Meet Your Facilitators

Daron Tarlton
Partner – DHG Healthcare
Tampa Bay, FL

- National professional practice partner for DHG Healthcare
- Client relationships span the spectrum from large, NFP regional health systems to PEG-backed ambulatory and home health providers, medical groups, and senior living facilities
- Performs audits under generally accepted auditing standards, OMB regulations, and Government Auditing Standards, as well as various other types of assurance and advisory engagements
- Deep experience in the not-for-profit, private equity, and local government sectors
ASU 2019-06

- Extending private company alternatives for goodwill and intangibles to NFP entities
Overview

- NFPs (including many healthcare organizations that fit the criteria) can select accounting alternatives simplifying subsequent accounting for goodwill and certain acquired intangibles
- If selected, goodwill will be amortized
- One-step impairment test, at either entity level or reporting unity level
- Only test for impairment when an indicator exists
- Fewer intangibles recognized on acquisition
- Guidance available immediately - open ended one–time election as available to private companies
Goodwill

- Elect to amortize goodwill on a straight-line basis over 10 years or over a shorter period – if can demonstrate another useful life is more appropriate.
- Impairment test – entity level or reporting unit – accounting policy election
- If impairment indicator exist then proceed using the one-step impairment
- Applies to all existing and future goodwill from acquisitions

Impairment charge under one-step impairment test: FV of entity (or reporting unit is less than the carrying amount (i.e., when a triggering event occurs)

- Charge is limited to carrying amount of goodwill
- Avoids costly process of identifying reporting units, allocating assets, liabilities and goodwill for impairment testing purposes
Intangible Assets

- Recognize only intangibles that are capable of being sold or licensed separately from other assets of an acquired business
- Non-competes etc. are subsumed into goodwill
- Lease assets/liabilities and contract assets (ASC 606) are excluded from above

Most customer–related intangibles generally are not being capable of being sold or separately licensed

Exceptions listed – unlikely that many of them would apply to healthcare related companies
Effective date and transition

- Effective immediately
- No demonstration of preferability
- Prospective adoption for all goodwill recognized after the alternative is adopted
- Existing goodwill - applied as of the beginning of the annual period of adoption
- Customer-related intangibles and noncompete agreements that exist as of the beginning of the period of adoption are not eligible to be subsumed into goodwill upon adoption
ASU 2017-04

- Intangibles – Goodwill and Other (Topic 350)
  *Simplifying the Test for Goodwill Impairment*
ASU 2017-04, INTANGIBLES – GOODWILL AND OTHER (TOPIC 350)
Simplifying the test for goodwill impairment

**Main Provisions**

- **Step 2 Eliminated**
  - No longer required to calculate implied fair value of goodwill if Step 1 indicates impairment

- **Step 0 - Qualitative Assessment**
  - Implied new starting point
  - More-likely-than not assessment maintained

- **Step 1 Assessment**
  - Failing will result in impairment
  - Carrying value > FV = goodwill impairment

- **Other Provisions**
  - Eliminates requirement for reporting unit with zero or negative carrying amount to perform a qualitative assessment

**Effective Dates and Transition**

Prospectively for annual and interim periods in fiscal years beginning after:

- December 15, 2019 for public business entities that file with the SEC
- December 15, 2020 for PBEs that do not file with the SEC
- December 15, 2021 all other entities

Early adoption permitted for all entities
ASU 2017-01

- Business Combinations (Topic 805) - Clarifying the Definition of a Business
Clarifying the Definition of a Business – ASU 2017-01

Why change?

• Applied too broadly
• Difficult to apply (Inputs, Processes, Outputs model)
• Unintended outcomes
  • In substance asset acquisitions frequently meet definition of a business

Why does it matter?

• SIGNIFICANT M&A ACTIVITY GOING ON!
• Likely to see more asset acquisitions vs. business combinations – i.e., no goodwill!
Clarifying the Definition of a Business – ASU 2017-01

Main Provisions

• First – New “screen” to determine if a set of assets is NOT a business
  • “Substantially all” value acquired in a single identifiable asset
• Second – If “screen” NOT met, apply updated requirements to determine if a business
  • Set must include an input and a substantive process that have ability to create outputs
  • “Output” defined more narrowly
  • Remove whether market participant could replace missing elements
Effective dates and transition

What is the transition method of the standard?

