

GASB UPDATE

June 2018

GASB UPDATES

- GASB View of Revenue Recognition (Operating/Non-Operating)
 - GASB 74/75 in Relation to GASB 84 - Do you have a Fiduciary Fund
 - GASB 61 Component Units
 - GASB 87 Leases No Easy Way Out
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Revenue Recognition

Exchange or Non-Exchange Revenue

GASB FUNDS

- Business Type Activity Proprietary Fund
 - GASB Models - We are a small portion of what they deal with on regular basis.
 - Common BTA are Hospitals, Housing Authorities and Transit Authorities.
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Operating Revenues

Rental revenues, net	\$	1,288,450
Government grants		5,282,984
Other income		<u>1,071,785</u>
Total Operating Revenues		<u>7,643,219</u>

Non-Operating Revenues (Expenses)

Interest income		82,448
Government grants		5,282,984
Interest expense		<u>(776,144)</u>
Total Non-Operating Revenues (Expenses)		<u>4,589,288</u>

Operating Revenue

A – Top Presentation

B – Bottom Presentation

GASB Revenue Definitions

- Exchange or Exchange Type Revenue
 - Each party receives and gives up essentially equal values
 - Non-Exchange Type Revenue
 - Government gives (or receives) value without directly receiving (or giving) equal value in return
 - Tenant Rent considered Exchange Type Revenue and reported in Operating Revenues
 - Grants are Non-Exchange Type Revenue
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Grant Revenue

- Non Exchange Type Revenue generally reported as **Non-Operating Revenue**
 - Housing Assistance Payments and Section 8 Admin Fees
 - Public Housing Subsidy
 - Capital Fund Grants
 - ROSS
 - GASB 34 Paragraph 102
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- Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, disclose it in the summary of significant accounting policies, and use it consistently from period to period. A consideration for defining a proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows using Statement 9. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would *not* be reported as components of operating income.⁴² This includes most revenues considered to be nonexchange and exchange-like, such as tax revenues and, in some cases, fees and charges (such as passenger facilities charges).

GASB 34 Paragraph 102 Foot Note #42

Revenue and expense transactions normally classified as other than operating cash flows from operations in most proprietary funds may be classified as operating revenues and expenses if those transactions constitute the reporting proprietary fund's principal ongoing operations. For example, interest revenue and expense transactions should be reported as operating revenue and expense by a proprietary fund established to provide loans to first-time homeowners.

- Cash inflows from operating activities include
 - Cash receipts from grants for specific activities that are considered to be operating activities of the grantor government. (A grant arrangement of this type is essentially the same as a contract for services.)

GASB 9 Paragraph 17

Reporting Cash Flows of Proprietary
and Nonexpendable Trust Funds

Revenue Operating or Non-Operating

Operating

Operating Revenues	
Rental revenues, net	\$ 1,288,450
Government grants	5,282,984
Other income	1,071,785
Total Operating Revenues	7,643,219
Operating Expenses	
Administration	752,036
Tenant services	18,831
Utilities	183,625
Maintenance and operations	518,370
General expense	913,303
Housing assistance payments	4,471,712
Depreciation and amortization	217,586
Total Operating Expenses	7,075,463
OPERATING INCOME (LOSS)	567,756
Non-Operating Revenues (Expenses)	
Interest income	82,448
Interest expense	(776,144)
Total Non-Operating Revenues (Expenses)	(693,696)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(125,940)
Capital Contributions and Transfers	
Capital contribution	125,000
Total Capital Contributions and Transfers	125,000
CHANGE IN NET POSITION	(940)

Non-Operating

Operating Revenues	
Rental revenues, net	\$ 1,288,450
Other income	1,071,785
Total Operating Revenues	2,360,235
Operating Expenses	
Administration	752,036
Tenant services	18,831
Utilities	183,625
Maintenance and operations	518,370
General expense	913,303
Housing assistance payments	4,471,712
Depreciation and amortization	217,586
Total Operating Expenses	7,075,463
OPERATING INCOME (LOSS)	(4,715,228)
Non-Operating Revenues (Expenses)	
Interest income	82,448
Government grants	5,282,984
Interest expense	(776,144)
Total Non-Operating Revenues (Expenses)	4,589,288
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(125,940)
Capital Contributions and Transfers	
Capital contribution	125,000
Total Capital Contributions and Transfers	125,000
CHANGE IN NET POSITION	(940)

