# North Carolina, Office of the State Controller

# Latest Inventions from the Mind of GASB – The Sequel – Part 1

May 18, 2022

Gerry Boaz, CPA, CGFM, CGMA and Jerry E. Durham, CPA, CGFM, CFE

# GASB Project Manager Position Open

Minimum 10 years of experience, including at least 5 in government finance or auditing, public accounting, finance or accounting academia, or standards setting

Interested?

Go to www.gasb.org

Mouse over "About Us"

Click on "Careers"

# Effective Dates after Statement 95

## December 31: Fiscal Year 2021

- Statement 89 – construction-period interest
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update

## December 31: Fiscal Year 2022

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- Statement 98 – the annual comprehensive financial report
- IG 2019-3 – leases
- IG 2020-1 – update
- IG 2021-1 – update (4.22)

## December 31: Fiscal Year 2023

- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

## December 31: Fiscal Year 2024

- IG 2021-1 – update (5.1)

# Effective Dates after Statement 95

## June 30: Fiscal Year 2021

- Statement 84 – fiduciary activities
- Statement 90 – majority equity interests
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update
- IG 2019-2 – fiduciary activities

## June 30: Fiscal Year 2022

- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- Statement 98 – the annual comprehensive financial report
- IG 2019-3 – leases
- IG 2020-1 – update (except 4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.22)

## June 30: Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

## June 30: Fiscal Year 2024

- IG 2021-1 – update (5.1)

# Schedule of Upcoming Implementations

| New Statement | | Implement for Fiscal Years Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 84, Fiduciary | Dec. 15, 2019 | 2021 | 2021 | 2021 | 2020 |
| 87, Leases | June 15, 2021* | 2023 | 2022 | 2022 | 2022 |
| 89, Interest Capitalization | Dec. 15, 2020 | 2022 | 2022 | 2022 | 2021 |
| 90, MEI | Dec. 15, 2019 | 2021 | 2021 | 2021 | 2020 |
| 91, Conduit Debt | Dec. 15, 2021 | 2023 | 2023 | 2023 | 2022 |

| New Statement | | Implement for Fiscal Year <u>Ending</u> | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Provisions Effective As Noted … and For All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 92, Omnibus 2020 | ¶ 6, 7, Pension & OPEB related issues – **FYs** beginning after 6/15/2021 | 2023 | 2022 | 2022 | 2022 |
| | ¶ 8,9 & 12, Fiduciary activities and fair value related issues – **Reporting periods** beginning after 6/15/2021 | 2023 | 2022 | 2022 | 2022 |
| | ¶ 10, Asset retirement obligations acquisitions– **Acquisitions in** periods beginning after 6/15/2021 | 2023 | 2022 | 2022 | 2022 |

| New Statement | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Provisions Effective As Noted** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 93, IBOR Replacement | Periods beginning after June 15, 2021 (except ¶ noted below) | 2023 | 2022 | 2022 | 2022 |
| | ¶ 13,14, Lease Modifications – FYs beginning after June 15, 2021 and all reporting periods thereafter | 2023 | 2022 | 2022 | 2022 |
| | ¶ 11b, LIBOR no longer appropriate benchmark interest rate – Periods *ending after* Dec. 31, 2021‡ | 2022 | 2022 | 2022 | 2022 |

‡ Proposed change in Omnibus 2021 Exposure Draft: upon discontinuation of publication of LIBOR as currently determined

| New Statement | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 94, PPPs and APAs | June 15, 2022* | 2024 | 2023 | 2023 | 2023 |
| 95, Postponements | Incorporated for each affected pronouncement | | | | |
| 96, SBITAs | June 15, 2022* | 2024 | 2023 | 2023 | 2023 |
| 98, ACFR | FYEs *ending* after Dec. 15, 2021 | 2022 | 2022 | 2022 | 2021 |

| New Statement | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 97, Component Unit Criteria and 457 Plans | Except as below June 15, 2021 | 2023 | 2022 | 2022 | 2022 |
| | ¶ 4, as applicable to defined contribution employee benefit plans, and ¶5, Component unit criteria, **Effective Upon Issuance** | | | | |
| | ¶ 6-9, Section 457 Plans FY's beginning after June 15, 2021 | 2023 | 2022 | 2022 | 2022 |