The ASU is applied prospectively as of the beginning of the first period that occurs on or after the effective date. No transition disclosures are required.

When is it effective?

<table>
<thead>
<tr>
<th></th>
<th>Annual periods in fiscal years</th>
<th>Interim periods in fiscal years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public business entities</td>
<td>Beginning after 12/15/2017</td>
<td>Beginning after 12/15/2017</td>
</tr>
<tr>
<td>All other entities</td>
<td>Beginning after 12/15/2018</td>
<td>Beginning after 12/15/2019</td>
</tr>
</tbody>
</table>

Entities may early adopt the ASU and apply it to transactions that have not yet been reported in financial statements that have been issued or made available for issuance.
ASU 2017-07

• Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

- Effective for CY 2019 (FY 2019-2020); retrospective application*; early adoption permitted

- Changes presentation of components of net periodic pension/benefit cost on income statement
- Service cost presented in the same line item(s) as other current employee compensation costs

- Remaining components presented in a separate line item(s) as nonoperating, if applicable
- *Capitalization of only service cost in assets (prospective application)*
ASU 2016-18

- Restricted Cash
ASU No. 2016-18, *Restricted Cash*

Effective for CY 2019 (FY 2019-2020); early adoption permitted

- Requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents.
- Does not provide a definition of “items generally described as” restricted cash and equivalents.
- Includes restricted cash and restricted cash equivalents in the beginning and ending totals of the cash flow statement.
- Requires entities to disclose the line items and amounts of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents reported within the statement of financial position.
Exposure Draft Simplification Of The Classification Of Debt
Debt classified as noncurrent only if either of the following criteria are met as of the balance sheet date:

- Liability is contractually due to be settled > 1 year after the BS date
- Entity has a contractual right to defer settlement of the liability for > 1 year after the BS date

An unused long-term financing arrangement in place at the balance sheet date should be disregarded in determining the classification of debt.

Issue - Redeemable Debt Subject to Remarketing Agreement

- Variable rate obligation secured by letter of credit- proposal would classify as current
Long-Term Redeemable Instrument Subject to Remarketing Agreement

- As of December 31, 2019, Company A (issuer) has a variable-rate demand obligation with a stated maturity date of March 2025.
- The debt holder may redeem or demand repayment of the bond on short notice (7–30 days).
- The issuer has a remarketing agreement in which a third-party agent will make its best effort to remarket the bond when redeemed.
- The debt is secured by a letter of credit (expiration date is March 2025) that is in place at the balance sheet date and that provides protection to the debt holder in the event that the redeemed debt cannot be remarketed.

Board Decision

<table>
<thead>
<tr>
<th>Classification: <strong>Current</strong> liability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Why?</strong> The debt is redeemable on short notice. The contractual terms of the long-term letter of credit would not be considered in determining the classification of the redeemable debt.</td>
</tr>
</tbody>
</table>
Waivers of Debt Covenant Violations
If the entity receives a waiver that meets certain conditions before the financial statements are issued, the proposed amendments would continue to require that an entity classify debt as a noncurrent liability when there has been a debt covenant violation.

Separate Line Item Presentation
The proposed amendments would require separate line item presentation in a classified balance sheet for the amount of debt that is classified as a noncurrent liability because of a waiver of a debt covenant violation obtained after the balance sheet date.

Refinancing after the Balance Sheet Date
The classification principle would be applied to short-term debt that is refinanced on a long-term basis after the balance sheet date, which would result in a current liability classification.
Subjective Acceleration Clause (SAC)
The SAC would affect classification of debt only when it is triggered (no probability assessment).

Grace Periods
- Apply the classification principle to long-term debt arrangements in which a borrower violates a provision at the balance sheet date and the creditor provides a grace period for the borrower to cure the violation.
- Because of the grace period, the lender cannot demand payment of the debt at the balance sheet date; therefore, the debt arrangement would be classified as a noncurrent liability.

