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GASB Update and Non-profit Reporting Model

December 17, 2018

GASB Statement No. 88

- Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements
- Issued: March 2018
- Effective Date: Periods beginning after June 15, 2018.

Background

- Concerns raised about debt arrangements entered into by governments that could pose additional risks to their credit profile
 - Inconsistency in disclosures, therefore
 - Difficult to assess the risks
- Clarity needed as to which long-term liabilities constitute debt for disclosure purposes

Definition of Debt

- Debt is defined as “... a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.”
- The definition excludes leases (except those that transfer ownership) and accounts payable.

Definition of Debt (cont.)

- Fixed at the date the obligation is established
 - Variable rate debt and capital appreciation bonds still considered debt, because principal amount is fixed
- Liabilities not in scope
 - Leases – covered in GASB Statement 87
 - Accounts payable
 - May meet definition of debt, but are short-term in nature
 - Contracts that require future performance
 - Employment contract for city manager
 - Pension/OPEB, pollution remediation, landfills
 - Payments are not fixed when liability is recognized

New Debt Disclosures

- Statement 88 requirements are in addition to previous required note disclosures for debt
- Debt related items to be included in notes to financial statements (if applicable)
 - Amount of unused lines of credit
 - Assets pledged as collateral for debt
 - Terms specified in debt agreements related to significant:
 - Subjective acceleration clauses
 - Events of default with finance-related consequences
 - Termination events with finance-related consequences

New Debt Disclosures (cont.)

- Information about direct borrowings and direct placements should be separate from other debt
 - Changes in long-term debt
 - Repayment schedules
 - Assets pledged as collateral for debt
 - Events of default with finance-related consequences
 - Termination events with finance-related consequences
 - Subjective acceleration clauses

GASB Statement No. 89

- Accounting for Interest Cost Incurred before the End of a Construction Period
- Issued: June 2018
- Effective Date: Periods beginning after December 15, 2019

Background

- GASB 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting
 - Froze private-sector GAAP that did not conflict with GASB standards as of 11/30/1989 as the foundation of governmental GAAP for business type entities (BTAs) and proprietary funds
- GASB 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government
 - Economic resources measurement focus reporting for governmental activities
 - No interest capitalization for general governmental assets in government-wide financial statements

Background

- GASB 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements
 - Approach: adopt applicable to pre-November 30, 1989, FASB and AICPA pronouncements
 - Carried forward FASB guidance from 1979 and 1982

Pre-GASB 89 GAAP

- Inconsistent interest capitalization within government financial statements prepared on an economic resources measurement focus
 - Capitalize interest incurred for assets in enterprise funds and business-type activities
 - Don't capitalize in governmental activities

GASB Concepts Statement 4

- Assets are resources with present service capacity that the government presently controls
 - Is interest incurred prior to construction completion an asset?
 - No; interest doesn't meet criteria on its own
 - Are financing costs inseparable from the asset (like ancillary charges)?
 - No; financing is a separate transaction

Exception for Regulatory Accounting

- As with all period costs, interest cost may be capitalized as a regulatory asset if
 - The government qualifies as a regulated operation,
 - The government has elected to apply regulatory accounting, and
 - Interest costs will be recovered through future rates

Implementation

- Effective – periods beginning after December 15, 2019
- Early implementation is encouraged
- Prospective from beginning of period implemented
 - No need to back-out previously capitalized interest

GASB Statement No. 90

- Accounting and Financial Reporting for Majority Equity Interests
- Issued: August 2018
- Effective Date: Periods beginning after December 15, 2018

Background

- GASB 72, Fair Value Measurement and Application issued in December 2015
 - Stakeholders with majority equity interest requested guidance on whether to apply standards to component units (CUs) or to investments if the holding met both sets of requirements
- Objective: clarify when a government should report a majority equity interest in a legally separate organization as either a component unit (CU) or an investment

Pre-GASB 90 GAAP

- Government's intent in acquiring majority equity interest (MEI) determines if reported as component unit (CU) or an investment
 - Unclear which should be used if intent was to both provide services and earn income
- When entity was reported as a discretely presented CU, the government also recognized an asset of the government or fund, measured using the same approach as for holdings in joint ventures

GASB 90 – Equity Interest

- An equity interest is
 - A financial interest
 - In a legally separate organization,
 - Represented by shares of stock or otherwise having an explicit, measurable right to net resources of organization, that is
 - Usually based on an “investment” of financial or capital resources by a government

Equity Interest (cont.)