| New Implementation Guide | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| **Guide #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 2019-1 Update | June 15, 2020 | 2022 | 2021 | 2021 | 2021 |
| 2019-2 Fiduciary Activities | December 15, 2019 | 2021 | 2021 | 2021 | 2020 |
| 2019-3 Leases | June 15, 2021* | 2023 | 2022 | 2022 | 2022 |

| New Implementation Guide | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| Guide #, Topic | Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter | March 31 | June 30 | September 30 / October 31 | December 31 |
| 2020-1, Update (Also indefinitely deferred CU determination criteria from prior IG – see GASB 97) | Q's 4.1-4.5, 4.18, 5.3 (Reporting entity, external investment pools, AROs) June 15, 2021 | 2023 | 2022 | 2022 | 2022 |
| | Q's 4.6-4.17 (Leases) FY's beginning after Dec. 15, 2021 and all reporting periods thereafter | 2023 | 2023 | 2023 | 2022 |
| | Q's 4.19-4.21 (Conduit debt) Dec. 15, 2021 | 2023 | 2023 | 2023 | 2022 |
| | Q's 5.1, 5.2, 5.4, 5.5 (PEB) FY's beginning after June 15, 2021 | 2023 | 2022 | 2022 | 2022 |

| New Implementation Guide | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| **Guide #, Topic** | **Periods beginning after (except as noted) … and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 2021-1, Update | Q's 4.1-4.3, 4.23, 5.2-5.4 (Fine revenue, major funds, sales and pledges of receivables and future revenue) June 15, 2022 | 2024 | 2023 | 2023 | 2023 |
| | Q's 4.4-4.21 (Leases) FY's beginning after June 15, 2022 and all reporting periods thereafter | 2024 | 2023 | 2023 | 2023 |
| | Q's 4.22 (Nonexchange transactions) FY's June 15, 2021 | 2023 | 2022 | 2022 | 2022 |
| | Q's 5.1 (capitalization of groups of assets), June 15, 2023 | 2025 | 2024 | 2024 | 2024 |