Statement of Cash Flows

Operating

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants and users	\$ 2,058,580
Receipts from operating grants	5,282,984
Payments to suppliers	(1,578,895)
Payments for housing assistance payments	(4,471,712)
Payments to personnel	(1,012,969)
	<u>277,988</u>
NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets	(8,020,437)
Loan proceeds	(365,259)
Investments proceeds	8,823,885
Capital contributions	125,000
Principal and interest payments on debt	(876,144)
	<u>(312,955)</u>
NET CASH FLOW PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>82,448</u>
NET CASH FLOW PROVIDED (USED) BY INVESTING ACTIVITIES	
	<u>82,448</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	47,481
BEGINNING CASH AND CASH EQUIVALENTS	<u>393,434</u>
ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 440,915</u></u>

Non-Operating

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants and users	\$ 2,058,580
Payments to suppliers	(1,578,895)
Payments for housing assistance payments	(4,471,712)
Payments to personnel	(1,012,969)
	<u>(5,004,996)</u>
NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from operating grants	<u>5,282,984</u>
NET CASH FLOW PROVIDED (USED) BY INVESTING ACTIVITIES	
	<u>5,282,984</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
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- *Revenues.* All revenues are accrued. These revenues consist of user charges for rents, utilities, repairs and other miscellaneous charges. Monies received from customers for security deposits are recorded as a liability upon receipt. Grants, which finance current operations, are reported as operating revenues. Grants, which finance capital purchases, gain/loss on sale of fixed assets, and interest income/expense, are reported as non-operating revenues.

Revenue Note

The key is to state in the notes to the financial statements that grants are operating in nature.

GASB 84 Fiduciary Funds

OPEB could trigger a Fiduciary Fund

GASB 74/75 OPEB

- Effective Dates:
 - GASB 74 - Fiscal Year End June 30, 2017
 - GASB 75 - Fiscal Year End June 30, 2018
 - Similar to GASB 67/68 (Net Pension Liability if you have a Trust)
 - Big Difference who is holding the assets? Are there any assets?
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GASB 74 Trust or Trust Equivalent Arrangement

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
 - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
 - OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.
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GASB 74

- *Most of GASB 74 only applies for plans administered through trusts in which contributions are irrevocable, trust assets are dedicated to providing OPEB to plan members, and trust assets are legally protect from creditors. If there are assets accumulated, but not through trusts meeting the above criteria, only paragraphs 58 and 59 apply. Those paragraphs indicate that any such assets should continue to be reported as assets of the employer or non-employer contributing entity.*
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Fiduciary Fund

- *If you have the assets in a trust fund as just described; then you would have to follow GASB 74 and report those assets and related liabilities of the OPEB as a Fiduciary Fund of the Housing Authority. (new financial statements)*
 - *Stand alone BTA's fiduciary activities should be report in separate fiduciary fund financial statement.*
 - *Good news is the NET liability then would appear on your Housing Authority Financial Statements.*
 - *If no Trust; then no Netting – Gross Asset and Gross Liability report on the Housing Authority Financial Statements*
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GASB 87 Leases

GASB

- Long Term Liabilities that were not being reported on statement of financial position.
 - Early Implementation encouraged starts December 31, 2020
 - March 31, 2021 - June 30, 2021 - September 30, 2021
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Housing Authority Lease Type Transaction

- Housing Assistance Payments
 - Lease is between HCV tenant and private landlord
 - Public Housing Leases
 - Generally 12 month lease renewed annual (tricky)
 - LIHTC Land Leases
 - Generally 99 or 50 year lease agreements with LIHTC Partnership
 - Government Non-Profit (BCU) Facility Lease
 - Range of lease periods but with related party BCU for office space for federal programs.
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Lease Activity and Reporting

Lessor

- Lease Receivable
- Deferred Inflow of Resources

- Interest Income
- Lease Income (amortized of lease period)

