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THE FUTURE OF FINANCE

GASB UPDATE 2021

GASB Update (89, 90, 91 & 94)

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GASB 89

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

(FY 2021-22)

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GASB 89 – Accounting for Interest Cost

- Changes accounting requirements for interest cost incurred before the end of a construction period.
- Including such interest cost that previously was accounted for in accordance with GASB 62.
- Resulting in interest cost incurred before the end of a construction period to be recognized as an expense and NOT to be included in the historical cost of a capital asset.

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GASB 89 – Accounting for Interest Cost

- This is a prospective application.
- Earlier application is encouraged.
- CIP, interest cost incurred in the fiscal year of implementation should NOT be capitalized.

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GASB 89 – Accounting for Interest Cost

- **Key Takeaway:**
  - Talk with all departments that currently capitalize interest costs and tell them to stop capitalizing by fiscal year 21/22 or stop now if project won't be completed by then.

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GASB 90

Majority Equity Interests

(FY 2020-21)

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GASB 90 – Majority Equity Interests

- Defines majority equity interest and specifies the conditions in which a government's majority equity interest in a legally separate organization is reported as an investment or a component unit.
- Amends GASB 14 for component unit reporting.
- Clarifies questions arising from GASB 72 which addresses accounting for investments.

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GASB 90 – Majority Equity Interests

- **Equity Interest:** financial interest in a legally separate organization evidenced by ownership of shares of stock or by other, explicit, measurable right to the net resources of the organization. Equity interests are accounted for as an investment and measured according to GASB 72 and not reported as a component unit.
- **Investment:** an asset that the government holds primarily for the purpose of income or profit and has a present service capacity based solely on its ability to generate cash or be sold to generate cash.
- **Component unit:** a legally separate organization for which the government is financially accountable or whose nature or significance to the operations of the government are such that exclusion would cause the financial statements of the government to be misleading.

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GASB 90 – Majority Equity Interests

- What about 100% equity interests?
- If meeting the requirement of an investment – still report as investment.
- If a component unit, then measure balance sheet items in accordance with GASB 69, Government Combinations and Disposals, on the date on which the government acquires the 100% interest and blend into the government's financial statements. Only transactions occurring after acquisition date should be included in income statement and cash flows statements.

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GASB 90 – Majority Equity Interests

- **Key Takeaways:**
  - Majority equity interests in joint ventures or other entities for the purpose of generating income should be accounted for as investments according to GASB 72.
  - Majority equity interests in joint ventures or other entities not meeting the definition of an investment should be evaluated for component unit reporting.
  - 100% equity interests meeting component unity criteria should be blended into the governments' operations and primary government financials.

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GASB 91

Conduit Debt Obligations

(FY 2022-23)

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GASB 91 – Background

- GASB originally discussed conduit debt obligations back in 1995 with Interpretation 2, which required disclosure of:
  - General description of obligations
  - Aggregate balance of obligations at FYE
  - Clear indication that government is not obligated for the obligations
- In pre-agenda research, GASB discovered that application of Interpretation 2 had been inconsistent, resulting in confusion for stakeholders, leading to the adoption of GASB Statement No. 91.

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GASB 91 – Objectives

- The primary objectives of GASB 91 are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with:
  - Commitments extended by issuers
  - Arrangements associated with conduit debt obligations
  - Related note disclosures

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GASB 91 – Definitions

- Conduit debt obligations must have all the following:
  - At least 3 parties involved
    - Issuer
    - Third-party obligor (TPO)
    - Debt holder
  - Issuer and TPO are not within the same reporting entity.
  - Debt obligation is not a parity bond of the issuer or cross-collateralized with any other debts of the issuer.
  - TPO ultimately receives the proceeds or the issuance.
  - TPO is primarily obligated to make debt service payments.

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GASB 91 – Commitments

- Normally, governments only make limited commitments on conduit debts to maintain tax exempt status and facilitate debt service payments. In this circumstance, there is no change to reporting from the existing reporting methods.

- Additional commitments above and beyond this such as moral obligation pledges, appropriations pledges, financial guarantees, or pledges of government's own assets as collateral potentially change up the accounting and reporting.

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GASB 91 – No Additional Commitment

- In the case of no additional commitments, the government recognizes no liability for the conduit debts and only makes the following disclosures:
  - Purpose of conduit debt obligations and identity of third-party obligor
  - Description of any security for the obligations
  - Brief discussion of basic commitments (e.g., upkeep of tax-exempt status)
  - Remaining amount of principal outstanding.