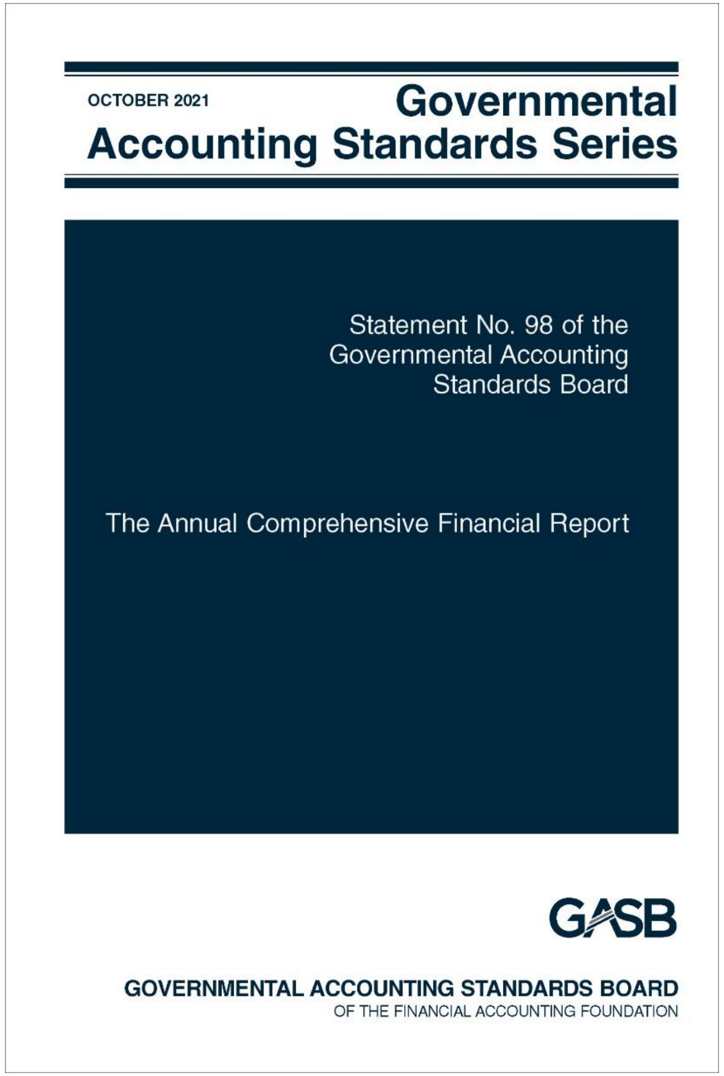
# Pronouncements Being Implemented

# The Elephant in the Room

- 98

# The Annual Comprehensive Financial Report

Statement No. 98



OCTOBER 2021

Governmental Accounting Standards Series

Statement No. 98 of the Governmental Accounting Standards Board

The Annual Comprehensive Financial Report

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

# Renaming the Comprehensive Annual Financial Report

## What?

The Board has renamed the comprehensive annual financial report in response to stakeholders who pointed out that its acronym, as it commonly is pronounced, sounds like a highly offensive racial slur

## Why?

The GASB's commitment to diversity and inclusion dictate that its standards should be free of potentially offensive terminology

## When?

Effective for fiscal years ending after December 15, 2021.

Earlier application is encouraged.

| New Statement | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 94, PPPs and APAs | June 15, 2022* | 2024 | 2023 | 2023 | 2023 |
| 95, Postponements | Incorporated for each affected pronouncement | | | | |
| 96, SBITAs | June 15, 2022* | 2024 | 2023 | 2023 | 2023 |
| 98, ACFR | FYEs *ending* after Dec. 15, 2021 | 2022 | 2022 | 2022 | 2021 |

# The Annual Comprehensive Financial Report

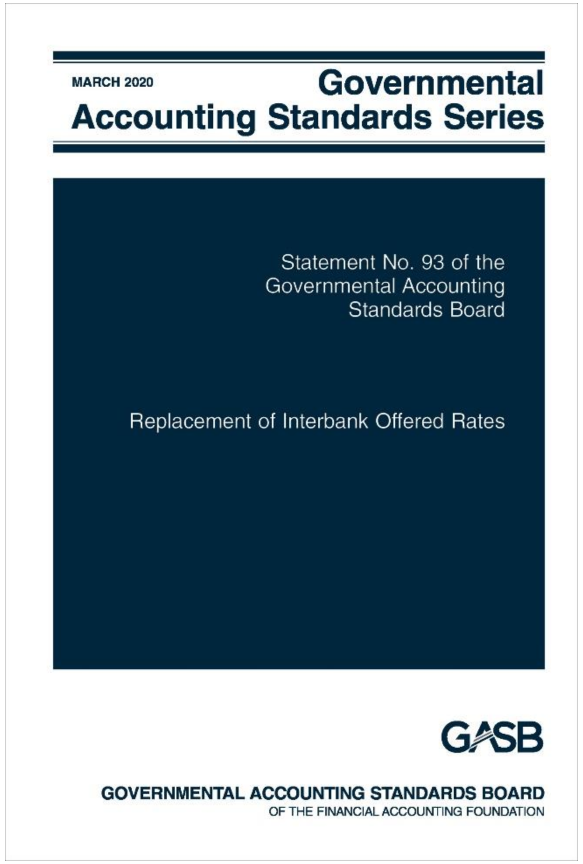
The comprehensive annual financial report would be renamed *annual comprehensive financial report (ACFR)*

The standards would be effective for fiscal years ending after December 15, 2021 with earlier application encouraged.

93

# Replacement of Interbank Offered Rates

## Statement No. 93


MARCH 2020 Governmental Accounting Standards Series

Statement No. 93 of the Governmental Accounting Standards Board

Replacement of Interbank Offered Rates

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

# Replacement of Interbank Offered Rates

## What?

The Board has issued guidance to facilitate the transition from using IBORs in hedging derivative instruments and leases

## Why?

LIBOR in its current form is expected to effectively sunset at the end of 2021

## When?

LIBOR: Varies by Paragraph, see the chart that follows.

# Summary of Implementations – Statements (cont.)

| New Statement | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Provisions Effective As Noted** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 93, IBOR Replacement | Periods beginning after June 15, 2021 (except ¶ noted below) | 2023 | 2022 | 2022 | 2022 |
| | ¶ 13,14, Lease Modifications – FYs beginning after June 15, 2021 and all reporting periods thereafter | 2023 | 2022 | 2022 | 2022 |
| | ¶ 11b, LIBOR no longer appropriate benchmark interest rate – Periods *ending after* Dec. 31, 2021‡ | 2022 | 2022 | 2022 | 2022 |

‡ Proposed change in Omnibus 2021 Exposure Draft: upon discontinuation of publication of LIBOR as currently determined

# Brief History

The London Interbank Offered Rate (LIBOR) is a widely used rate for floating rate financial contracts. State and local governments often see this rate in bank loans, floating rate notes, lease contracts, direct placements, and other types of financings and credit enhancements, as well as swap/derivative products intertwined with municipal debt.

