



# 2017 ACI-NA Business of Airports

## Accounting & Financing Work Group

### General Accounting Update

Max Underwood, DFW International Airport

Ali H. Hijazi, Plante Moran

Catherine Kloepfer, Winnipeg Airports Authority

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# Accounting for Leases

## Background

- In 2005, SEC recommended changes in lease accounting for off-balance activities. In 2006, FASB and IASB started a joint project to reexamine their guidance, and both have issued new guidance.
- GASB issued Exposure Draft in Feb 2016
  - Viewed all leases (with exception of s/t) as financings based conveying control of right to use an asset
  - Not applicable to variable component (% rent)
  - Provided exemption for airline use agreements, but the wording was off the mark
  - Effective for reporting period beginning after 12/15/18

# GASB approach is not in synch with other accounting boards.



	GASB Exposure Draft	FASB ASU 842	IASB IFRS 16
Lessee	<ul style="list-style-type: none"> <li>Liabilities are recognized except ST lease</li> </ul>	<ul style="list-style-type: none"> <li>Liabilities are recognized except ST lease</li> </ul>	<ul style="list-style-type: none"> <li>Liabilities are recognized except ST lease</li> </ul>
Lessor	<ul style="list-style-type: none"> <li>Lease Receivable and Deferred Inflow of Resources recognized except ST lease</li> <li>Interest income over life of lease</li> <li>Underlying asset remains on books</li> </ul>	<ul style="list-style-type: none"> <li><b>Substantially the same as previous lessor accounting</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Substantially the same as previous lessor accounting</b></li> </ul>

## The Reaction...

- ACI-NA Finance Committee conducted a webinar in early May 2016
- ACI-NA and 23 airports filed comments. Additional support from Deloitte and PFM
- ACI-NA and 5 airports spoke at public hearing near SFO
- Our message:
  - Follow lead of FASB and IASB
  - Provide effective exemption for airline use agreements
  - Exempt non-airline agreements with revenue sharing
  - Misleading & non-comparable financial statements
  - Costs > Benefits – very burdensome for airports

## Post Hearing developments...

- ACI-NA member companies and ACI-NA General Counsel engaged GASB staff on multiple occasions
- GASB accepted ACI-NA's expanded airport exemption 😊
- No change for non-aeronautical agreements 😞
  - ED exempted leases with lessor-only cancellation options. GASB decided to eliminate this exemption and treat lessee/lessor options similarly – must look to likelihood 😊
  - MAGs that reset annually based actual prior year results could be argued to be variable 😊
- GASB proposed a net asset disclosure for aeronautical leases *by lessee* to show concentration risk. ACI-NA has worked for a gate disclosure only. 😊



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# Regulated leases not treated as financings



36. Certain leases are subject to external laws, regulations, or legal rulings. For example, the U.S. DOT and the FAA regulate aviation leases between airports and air carriers and ***other aeronautical users***. Lessors should not apply the provisions of ¶ XX-XX of this Statement to leases that meet the provisions of ¶ 37.

37. Lessors should recognize an inflow of resources (for example, revenue) based on the payment provisions of the lease contract, and provide the disclosures in ¶ 51, for leases for which external laws, regulations, or legal rulings establish all of the following requirements:

- Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator,
- Lease rates should be similar for lessees that are similarly situated, and
- The lessor cannot deny potential lessees the right to enter into leases if facilities are available, provided that the lessee's use of the facilities complies with generally applicable use restrictions.

## Post Hearing developments...

- ACI-NA member companies and ACI-NA General Counsel engaged GASB staff on multiple occasions
- GASB accepted ACI-NA's expanded airport exemption 😊
- Non-aeronautical leases remain subject to recognition 😞
  - ED exempted leases with lessor-only cancellation options. GASB decided to eliminate this exemption and treat lessee/lessor options similarly – must look to likelihood
  - MAGs that reset annually based actual prior year results could be argued to be variable 😊
- GASB proposed a net asset disclosure for aeronautical leases *by lessee* to show concentration risk. ACI-NA has worked for a gate disclosure only. 😊

# Final Statement

- Expected to be issued in June 2017
- Effective date to be delayed one year - for reporting period beginning after 12/15/19 😊
  - Early adoption encouraged
- Finance Committee will hold a webinar after statement is issued

It has been a journey...



# US Accounting

# Significant New Accounting Pronouncements



- GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (Effective beginning June 30, 2017)
  - Will result in enhanced note disclosures and required supplementary information for plans that are administered by OPEB trusts
- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Effective beginning June 30, 2018)
  - Requires recording an employers' net OPEB liability on the statement of net position
  - Very similar to GASB Statement No. 68 in terms of accounting impact and required financial statement disclosures
  - Coordination will be required between the entity, the administrator of the plan, the actuary, and the auditors

## Significant New Accounting Pronouncements (continued)

- GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Effective now)
  - Reduced the GAAP hierarchy to two categories of authoritative GAAP
  - GASB Implementation Guides have moved up the hierarchy
  - Practices that are “widely recognized and prevalent” are no longer specifically in the GAAP hierarchy, but still allowed to be used if no GASB or FASB authoritative source exists

# Governmental Accounting Standards Board – Current Projects



- Financial Reporting Model
  - For enterprise funds, the most significant item under consideration is operating indicator alternatives for evaluating the guidance for the separate presentation of operating and nonoperating revenues and expenses
  - The Accounting and Financing Working Group has provided initial feedback to the GASB on the alternatives under consideration for defining operating versus nonoperating activities – subsidized/self-sustaining versus financial performance
  - The GASB is still soliciting industry input – final standard not expected until 2021

# Governmental Accounting Standards Board – Current Projects (continued)



- Revenue Recognition
  - Currently in initial stages
  - Develop a comprehensive model for the recognition of revenues and expenses that arise from nonexchange, exchange, and exchange-like transactions, including guidance for exchange transactions that has not been specifically addressed in the current literature
  - The GASB is following in the footsteps of the FASB in taking a performance obligation approach to measuring revenue, which is more principles-based
  - Final standard not expected until 2022

# Other Projects and New Accounting Pronouncements



- GASB Statement No. 83, Certain Asset Retirement Obligations (June 30, 2019 year-ends)
  - Requires recognition of an ARO when a liability is incurred and reasonably estimable. Both an external obligating event and an internal obligating event must occur in order for the liability to be recognized.
- GASB Statement No. 84, Fiduciary Activities (June 30, 2018 year-ends)
  - Redefines a fiduciary activity, replaces agency funds with custodial funds, and adds an income statement for custodial funds
- GASB Statement No. 85, Omnibus 2017 (June 30, 2018 year-ends)
  - Addresses a diverse set of requirements including various OPEB issues, clarifications to GASB 72, and other matters
- Certain Debt Extinguishments Using Existing Resources (Final Statement Expected Q2 2017)
- Debt Disclosures, Including Direct Borrowing (Final Statement Expected 2018)

# Canadian Accounting

# New developments

- IFRS
  - Exposure draft: operating segments (July 31, 2017)
  - Discussion Paper: principles (October 2, 2017)
  - New standards:
    - Revenue Recognition
    - Leases
    - Financial Instruments
- ASPE
  - New standards:
    - Subsidiaries, Investments and Joint Arrangements
- NFP