- Note that these bonds most likely would be reported in a custodial fund in the fiduciary fund financial statements, and the amounts should agree!

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GASB 91 – When to Recognize a Liability

- If there is an additional commitment, the government should annually review the conduit debt obligation for qualitative factors in the TPO which would indicate liability recognition in the government's financial statements (governmental activities/business-type activities).
  - Bankruptcy
  - Breaches of contract
  - Financial difficulties
  - Litigation
  - Terminations of funding sources
- If there is a more than 50% chance that the government will make a debt service payment on behalf of the TPO because of the qualitative evaluation, a liability should be recognized.

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GASB 91 – Liability Measurement

- In a full-accrual fund, the liability is measured as the discounted present value of the best estimate of future debt service payments made on behalf of the TPO. If no precise amount can be calculated but a range can be determined, the lowest amount in the range is recognized.
  - Debit – Expense
  - Credit – Conduit Debt Liability
- In a modified-accrual fund, the recognition of the liability is treated like a regular debt service payment, with expenditure recognized when payment is made.

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GASB 91 – Reporting

- No additional commitments – disclosures only.
- Additional commitment, but no liability – same disclosures as before but with additional disclosure of nature of additional commitment.
- Additional commitment, with liability – recognition of liability as appropriate, with above disclosures + a schedule of beginning balance, increases, decreases, and ending balance of liability. In subsequent years, additional disclosure of cumulative payments made on behalf of the TPO and any amounts expected to be recovered.

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GASB 91 – Associated Arrangements

- GASB 91 also addresses arrangements, commonly characterized as leases, associated with conduit debts.
- Usually, capital assets are acquired using proceeds of the conduit debt and used by the TPO in operations. In these arrangements, the issuer (government) retains title during arrangement and may or may not pass to the TPO at the end of the arrangement.

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GASB 91 – Associated Arrangements

- **Three types of arrangements:**
  - Type 1: Issuer relinquishes title
  - Type 2: Issuer does not relinquish title, but TPO has exclusive access
  - Type 3: Issuer does not relinquish title, and TPO does not have exclusive access
- *For purposes of next few slides, let's assume a capital asset with an acquisition value of $100,000 is part of a 10-year arrangement.*

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GASB 91 – Type 1 Associated Arrangements

- Accounting for this type of arrangement is easy – the government doesn't recognize anything! No asset, no liability, no receivable.

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GASB 91 – Type 2 Associated Arrangements

- Reminder: TPO has exclusive access during arrangement but does not receive asset at end of arrangement.
- At inception: no recognition of any liability, asset, or receivable by government.
- At close: issuer recognizes capital asset at acquisition value and a revenue for the same amount.

Debit – Capital Assets	**$100,000**	
Credit – Revenue		**$100,000**

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GASB 91 – Type 3 Associated Arrangements

- Reminder: TPO does not have exclusive access during arrangement and does not receive asset at end of arrangement.
- At inception: issuer recognizes capital asset and offsetting deferred inflow of resources.

Debit – Capital Assets	**$100,000**	
Credit – Deferred Inflow		**$100,000**

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GASB 91 – Type 3 Associated Arrangements Continued…

- During arrangement: issuer reduces the deferred inflow in a systematic and rational manner over the duration of the arrangement, like depreciation and recognizes a revenue.
  - **Debit – Deferred Inflow $10,000**
  - **Credit – Revenue $10,000**

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GASB 91 – Implementation

- Retroactive implementation!
- Evaluate current conduit debts for liability recognition.
- Evaluate associated arrangements for asset, revenue, or liability recognition.
- Restatement of prior year net position may be necessary.

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GASB 91 – Conduit Debt Obligations

- **Key Takeaways:**
  - Unifies disclosures across governments.
  - Provides guidance on when to recognize and measure conduit debt liabilities.
  - Provides guidance on how to account for arrangements associated with conduit debt liabilities.

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GASB 94

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

(FY 2023-24)

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GASB 94 – PPP/APA Term

- Term is the period under which the operator has a noncancellable right to use the underlying asset + the following:
  - Option to extend the agreement if reasonably certain to exercise
  - Option to terminate if reasonably certain not to exercise
- Terms should be reassessed if options are exercised that were not previously determined to be reasonably certain or a specified event in the arrangement occurs that requires an extension or termination.