Due to various scandals involving LIBOR manipulation, the Financial Conduct Authority (FCA), which regulates LIBOR, announced in July 2017 that banks would no longer be required to submit information for the calculation of LIBOR after December 31, 2021, effectively discontinuing LIBOR as of that date ( "Cessation Date"). In response, the Federal Reserve Board and the New York Federal Reserve Bank convened the Alternative Reference Rates Committee (ARRC) to develop a more robust reference rate as a replacement for US Dollar based LIBOR. They recommended the Secured Overnight Financing Rate (SOFR) as an alternative to LIBOR. LIBOR replacement, or "fallback language", has been developed by ARRC for most financial contracts and the International Swaps and Derivatives Association (ISDA) for derivative contracts, which may be adopted by municipal issuers to amend their respective contracts. Municipal issuers with legacy contracts tied to LIBOR are encouraged to consider adopting LIBOR replacement or fallback language

On November 30, 2020, Intercontinental Exchange, Inc. (ICE) announced that the ICE Benchmark Administration (IBA), the administrator of LIBOR, would "consult" (ask for comments) on its proposal to continue the publication of certain tenors (maturities) of US Dollar based LIBOR through June 30, 2023.

# LIBOR Publication Cessation Dates

- December 31, 2021:
  - 1 week and 2 month US Dollar LIBOR

- June 30, 2023:
  - Overnight, and 1, 3, 6, and 12 month US Dollar LIBOR

# GASB Exposure Draft – Omnibus

- Replacement of Interbank Offered Rates – Basis for Conclusions:
- Replacement of Interbank Offered Rates B33.
- As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates. The GASB issued Statement No. 93, Replacement of Interbank Offered Rates, to amend Statement 53 in order to address the accounting and financial reporting implications that result from the replacement of LIBOR. At the time that Statement 93 was issued, LIBOR was expected to cease to exist after December 31, 2021. The Board chose that date as the date after which LIBOR would no longer be an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt. Subsequently, LIBOR's 19 administrator, the IBA, announced that the most widely used United States Dollar (USD) LIBOR tenors would continue to be published until June 30, 2023.

# GASB Exposure Draft – Omnibus

- Replacement of Interbank Offered Rates – Basis for Conclusions:
- Replacement of Interbank Offered Rates B34.
- Based on that announcement, the Board considered the need to extend the period during which LIBOR is considered an appropriate benchmark interest rate. Because cessation has been delayed only for certain USD LIBOR tenors, the Board believes that simply extending the effective date of paragraph 11b to June 30, 2023, could lead to confusion as to whether a replacement rate published by the IBA for the LIBOR tenors that have not been extended would be considered an appropriate benchmark interest rate. Furthermore, the Board was concerned that additional delays in LIBOR's cessation would require additional amendments to Statement 93.

# GASB Exposure Draft – Omnibus

- Replacement of Interbank Offered Rates – Basis for Conclusions:
- Replacement of Interbank Offered Rates B35.
- Rather than extending the effective date of paragraph 11b of Statement 93 by 18 months, the Board considered defining the point at which LIBOR is no longer an appropriate benchmark interest rate as when the IBA ceases to publish LIBOR rates. That would address both the difference in the timing of the cessation of individual tenors and any future extensions, without requiring additional amendments to Statement 93. However, because of concerns that the IBA might continue to publish LIBOR using a different methodology (sometimes referred to as synthetic LIBOR), the Board believes the cutoff point for certain LIBOR tenors as an appropriate benchmark interest rate should be when LIBOR ceases to be determined using the methodology in place as of December 31, 2021. Because the one-week and two-month LIBOR tenors will cease to be published after December 31, 2021, they will no longer be appropriate benchmark interest rates at that time.

