjustments and Accounting Changes

□ Disclosure

- Nature and justification for the change
- Effect on beginning net position (if applicable)
- Reported in the year of change and subsequent financial statements do not need to repeat the disclosure

Revenue and Expense Recognition

- Revenue Recognition-Modified Accrual
 - When receipt is delayed
 - Material revenues otherwise not recorded until received should be accrued if receipt is delayed beyond the normal time of receipt
 - Revenues received in advance
 - Material revenues received prior to normal time of receipt should be recorded as liabilities, unless the revenues are a result of a nonexchange transaction, and all eligibility requirements have been met

Revenue and Expense Recognition

- Expense Recognition-Modified Accrual
 - Most expenditures are measurable and should be reported when the related liability is incurred
 - Long-term liabilities excluded
 - Not paid in full from current financial resources

Revenue and Receivable Recognition

- Revenue is recognized in the accounting period in which they become susceptible to accrual (modified accrual)
 - Both measurable and available to finance expenditures of the fiscal period
 - Available – collectable within the current period or soon enough thereafter to be used to pay liabilities in the current period
 - Susceptible to accrual principle should include materiality, practicality, consistency

Revenue and Receivable Recognition

- ❑ Exchange Transactions – Recognized as revenue once the exchange has been made
- ❑ Derived Tax Revenues – Recognized in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received
- ❑ Imposed Nonexchange Transactions – Recognized in the period when an enforceable claim to the assets arises or when the resources are received
- ❑ Government-mandated and Voluntary Nonexchange Transactions – Recognized when eligibility requirements are met

Significant Violations of Finance-related Legal or Contractual Provisions

- ❑ Footnote disclosure is required for significant violation of legal and contractual provisions and actions taken to address such violations
 - Debt covenants
 - Environmental
 - Labor contracts

Termination of Benefits

☐ Measurement

- Present value of the expected future benefit payments
- The estimate should include a healthcare cost trend rate assumption or for non-healthcare related an assumption regarding changes of future cost levels

☐ Recognition

- Modified – Portion expected to be liquidated with expendable available financial resources
- Accrual - Total estimate

Termination of Benefits

□ Disclosure

- A description of the termination benefit arrangement
- The number of employees affected
- The period of time over which benefits are expected to be provided
- Cost of termination benefits
- Significant methods and assumptions used to determine the liabilities

Troubled Debt Restructuring

- May include the following
 - Transfer of assets (receivables, real estate, etc.) to satisfy fully or partially a debt
 - Issuance or other granting of an equity interest to the creditor
 - Modification of terms of a debt
 - Reduction of the interest rate
 - Extension of maturity
 - Reduction of the principal
 - Reduction of accrued interest

Troubled Debt Restructuring

☐ Transfer of Assets

- A gain or loss should be recognized as the difference between the carrying value of the asset and the liability

☐ Modification of Terms

- No change in carrying value of liability unless:
 - The total future cash payments exceeds the carrying value
 - The total future cash payments are less than the carrying value and a gain should be recognized

Sources

- ❑ GASB Emergency Toolbox
 - <https://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176174469582>
- ❑ GASB Codification

QUESTIONS?

Contact me!



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