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GASB 94 – Transferor PPP Recognition

- Underlying PPP asset already exists = continue to recognize asset +:
  - A receivable for installment payments
  - A deferred inflow of resources
- Improvements made to the existing PPP asset:
  - An asset for the improvements when improvements are placed into service
  - A deferred inflow of resources when improvements are placed into service

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GASB 94 – Transferor PPP Recognition Continued…

- Underlying PPP asset is new or under construction (SCA):
  - An asset when the underlying PPP asset is placed into service
  - A receivable for installment payments
  - A deferred inflow of resources

- Underlying PPP asset is new or under construction (not an SCA):
  - A receivable for the underlying PPP asset
  - A receivable for the installment payments
  - A deferred inflow of resources

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GASB 94 – Transferor PPP Recognition Continued…

- Initial direct costs incurred by the transferor in commencing the PPP arrangement are expensed.
- Underlying PPP assets are measured:
  - At carrying value, if already existing at commencement
  - At acquisition value when the asset is placed into service, if newly purchased or constructed by operator in a service concession arrangement
- Improvements to underlying PPP asset are valued at acquisition value when improvements are placed into service.

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GASB 94 – Transferor PPP Recognition Continued…

- Receivables for installment payments are measured as the present value of PPP payments to be collected during the PPP term reduced by an allowance for uncollectible amounts and should include:
  - Fixed payments
  - Variable payments that depend on an index or rate initially measured at commencement of term
  - Variable payments that are fixed in substance
  - Residual value guarantee payments that are fixed in substance.

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GASB 94 – Transferor PPP Recognition Continued…

- Receivables for installment payments may be remeasured for:
  - Changes in PPP term
  - Changes in interest rates
  - Other specified contingencies
- Receivables for underlying PPP assets are measured as the operator's estimated carrying value of the asset at the time of transfer in ownership to the operator.

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GASB 94 – Transferor PPP Recognition Continued…

- The deferred inflow of resources is measured as:
  - The amount of initial measurement of receivable for installment payments
  - PPP payments received at or before commencement of term
  - Initial measurement of new underlying PPP asset, or improvements or receivable
- The deferred inflow of resources should be recognized in a systematic and rational manner over the term of the PPP.

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GASB 94 – Operator PPP Recognition

- Same as transferor, but where there is an underlying asset, it is recognized as a “right-to-use” asset.
- Where there are receivables, there are liabilities.
- Deferred outflows of resources corresponding to underlying assets to be transferred to the transferor at end of PPP term and amortized over the life of the PPP term.
- Basically, it is the mirror image of the transferor entries, just like how GASB 87 addresses accounting for lessors and lessees.

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GASB 94 – PPP Note Disclosures

- Transferor should disclose:
  - A general description of the PPP
  - Nature and amounts of assets and deferred inflows recognized
  - Discount rates applied to the measurement of receivables
  - Amount of inflows recognized during the reporting period
  - Nature and extent of rights retained by the transferor or granted to operator
- Operators should disclose same as above +:
  - Principal and interest requirements to maturity in a format similar to long-term debt
  - Amount of outflows recognized for variable payments not previously measured
  - Any losses associated with impairments to the underlying PPP asset

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GASB 94 – Accounting for APAs

- APAs may contain multiple components, for example a government may have an agreement with an operator to construct an asset in exchange for (a) fixed payments designed to compensate the operator for construction costs and (b) variable payments to the operator based on measures related to availability have been met. Each component should be recognized as a separate APA.
- Components of an APA related to design, construction or financing of the underlying APA asset in which the asset transfers to the government at the end of the APA term is reported as a financed purchase of the asset by the government.
- Components of an APA related to providing services for the operation or maintenance of the underlying asset should be recorded as an expense by the government in the period for which the payments relate.

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GASB 94 – APA Recognition

- Underlying APA assets are recognized when they are placed into service and measured as the total cost paid to the operator as per agreement to construct asset, including initial payments at commencement of agreement + present value of future payments made to compensate operator for construction.
- There are no required note disclosures specified by GASB 94 for APAs.

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GASB 94 – PPPs and APAs

- **Key Takeaways:**
  - PPP Accounting calculations are the “financial twin” to lease accounting for the most part, with differences in footnote disclosures.
  - APA accounting calculations are treated like financed asset purchases or expenses.

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