# GASB Exposure Draft – Omnibus 20XX

- Replacement of Interbank Offered Rates
- 26. For purposes of applying paragraphs 35–38 of Statement 53, as amended, the London Interbank Offered Rate (LIBOR) is no longer an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt when LIBOR ceases to be determined by the ICE Benchmark Administration (IBA) using the methodology in place as of December 31, 2021. (GASB 93, 11(b) and 15)

# Exception to Termination of Hedge Accounting

**Continue to apply hedge accounting to an effective hedging derivative instrument with a variable payment based on an IBOR, if all criteria are met:**

- Hedging derivative instrument is amended or replaced to change the reference rate of its variable payment or add/change reference rate-related fallback provisions
- The new reference rate essentially equates the old rate by :
  - Adjusting the new rate by a coefficient or constant, limited to what is necessary to essentially equate the rates, and/or
  - An up-front payment, limited to what is necessary to essentially equate the rates
- The original hedging derivative instrument is ended and the replacement hedging derivative instrument is entered into on the same date
- Critical terms are identical, except for term changes that are necessary for reference rate replacement (see next slide)

# Other Term Changes

Term changes that may be necessary for the replacement of the reference rate are limited to:

- The frequency with which the rate of the variable payment resets
- The dates on which the rate resets
- The methodology for resetting the rate
- The dates on which periodic payments are made

# Two-Step Transition to a SOFR

A hedging derivative instrument may be amended or replaced in two steps: a transition from an IBOR to another rate (such as the effective federal funds rate) prior to transitioning to a secured overnight financing rate (SOFR)

Hedge accounting continues when all of the following criteria are met:

- The first step replaces an IBOR with another rate
- That interim rate is replaced by a SOFR in the second step
- All four of the criteria for a one-step transition are met

# Other Provisions

Effective Federal Funds Rate and SOFR are appropriate benchmark interest rates for taxable debt when applying the consistent critical terms method

LIBOR is no longer an appropriate benchmark interest rate for taxable debt when applying the consistent critical terms method

Replacing an IBOR as the reference rate of a hedged item does not terminate hedge accounting

Uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable

The lease modifications guidance in Statement 87 should not be applied to when a lease contract is amended solely to replace an IBOR

# Effective Dates and Transition

The provision removing LIBOR as an appropriate benchmark rate is effective for reporting periods *ending* after December 31, 2021

All other provisions are effective for reporting periods beginning after June 15, 2021

Lease Modification provisions are effective for reporting periods beginning after June 15, 2021

Earlier application is encouraged

Should be applied retroactively, if practicable (hedge accounting should be reestablished for terminations prior to the effective date of this Statement)