Disclosures
Required disclosures—provide information about:
- Events of default (including violations of a loan covenant and triggers of a SAC).
- Grace periods provided when the violation (1) has not been cured before the financial statements are issued and (2) would make the long-term obligation callable.
ASU 2018-08
Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made
Issue 1: Exchange vs. Nonexchange

Transaction in which each party directly receives commensurate value?*

Yes → Reciprocal transaction. Apply Rev Rec (ASC 606) or other guidance.

No → Nonreciprocal transaction. Apply contribution (non-exchange) guidance.

Conditions present (i.e., right of return/release and barrier)?

Yes → Conditional-Recognize revenue when condition is met

No → Meeting of Conditions

Restrictions present (i.e. limited purpose or timing)?

No → Unconditional and without restrictions (unrestricted)

Yes → Unconditional and restricted

*Includes third-party payments on behalf of identified customers. These do not create new revenue.
Issue 2: Conditional vs. Unconditional Contributions

For a Donor-Imposed Condition to Exist:

- A right of return/release must exist; and
- The agreement must include a barrier
  - Indicators and examples to help in determination

To determine what is a barrier, an NFP will consider indicators, which will include, but are not limited to, the following:

The inclusion of a measurable performance-related barrier or other measurable barrier.

- (e.g., specified level of service, specific output(s) or outcome(s), match)

The extent to which a stipulation limits discretion by the recipient on the conduct of an activity.

- (e.g., qualifying expenses, specific protocol)

The extent to which a stipulation is related to the purpose of the agreement.

- (excludes administrative or trivial)
Application of the Limited Discretion Barrier with Regard to Budgets

- Nearly all grant agreements have a budget, which shouldn’t be viewed as a barrier.
  - It is instead a guidepost for spending that typically allows for broad discretion in the conduct of a program/ activity, within spending parameters.

- Stipulations that require approval for significant line item deviations within budgets should thus generally be viewed as protective clauses for the funder.

- This is in contrast to any requirement to incur qualifying expenses, where entitlement to every dollar depends on compliance with a litany of specific rules and regulations, often driven by public policy considerations.
### Effective Date

#### For Contributions Received

<table>
<thead>
<tr>
<th>Annual periods beginning after June 15, 2018, including interim periods:</th>
<th>Annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Public Business Entities</td>
<td>• All other entities</td>
</tr>
<tr>
<td>• NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on exchange or an over-the-counter market</td>
<td></td>
</tr>
</tbody>
</table>
Transition Approach

- Modified prospective
  - Apply to all agreements
    - Existing at the effective date (only apply to the portion of existing agreements not previously recognized)
    - Entered into after the effective date

- No restatement of prior amounts recognized

- Retrospective application permitted
ASU 201601
Financial Instruments
ASU No. 2016-01 (Topic 825), Financial Instruments Classification and Measurement Amendments to Current GAAP

Targeted improvements, effective for CY 2019 (FY 2019-20); one year earlier for PBEs

**Financial Assets**
- Equity investments (other than those under the equity method) measured at each reporting period at fair value through net income, with key exception: those without readily determinable fair value only marked to observable price changes
- No more other-than-trading equity securities

**Financial Liabilities**
- Fair value change resulting from own credit for financial liabilities measured under fair value option will be recognized through other comprehensive income (OCI)*

**Disclosures**
- Entities other than public business entities (includes all NFPs) no longer required to disclose fair value of financial instruments not recognized at fair value on balance sheet*

*Entities can early adopt these provisions*
Impact on Equity Investment Accounting

Prior to adoption of ASU 2016-01

Consolidation required? NO

Significant influence? NO

Readily-determinable fair value? NO

Cost method

ASC 325

Consolidation required? YES

ASC 810
ASC 958-810

Significant influence? YES

Equity method

ASC 323

Readily-determinable fair value? YES

Fair value measurement

ASC 320
ASC 958-320

After adoption of ASU 2016-01

Consolidation required? NO

Significant influence? NO

Fair value measurement

ASC 321

RDFV
NAV
Measurement alternative

Consolidation required? YES

ASC 810
ASC 958-810

Significant influence? YES

Equity method

ASC 323

Note: no impact on rules for applying consolidation or equity method
ASC 321 “measurement alternative”