- A government has an explicit, measurable right to net resources of an entity if the
 - Government has a present or future claim to net resources, and
 - Government's share is determinable
- Clarification
 - Excludes residual interests in assets that may revert to a government upon dissolution of an entity

Investment Determination

- Investment asset criteria
 - Government holds primarily for income or profit, and
 - Has a present service capacity based solely on ability to generate or be sold for cash
- Example: Public hospital (BTA) has two MEIs
 - A majority partnership interest in a real estate investment partnership is held in an endowment fund
 - Investment asset
 - A holding of 60% of the voting capital stock of medical imaging facility providing services to patients
 - Non-investment asset

Investment MEI

- Report
 - Investment asset of the government or fund that holds MEI
 - Do NOT also report entity as a CU
- Measure using the equity method, except use fair value if investment is held by a designated kind of government or fund
 - Special-purpose government engaged only in fiduciary activities (pension/OPEB)
 - Fiduciary fund
 - Endowment (term or permanent)
 - Permanent fund

Non-investment MEI

- Report:
 - Non-investment asset of the government or fund that holds MEI
 - A CU because MEI = financial accountability
 - Blended or discrete
 - If blended, eliminate asset and CU net position

Non-investment MEI (cont.)

- Measurement based on measurement focus:
 - Economic Resources MF – Measure using equity method (for all kinds of holder governments and funds)
 - Current Financial Resources – Report only current financial resources (payables & receivables between government and entity)
 - Special rules for 100% interest

100% Equity Interest in CU

- Follows guidance for government acquisitions (Cod. Co10, GASB 69)
- CUT measures assets, deferred outflows, liabilities, and deferred inflows at acquisition value as of acquisition date
 - Acquisition value = Price that would be paid for acquiring similar assets, with similar service capacity, or discharging the liabilities assumed as of acquisition date
 - Acquisition date = Date on which the government acquires 100% equity interest

100% Equity Interest in CU (cont.)

- Total consideration paid by government includes all net resources exchanged to complete the acquisition, whenever paid, including related deferred outflows
- Net position acquired by government (non-investment MEI asset & deferred outflows) = net position of CU after re-measurement
- CU flows statement includes only post-acquisition activity

Implementation

- Effective – periods beginning after December 15, 2018
- Early implementation is encouraged
- Retroactive implementation – restatement of beginning net position of
 - First period presented, or
 - Earliest period restated and explain reason for not restating earlier period(s)

GASB Preliminary Views Documents:

- Financial Reporting Model Improvements
- Issued: September 12, 2018
- Comment Period Ends: February 15, 2019

Financial Reporting Model Improvements

- Project to develop new standards
- Scope includes proposed changes
 - Recognition and reporting in governmental funds
 - Proprietary Funds
 - Budgetary reporting
 - Other Items

Reporting Model PV – Background and Objectives

- Project Background
 - GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government was issued June 1999, largely kept governmental fund reporting unchanged
 - Routine reexamination of GASB 34 began in August 2013
 - Invitation to Comment, Financial Reporting Model Improvements – Government Funds, was issued in December 2016
- Project Objective
 - Enhance effectiveness of the reporting model in providing information that is essential for decision making and assessing a government’s accountability, and
 - To address certain application issues identified during research

Presentation in Governmental Fund Financial Statements

- New terminology emphasizing short-term
 - New names for fund financial statements
 - New explanatory language on statements
 - New names for fund financial statement elements
- New format for flows statement
 - Current and noncurrent activity format

Presentation in governmental fund financial statements (cont.)

- Statement of position = short-term financial resources balance sheet
 - Short-term assets
 - Short-term liabilities
 - Deferred outflows of short-term financial resources
 - Deferred inflows of short-term financial resources
 - Short-term financial resources fund balance

Presentation in governmental fund financial statements (cont.)

- Flows statement = statement of short-term financial resource flows
 - Inflows of short-term financial resources for current activities
 - Outflows of short-term financial resources for current activities
 - Net flows of short-term financial resources for noncurrent activities
- New format separating flows from non-current transactions or events; no more other financing sources and uses



ABC Government
Statement of Short-Term Financial Resource Flow
Governmental Funds
Year Ended June 30, 20XX

This financial statement presents a short-term view of the governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements.

INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

Taxes:

INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

Taxes:

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
Property tax	\$ 20,322,167	\$ 5,311,156	\$ 2,015,047	\$ 27,648,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Special assessments	-	-	41,500	41,500
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,192,493	20,787,512
Investment earnings	5,829	11,384	119,043	136,256
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	654,482	771,287	5,642,709
Total inflows of short-term financial resources for current activities	106,760,279	5,977,022	19,516,177	132,253,478

OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

General government

OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

General government

Public health and safety	14,053,444	6,961,201	2,213,691	23,228,336
Highway and streets	70,880,913	-	590,383	71,471,296
Culture and recreation	12,137,714	-	4,715,808	16,853,522
Economic development	3,581,583	335,659	1,808,065	5,725,307
Transfers out	496,141	-	3,374,045	3,870,186
	155,204	-	506,000	655,204
Total outflows of short-term financial resources for current activities	101,304,999	7,296,860	13,201,992	121,803,851

NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES

Transfers in

NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES

Transfers in	-	-	10,651,605	10,651,605
Debt service	(2,434,544)	(366,412)	(9,198,505)	(11,999,461)
Capital outlay	(111,987)	(1,515)	(1,346,497)	(1,459,999)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Total net flows of short-term financial resources for noncurrent activities	(10,227,406)	(374,372)	(2,314,297)	(12,916,075)
Net change in short-term financial resources fund balances	(4,772,126)	(1,694,210)	3,998,888	(2,466,448)
Short-term financial resources fund balances at beginning of year	9,319,621	9,776,474	27,892,592	46,988,687
Short-term financial resources fund balances at end of year	\$ 4,547,495	\$ 8,082,264	\$ 31,892,480	\$ 44,522,239

Proprietary Fund Financial Statements

- Operating revenues and expenses
 - Anything other than nonoperating
- Nonoperating revenue and expenses include
 - Subsidies received and provided
 - Revenues and expenses related to financing [excluding program (purpose) loans]
 - Investment income and expenses
 - Resources from disposal of capital assets and inventory

Proprietary Fund Financial Statement (cont.)

- Definition of subsidies
 - Resources provided by another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided

Budgetary Comparison

- Remove option for basic financial statement presentation
 - Required supplementary information (RSI)
- Require presentation of variances
 - Final budget v. actual
 - Original budget v. final budget

Other Issues in Reporting Model PV

- Major Component Units
 - Report in separate columns on face of government-wide statements, or
 - Include combining financial statements in basic financial statements following fund financials
 - Removes option for note disclosure only
- Government-wide schedule of expenses by natural classification required as part of (other) supplementary information for governments that prepare a CAFR

Additional Topics for Reporting Model Exposure Draft

- Management's discussion and analysis
 - Enhance analysis
 - Eliminate boiler-plate
 - Clarify guidelines about currently known facts expected to affect financial position or results
- Debt service fund presentation
 - Additional information
- Extraordinary and special items
 - Improve consistency
- “Continue to consider alternatives” to improve timeliness and reduce complexity

Other Current Happenings at GASB

- Implementation Guidance Update—2019
 - Cash flows reporting
 - Post-employment benefits
 - Derivative instruments
 - Irrevocable split-interest agreements
 - Tax abatement disclosures
 - Amendments to previously issued guidance