# Where to Look for LIBOR

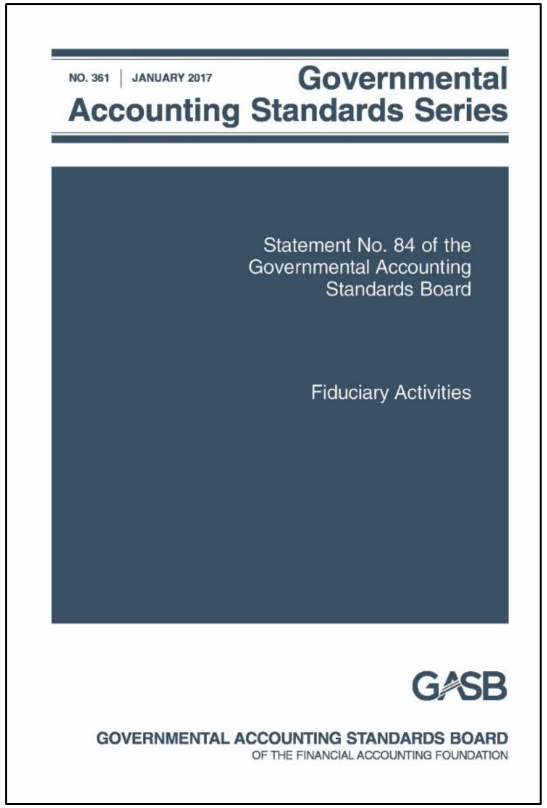
## Where to Find LIBOR

| LIBOR EXPOSURE | WHERE CAN I FIND IT? | WHO SHOULD I CALL? |
|---|---|---|
| **Swaps/Derivatives** | Swap Confirmation Document: Terms of the swap: floating amounts | • Your Municipal/Swap Advisor (Reference GFOA QIR best practice)<br>• Your Bond/Swap Counsel |
| **Bank Loans** | Loan agreement document, where payment and reference rate are discussed | • Your Municipal Advisor<br>• Your Bond Counsel<br>• Your Bank Relationship Manager |
| **Floating Rate Notes** | If publicly offered, in Official Statement: inside of cover page<br>If privately placed, in the Placement or Loan Agreement | • Your Municipal Advisor<br>• Your Bond Counsel |
| **Direct Placements** | In the Placement or Loan Agreement where payment and reference rate are discussed: Pricing Notice | • Your Municipal Advisor<br>• Your Bond Counsel<br>• Your Bank Relationship Manager/Broker-Dealer |
| **Letters of Credit** | Letter of credit and reimbursement agreement | • Your Municipal Advisor<br>• Your Bond Counsel<br>• Your Bank Relationship Manager |
| **Purchasing Cards** | Purchasing card contract or purchasing card section of your bank services contract | • Your Internal/General Counsel |
| **Intergovernmental Fund** | Inter-Governmental Agreement | • Your Municipal Advisor<br>• Your General/Internal Counsel |
| **Lines of Credit/Revolving Credit Agreements** | In Revolving Credit Agreement | • Your Municipal Advisor<br>• Your Bond Counsel<br>• Your Bank Relationship Manager |
| **Lease Contracts** | If held by vendor, in vendor agreement where payment is discussed.<br>If held by bank, in bank contract where payment is discussed. | • Your Bank Relationship Manager/Vendor<br>• Your Bond Counsel and/or<br>• Your General/Internal Counsel |
| **Variable Rate Demand Bonds/Obligations (VRDOs)** | Standby bond purchase agreement | • Your Municipal Advisor<br>• Your Bond Counsel |
| **Conduit Loans where the Government is the Lender (such as bond banks)** | Conduit loan or bond agreements where pricing is discussed | • Your Municipal Advisor<br>• Your Bond Counsel<br>• Your General/Internal Counsel |
| **Investment Products, including Guaranteed Invest Products (GICs)** | The investment agreement where LIBOR is referenced | • Your Investment Adviser<br>• Your GIC Provider |

84

# Fiduciary Activities

Statement No. 84


NO. 361 | JANUARY 2017 Governmental Accounting Standards Series

Statement No. 84 of the Governmental Accounting Standards Board

Fiduciary Activities

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

# Fiduciary Activities

## What?

The Board issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements

## Why?

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

## When?

Effective for periods beginning after December 15, 2019

Earlier application is encouraged

# Summary of Implementations – Statements

| New Statement | | Implement for Fiscal Years Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 84, Fiduciary | Dec. 15, 2019 | 2021 | 2021 | 2021 | 2020 |
| 87, Leases | June 15, 2021* | 2023 | 2022 | 2022 | 2022 |
| 89, Interest Capitalization | Dec. 15, 2020 | 2022 | 2022 | 2022 | 2021 |
| 90, MEI | Dec. 15, 2019 | 2021 | 2021 | 2021 | 2020 |
| 91, Conduit Debt | Dec. 15, 2021 | 2023 | 2023 | 2023 | 2022 |

# Fiduciary Activities

- Statement No. 14, *The Financial Reporting Entity*, Paragraph 19
  - Include “if the primary government has a fiduciary responsibility for them”
- Statement No. 61, *The Financial Reporting Entity: Omnibus*
  - Fiduciary activities broader than reporting entity considerations –so not addressed
- Existing standards
  - Fiduciary responsibilities not defined
  - Inconsistent application
  - Business-type activities
- Governmental Accounting Standards Advisory Council (GASAC)
  - High priority to address fiduciary activities

