

FLASH ALERT

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GASB STATEMENT 89: ACCOUNTING FOR INTEREST COSTS INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD

GASB Statement 89, Accounting for Interest Costs Incurred before the End of a Construction Period, comes at a point that is very timely for the Public Housing industry. Several Public Housing Authorities (PHAs) are currently seeking funding sources to modernize their portfolio in order to maintain housing to low income and disabled families. Sources of funding could include tax-credits, RAD, CFFP, OFFP as well as other programs offered by federal, state, and local agencies.

GASB Statement 89 is requiring state and local governmental agencies, including PHAs, to expense interest during the construction period, rather than capitalizing the interest so that it becomes part of the asset's value. The two reasons why GASB decided to change the accounting for interest incurred during the construction period are because they were trying to simplify the reporting and associate the true cost of borrowing.

The effective date of GASB 89 will be effective for reporting periods beginning after December 15, 2019. So, PHAs with fiscal years beginning January 2020 and after would be required to implement this new GASB Statement for accounting and reporting. Furthermore, the provisions of GASB 89 should be applied prospectively, so there will be no need for PHAs to change their accounting and reporting from prior years. GASB Statement 89 applies to both enterprise and governmental funds and supersedes GASB Statement 62.

This change in accounting principle will have a minimal affect for PHAs. The benefit of expensing interest has an immediate impact on the income statement. Thus, a company can reduce their tax

liability immediately instead of amortizing the amount through depreciation over a specified number of years. Since taxes are a non-issue for PHAs, this won't have an impact for them.

The implementation of GASB 89 could get complicated when a PHA is including a project in their financial statements (ie, component unit) that is being developed and or managed by a corporate entity and the corporate entity is under FASB. If this is the case, the PHA would have to do a conversion entity to correctly report the asset and depreciation expense in their financial statements. Both the asset and the amount of depreciation expense would be decreased. As GASB 89 is implemented, we will keep you updated if there are any changes prior to the implementation period.

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ABOUT BDO PHA FINANCE

BDO PHA Finance, a division of BDO USA, LLP, provides accounting and management consulting services to Public Housing Authorities (PHAs) nationwide. We are proud to be making a difference for the housing authorities that serve communities throughout the United States.

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