

How to stay in touch with your financial statements in an ever-changing regulatory world

Over the past several years, we have seen many sweeping changes in both the regulatory and standard-setting world. Most of these changes have been in response to the ever-changing economic climate. Financial statements, in turn, have become difficult to prepare and management has had to stay on top of many difficult accounting disclosure standards in both the FASB and GASB environments. Some significant changes have been GASB 34, which made sweeping changes, including MD&A requirements and new disclosures for GASB followers; new pollution remediation disclosure requirements; and new pension and post-retirement obligation disclosures. For FASB followers, sweeping changes have included derivative standards; asset retirement obligations; fair market value accounting standards and disclosure requirements; and pension and post-retirement obligation disclosures.

If you think you have a handle on your financial statements today, unfortunately there are more significant changes that are coming in the near future. For GASB followers, the new pension standards have significantly increased both accrual to and disclosure in the financial statements. The new OPEB standards will also significantly change both financial reporting and disclosure requirements. For FASB followers, revenue recognition and leasing accounting standards continue to be modified, and disclosures and presentation continue to change to conform to international accounting standards. Also, many of these new standards require significant contribution of information outside of the accounting department, so planning will be required for effective implementation.

In this changing environment, we have several recommendations to ensure your financial statements are produced efficiently and effectively.

- **Get started now!** The reason both FASB and GASB give a period of time between when the statements are issued and when they must be implemented is that they know it is going to take time to understand the standard and collect information. The first step is to understand what is coming in the future. For example, if your utility follows GASB standards and you have any post-retirement benefits, these will significantly change how your statements and disclosures look. For FASB followers, understanding revenue recognition and leasing accounting and how investment decisions could impact financial reporting is vital to accurate financial reporting.



- **Work with your auditor in advance.** Auditors are a very good resource. We generally have access to excellent training and can help to identify statements that will affect your utility early on in the process. Working with your auditor to identify how the standard will change financial reporting in advance will ensure timely completion of your audits and accurate financial reporting.
- **Identify who in the utility will be needed to apply the new standards.** This is a key to ensuring accurate financial reporting! Many of the new standards can not be handled by accounting alone. For example, when GASB 33 changed donated assets from an offset to plant account to recognition on the income statement for all GASB follows, we found that most restatements were due to lack of communication between departments. Most times, operations knew of certain donated assets, but didn't realize the need to report these assets to the accounting department. We have also seen this in the derivatives area. At times, certain power or long-term contracts can contain embedded derivative instruments. If the power management team is not aware of the derivative standards, they may not communicate the presence of these contracts to the accounting department in a timely manner.
- **Education.** Many of the new standards that are coming up are going to require additional training. There are many local and national training resources.

- **Don't just add to your statements.** This is also a key to healthy financial reporting. One trend seems to be, as new standards are added, to just add to the financial statements. Though some require standard disclosures and will lengthen financial statements, more detail does not always mean better information for the readers of the financial statements. Use the implementation of new standards and reporting requirements as a chance to take a hard look at your current financial statements and decide what is needed and what isn't.

The accounting world continues to change at a very quick pace. Most changes will be reflected at some point in financial reporting. One role of management is to ensure that financial statements and other reports are understandable by the users. The more advance planning that can be accomplished on the significant reporting changes that are coming will reduce stress when financial statements are due to be released. When auditors start looking at financial reporting, it is important that management has a solid

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understanding of reporting requirements and can connect those standards to the general operations of the utility.

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