# Four potential paths to reports assets in a fiduciary fund

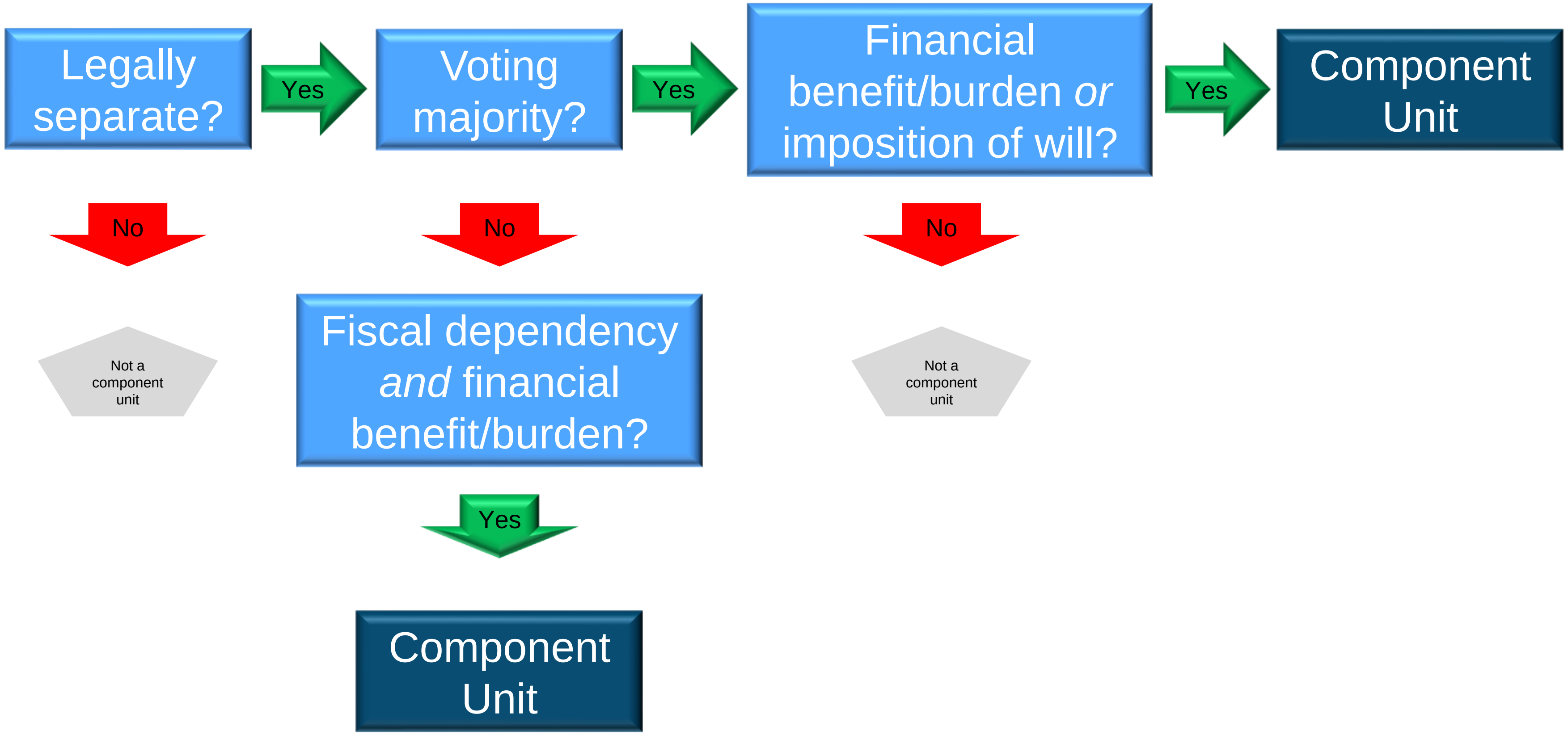
1. Is there a component unit present that are postemployment benefit arrangements? (Pensions / OPEB)

2. Is there are component unit present that may be a fiduciary activity, **but not a postemployment benefit arrangement?**

3. Are there postemployment benefit arrangements that are not component units (currently agency funds)?

4. Are there other potential fiduciary activities? (Investment trust funds, private purpose trusts, agency funds)?

# When Is There a Component Unit?



# Fiduciary component units

- **Reporting Entity Guidance:**
  - GASB 14, The Financial Reporting Entity
  - GASB 39, Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14
  - GASB 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34
  - GASB 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14
  - GASB 84, Fiduciary Activities
  - GASB 85, Omnibus 2017
  - GASB 90, Majority Equity Interests
  - GASB 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32
  - Various Implementation Guides
- This is important because Component Status equals CONTROL

# Fiduciary component units

- **Reporting Entity Guidance will likely never stop nor will:**
  - Pension and Opeb Guidance
  - Debt Guidance
  - Lease Guidance
  - Etc.
- And we and our consultants are partially to blame.
- Statement by David Bean