Lessee

- Right to Use (Intangible Asset)
 - Lease Liability

 - Interest Expense
 - Amortization of Right to Use
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GASB – Short Term Lease Loophole

- Paragraph #16 Short term lease is 12 months (or less)
 - Max life of the lease is the noncancelable period.
 - Be careful, if you keep renewing leases - Is your lease really a short term lease?
 - Paragraph #90 Leases between related parties
 - For example, if the lease contract is structured to meet the definition of a short-term lease but the related parties have a mutual understanding that the lease contract will stay in effect for several more years, that lease should not be accounted for as a short-term lease.
 - Fiscal funding/cancelation clause not taken into consideration unless reasonably certain of being exercised.
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HCV HAP Leases

- No effect

Lease is between HCV tenant and private landlord, not the housing authority.

Public Housing Leases

- 12 months leases that are regularly extended; time and time again.
 - However, since these leases are cancelable, at any time by tenant, they qualify as short term leases. Rolling month to month lease.
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Land Leases

- Generally long term noncancelable lease that would make Housing Authority the Lessor.
 - Record Lease Receivable for the present value of the payments and corresponding Deferred Inflow of Resources.
 - No effect on leased assets, Don't remove or reclass the land.
 - Disclosures about general terms of lease, types of assets leased by categories, amortized amounts of lease receivable, amounts of deferred inflow of resources during the period, and 5 year and each five years after amortization schedule.
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Related Party Lease with Blend Component Unit

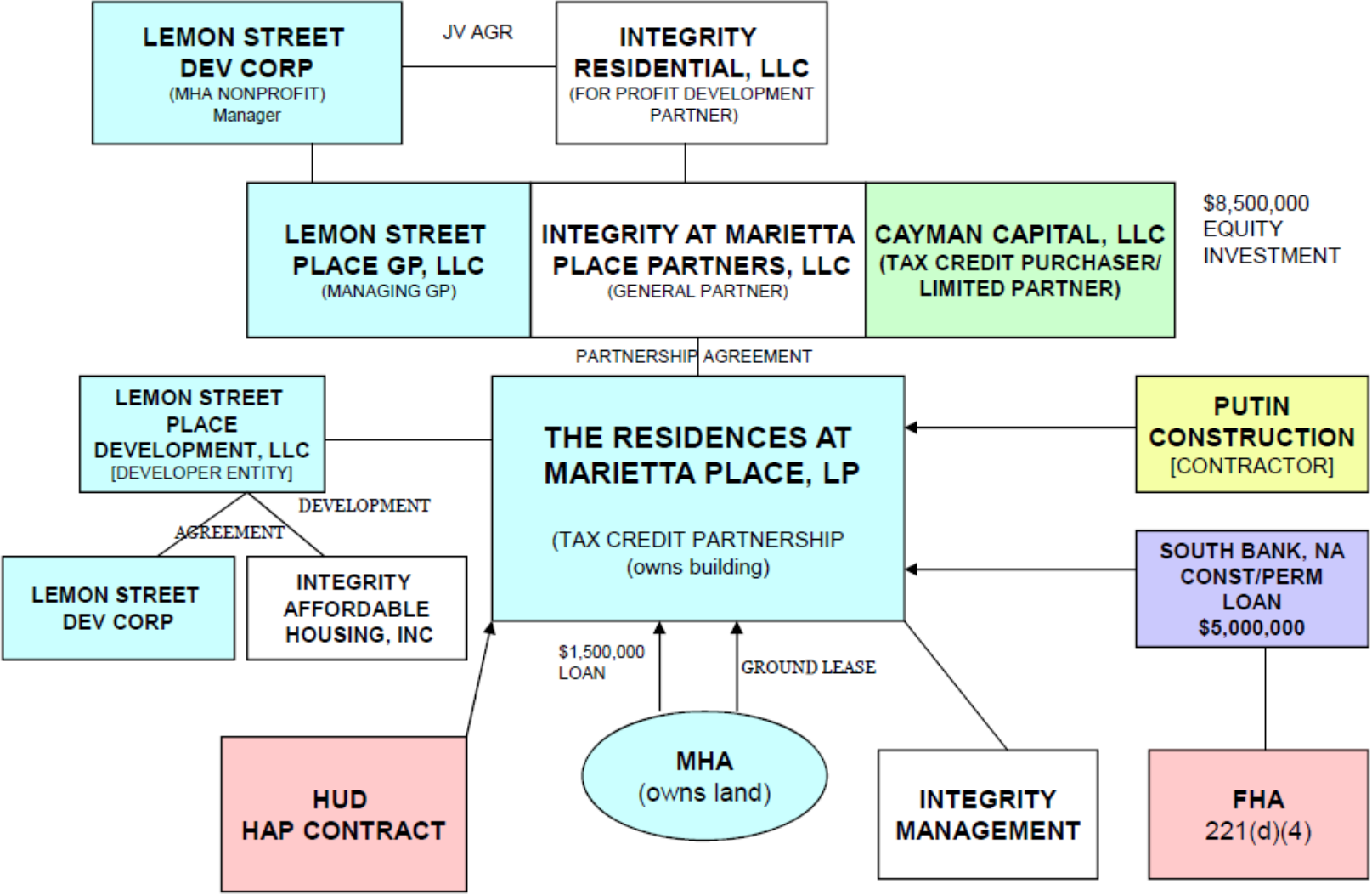
- Generally long term lease that would make Housing Authority the Lessee.
 - Record Right to Use for the present value of the payments and corresponding Lease Liability.
 - Disclosures about general term of lease, type of assets leased by categories, amortized amounts of lease receivable, and 5 year and each five years after amortization schedule.
 - Eliminations during consolidation of BCU with PG.
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Effects to the Financial Statements