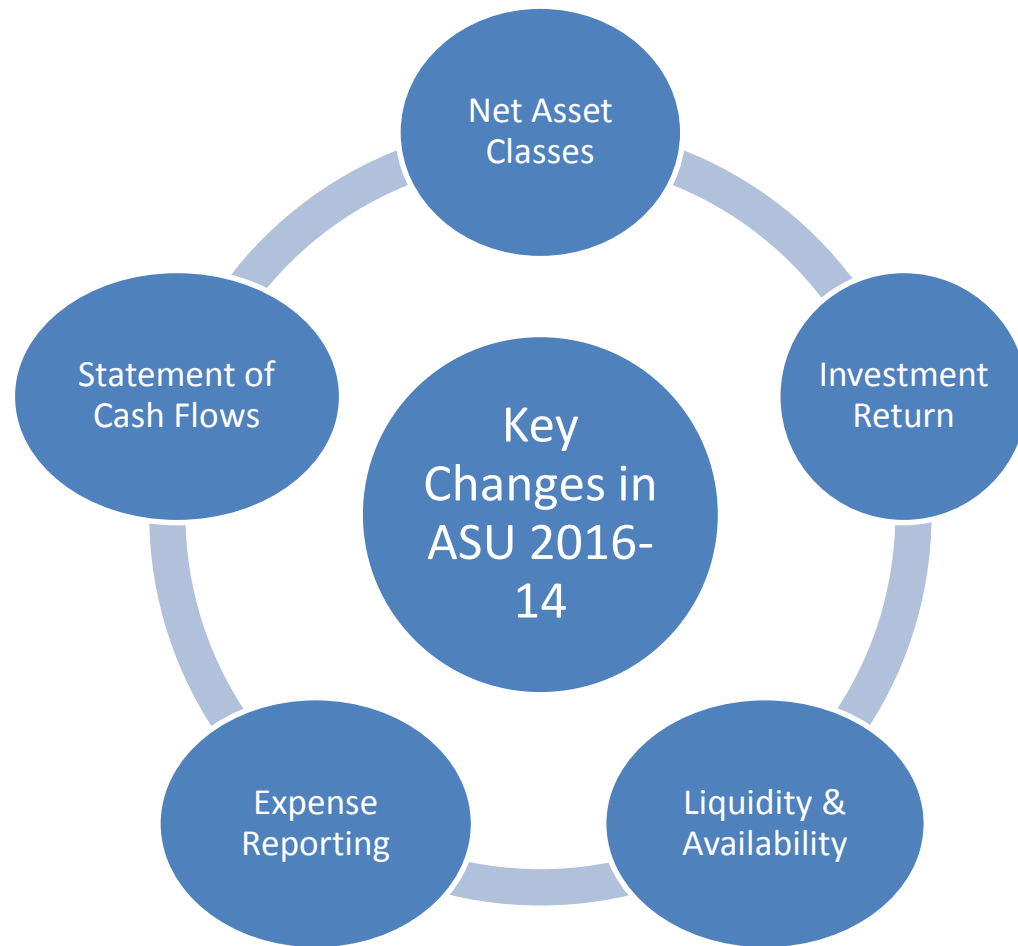
Comment period ends January 31, 2019

Other Current Happenings at GASB

- Implementation Guidance – Fiduciary Activities
 - Exposure draft anticipated December 2018
- Implementation Guidance – Leases
 - Exposure draft anticipated April-May 2019
- Subscription-based IT Arrangements

Non-Profit Reporting Model Update (ASU 2016-14)

Overview



ASU 2016-14 Changes

- Reduce net asset classes from three to two
- New liquidity and availability disclosures required
- Reporting of expenses by nature and function is required, and description of the methods used to allocate costs among functional categories
- Net investment return
- Additional disclosures for underwater endowments
- Use of direct method in a statement of cash flows eliminates reconciliation of change in net assets to cash flows from (used for) operating activities
- Placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset
- Expanded disclosures for net assets, including board-designated net assets

Net Asset Classes

- Unrestricted net assets become Net Assets *without* Donor Restriction
 - Includes board-designated
- Temporarily and Permanently restricted net assets are combined to become Net Assets *with* Donor Restriction

Net Asset Disclosure Requirements

- Disclosure requirements
 - Composition of net assets with donor restrictions
 - Emphasis on how/when resources can be used
 - Purpose
 - Time
 - Perpetual
 - Quantitative and qualitative information about board designations

Board-Designated Net Assets

- Expanded disclosures required
 - Amounts and purposes of board designations
 - Similar actions resulting in self-imposed limits on the use of resources without donor-imposed restrictions
 - Documented policies and procedures on establishment of board designations, amounts, and how such board-designated net assets may be released from designation

Investment Return

- Report net of all external and direct internal investment expenses
- No longer required to disclose components of netted expenses

New Disclosures Required

- Currently, NFPs are required to provide information about liquidity by any of the following
 - Sequencing assets according to their nearness of cash and sequencing liabilities according to nearness to maturity
 - Classifying assets and liabilities as current and noncurrent
 - Disclosing in the notes to the financial statements relevant information about the liquidity

New Disclosures Required

- **Qualitative** information on how an NFP manages its liquid resources available to meet cash needs for general expenditures within 1 year of the balance sheet date
- **Quantitative** information that communicates the availability of financial assets at the balance sheet date to meet cash needs for general expenditures within 1 year of the balance sheet date

Requirements for Reporting Expenses

- All NFPs, including Voluntary Health and Welfare Entities, must present an analysis of expenses by function and nature in one location:
 - Separate statement of functional expenses
 - Table in the notes
 - Incorporate into the statement of activities
- Include a description of the method(s) used to allocate costs among program and support functions

Statement of Cash Flows

- Use of either the direct or indirect method is allowed
- No longer required to show reconciliation of change in net assets to cash flows from operating activities if using direct method

Sources

- 2018 GFOA Annual Governmental GAAP Update (powerpoint)
- GASB Statements (www.gasb.org)

Questions? Contact Me!

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