- An election to remeasure fair value on a nonrecurring basis
- Can be elected if investment has neither a readily-determinable fair value nor a NAV
- Measure at cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of same issuer
- Adjustments to carrying amount are included in net income/performance indicator
Take-aways

- The ASU makes no changes to consolidation or equity method accounting rules
- Cost method is replaced by fair value measurement
- If equity investment doesn’t have a RDFV, “NAV practical expedient” might apply
- If NAV practical expedient can be used, determine fair value in accordance with ASC 820 unless “measurement alternative” is elected
  - Measurement alternative is a fair value measurement determined on a nonrecurring basis
- Effective dates:
  - PBEs – fiscal years beginning after 12/15/2017 and interim periods within those years
  - NFPs (including NFP conduit borrowers) and private companies – fiscal years beginning after 12/15/2018 and subsequent interim periods
Continuing Care Retirement Communities (CCRC’s)

- Rev rec / lease Issue
Leases

- Transition from ASC 840 to ASC 842
<table>
<thead>
<tr>
<th>High-level Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Select transition method</strong></td>
</tr>
<tr>
<td>• Beginning of earliest period presented</td>
</tr>
<tr>
<td>• Beginning of year of adoption</td>
</tr>
<tr>
<td><strong>Select practical expedients</strong></td>
</tr>
<tr>
<td>• Package of three to reassess (must be elected together)</td>
</tr>
<tr>
<td>• Hindsight</td>
</tr>
<tr>
<td>• Lease vs. non-lease components</td>
</tr>
<tr>
<td><strong>Lease population</strong></td>
</tr>
<tr>
<td>• May take significant time to identify – embedded leases!</td>
</tr>
<tr>
<td>• Allocate sufficient resources</td>
</tr>
<tr>
<td><strong>Transition calculation</strong></td>
</tr>
<tr>
<td>• Measurement - discount rate, term, non-lease components, etc.</td>
</tr>
<tr>
<td><strong>Disclosure</strong></td>
</tr>
<tr>
<td>• Expansion over ASC 840</td>
</tr>
<tr>
<td>• Include both qualitative and quantitative disclosures</td>
</tr>
</tbody>
</table>
ABC has two transition options available under ASC 842-10-65-1c:

1. Comparative Period Adjustment
2. Non-comparative Period (Effective Date Method)
ABC has elected the following package of three transition practical expedients and therefore will not:

- Reassess whether expired or existing contracts are or contain leases
- Reassess the lease classification for any expired or existing leases
- Reassess initial direct costs for any existing leases
ASC 842
Establish the Population

**IDENTIFY**
Identify the current lease population
- These are the leases you’ve known about all along
- Conduct interviews or surveys of employees regarding additional leases
- Search for embedded leases

**EVALUATE**
Evaluate completeness of population
- Group expense accounts by natural classification (e.g., Payroll, Maintenance, IT support, etc.)
- Rating (High, Medium, Low) for each expense classification
- Examine general ledger detail for all High and Medium risk ratings

**SUMMARIZE**
Summarize population of contracts and evaluate whether they include leases
- Use lease identification criteria in either ASC 840 or ASC 842 depending on whether package of practical expedients is elected
RESOURCE ALERT!!

Identifying the lease population may be challenging, particularly as it relates to embedded leases.

- Practical expedients do not grandfather improper accounting under ASC 840.
- Search for embedded leases will likely be necessary.
- Toolkits provide a great template/process for identifying accounts with potential embedded leases and accumulating the population of controls for evaluation.