- New Assets and Liabilities accounts - Statement of Financial Position
 - Amortization expenses - Statement of Revenues and Expenses
 - Moves activity on Statement of Cash Flows from Operating to Financing Capital Assets.
 - Disclosures about term of lease and maturities
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GASB 61 Component Unit

Ownership Structure Example



GASB 14 Requirements

- Fiscal dependency – now expanded to financial benefit or burden.
 - Blended component units now have additional requirements to be considered “Blended.”
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First Decision Tree

- Potential Component Unit – Legally Separate?
 - Non-profit Organization
 - Partnership
 - Does the Entity have it's own EIN Number?
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BOARD OF DIRECTORS

- Does the Housing Authority appoint the majority of the Board or are the Boards identical?
 - Non-profit Organization (common)
 - PARTNERSHIP (Don't have boards)
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Primary Government (HA) Is Financially Accountable If It:

- Appoints Board (NPO)
- Is Able To Impose Its Will On Organization, (GP) or
- Is Potentially Liable For Financial Benefits Or Burden (funding and loans)

Board Override

- If Component Unit is Fiscally Dependent On PG And PG is Potentially Liable For Financial Benefits Or Burdens
 - Operating Loss
 - Operating Revenue

No Board Requirement

Financial Benefit Or Burden

- Any One of the Following:
 - Primary Government (HA) can access organization resources.
 - PG is Legally Obligated to finance deficits or provide support to organization.
 - PG is obligated in some other manner for debt of organization.

Management Override

- If Criteria is Met or it would be misleading to exclude organization (n managements opinion) the entity is a Component Unit.
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Blend vs. Discrete

- The Overriding Presumption of GASB is that a Component Unit is a Discretely Presented Component Unit.
 - To become a “Blended” Component Unit, it must meet specific requirements to move from Discretely Presented To Blend.
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4 Tests To Be “Blended”

1. Organization’s Governing Body substantively the same as PG – PG Decisions Cannot Be Overridden By Organization, or
2. Provides Service Entirely to PG (Internal Service Fund), Or
3. Component Unit’s total debt outstanding is expected to be repaid by Resources Of PG, or
4. Wholly Owned NPO

Only need one

NOTES TO FINANCIAL STATEMENTS

- Brief Description Of Relationship Of Component Unit To Primary Government.
 - Discussion Of Rationale For Including CU And Whether It's A Blended Or Discretely Present.
 - Finally, How A Separately Issued FS Of CU Can Be Obtained.
 - If There Is A Different Fiscal Year End Disclose
 - Go Back 11 Months Or Forward 3 Months
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