77% of respondents to a PWC survey rated ensuring the completeness of their lease population as somewhat or extremely difficult!
Embedded Leases: Reagent Agreements

• Arrangements for consumables (e.g., reagents) may include embedded equipment leases

• Diversity in practice exists today in how healthcare entities account for lease components in these arrangements

• HCOs will need to evaluate whether the consideration in these arrangements includes fixed and/or variable lease payments
<table>
<thead>
<tr>
<th>Disclosure Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>General description of leases</td>
</tr>
<tr>
<td>Basis, terms, and conditions for determining variable lease payments</td>
</tr>
<tr>
<td>Existence, terms, and conditions of any options to extend or terminate</td>
</tr>
<tr>
<td>Existence, terms, and conditions of residual value guarantees</td>
</tr>
<tr>
<td>Restrictions or covenants imposed by leases</td>
</tr>
<tr>
<td>Leases that haven’t commenced yet but create significant rights and obligations</td>
</tr>
<tr>
<td>Significant assumptions and judgments in application of GAAP for leases</td>
</tr>
</tbody>
</table>
What Can Cause Leases To Be Materially Misstated?

- All arrangements containing leases are not identified.
- All modifications have not been identified.
- Data utilized for calculating the transition adjustment does not agree to the terms of the related contract documents.
- Lease agreements are not properly classified.
- Use of an inappropriate discount rate or are rate that is not supported.
- Incorrect identification of initial direct costs.
- Incorrect measurement of the ROU asset.
- Changes in facts and circumstances not fully considered when using hindsight practical expedient to determine lease term.
- Not considering the effect of implementation on income tax calculations.
- Implementation of new or modifying existing information systems and data is not accurate transferred, access controls are not implemented, or system/spreadsheets do not function in compliance with ASC 842.
Leases

- GASB Statement No. 87
Leases

What?
The Board issued Statement 87 to improve lease accounting and financial reporting.

Why?
Existing standards in effect for decades without review in light of GASB’s conceptual framework; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers.

When?
Effective for periods beginning after December 15, 2019. Earlier application is encouraged.
Scope and Approach

- Statement 87 applies to any contract that meets the definition of a lease:

  “A lease is 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.”

- Leases are financings of the right to use an underlying asset

  Single approach applied to accounting for leases with some exceptions, such as short-term leases

- Capital/operating distinction is eliminated
Fiduciary Activities

• GASB Statement No. 84
The Board issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements.

Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; BTAs are uncertain about how to report fiduciary activities.

Effective for periods beginning after December 15, 2018. Earlier application is encouraged.
Making Sense of the Terms/Phrases

**Component Unit**
- A legally separate entity for which elected official(s) of the primary government are financially accountable.

**Fiduciary Activity**
- The collection or receipt, and the management, protection, accounting, investment, and disposition by the government of cash or other assets in which non-federal individuals/entities have an ownership interest that the government must uphold.
- Fiduciary cash and other assets are not assets of the Government and are not recognized on the consolidated balance sheet.

**Fiduciary Component Unit**
- Component units that are engaged in fiduciary activities. See criteria in [GASB 84, ¶ 6-9.](#)

**Other Fiduciary Activities**
- Activities that meet the criteria in [GASB 84, ¶ 10-11.](#)
Stand-Alone Business-Type Activities

A stand alone BTA’s fiduciary activities should be reported in separate fiduciary fund financial statements.

- Pension and other employee benefit trust funds
- Investment trust funds
- Private-Purpose Trust Funds
- Custodial Funds

Exception: Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows
GAS 84 – Fiduciary activities

- HCO-sponsored pension and OPEB trusts often will qualify as “fiduciary component units”
  - Majority voting control of plan’s board (or if sponsor stands in the shoes of a governing board
  - “Financial burden” if employer contributes to plan
  - Not blended or discretely presented; presented in “Pension and OPEB Trust” column of fiduciary fund financial statements
  - If not a component unit, included if it meets the definition of a “fiduciary activity” and HCO controls the assets
### ABC Hospital Fiduciary Funds

#### Statement of fiduciary net position

<table>
<thead>
<tr>
<th>Pension/OPEB Trust Funds</th>
<th>ABC Hospital Fiduciary Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>50,000</td>
</tr>
<tr>
<td>Investments</td>
<td>54,949,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>54,999,000</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td>---</td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
</tr>
<tr>
<td>Restricted for:</td>
<td></td>
</tr>
<tr>
<td>Pension benefits</td>
<td>33,999,000</td>
</tr>
<tr>
<td>OPEB benefits</td>
<td>21,000,000</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>54,999,000</td>
</tr>
</tbody>
</table>

#### Statement of changes in fiduciary net position

<table>
<thead>
<tr>
<th>Pension/OPEB Trust Funds</th>
<th>ABC Hospital Fiduciary Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADDITIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Contributions:</td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Plan member</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total contributions</strong></td>
<td>6,100,000</td>
</tr>
<tr>
<td>Investment earnings</td>
<td></td>
</tr>
<tr>
<td>Net appreciation in fair value</td>
<td>250,000</td>
</tr>
<tr>
<td>Dividends and interest</td>
<td>100,000</td>
</tr>
<tr>
<td>Less investment costs</td>
<td>(25,000)</td>
</tr>
<tr>
<td>Net investment earnings</td>
<td>325,000</td>
</tr>
<tr>
<td><strong>Total additions</strong></td>
<td>6,425,000</td>
</tr>
<tr>
<td><strong>DEDUCTIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,400,000)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(35,000)</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>(1,435,000)</td>
</tr>
<tr>
<td><strong>CHANGE IN FIDUCIARY NET POSITION</strong></td>
<td>4,999,000</td>
</tr>
<tr>
<td>Net position – beginning</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Net position – ending</td>
<td>54,999,000</td>
</tr>
</tbody>
</table>

- Sequenced immediately after the HCO’s basic financial statements (but prior to the notes)
- For auditing purposes, are part of the “aggregate remaining fund information” opinion unit
Auditor’s report

Report

- We have audited the accompanying financial statements of ABC Hospital, its discretely-presented component unit, and its fiduciary funds as of and for the year ended December 31, 20XY, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements as listed in the table of contents.

Opinion

- In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of ABC Hospital, its discretely presented component unit, and its fiduciary funds as of December 31, 20XY, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

- This example has 3 opinion units (primary government, DPCU, and aggregate remaining fund information)
- Under certain circumstances, DPCU and ‘aggregate remaining fund information’ can be combined into a single opinion unit (AAG-SLG 4.73)
- Chart in AAG-SLG 4.73 is helpful in understanding the opinion unit requirements
Questions and answers, including:

- Classifying fiduciary activities
- Applying the criteria for control and own-source revenues
- Applying the clarified definitions of fund classes, including determining eligibility for the custodial fund exception for BTAs
- Fiduciary fund financial statements, including the determining eligibility for the exception to disaggregating certain additions and deductions
- Reporting fiduciary component units
Interest Cost

• Statement No. 89
What?

The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting.

Why?

Accounting guidance has been based on FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of GASB’s Concepts Statements.

When?

Effective for periods beginning after December 15, 2019.

Earlier application is encouraged.
Recognizing Interest Cost

Financial statements prepared using the economic resources measurement focus:

• Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.

Financial statements prepared using the current financial resources measurement focus:

• Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.

Prospective application at transition
Majority Equity Interests

• Statement No. 90
The Board issued Statement 90 to clarify whether a majority equity interest should be reported as an investment or as a component unit and to provide consistent measurement of elements of acquired organizations and 100% equity interests in component units.

Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance.

Effective for periods beginning after December 15, 2018. Earlier application is encouraged.
100% Equity Interest That *Does Not* Meet the Definition of an Investment

If a government acquires a 100% equity interest in a legally-separate entity that *does not* meet the definition of an investment, the component unit should remeasure assets, liabilities, and deferrals by applying acquisition value as described in Statement 69. Government holding the 100% equity interest would recognize an asset and measure by using acquisition value.

These provisions would be applied prospectively only.
Conduit Debt Obligations

• Statement No. 91
Conduit Debt

What?
The Board improved the existing standards related to conduit debt obligations by providing a single reporting method for government issuers.

Why?
Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, improvements were needed to eliminate diversity in practice.

When?
Definition of Conduit Debt

- There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.
QUESTIONS?