# Fiduciary component units

- **Other Considerations:**

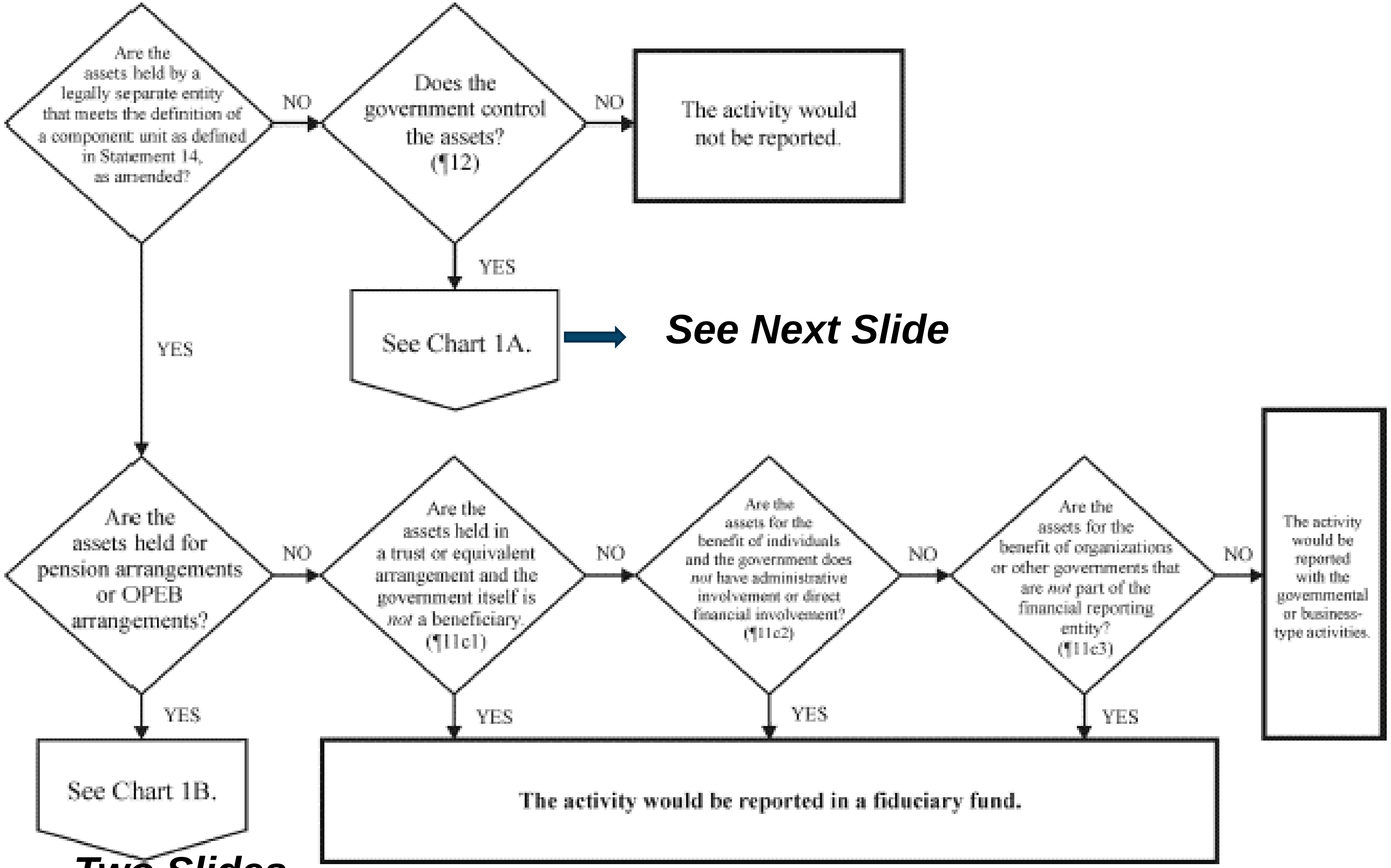
- Normally, Pension and OPEB plans that are in GASB 67 and 74 compliant trusts are separate legal entities
- Primary government considered to have *financial burden*
  if it makes contributions to the plan
  - Whether Legally required or Assumed the obligation

# Implications of Statement 97

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the **appointment of a voting majority** of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a **financial burden** applies only to defined benefit plans

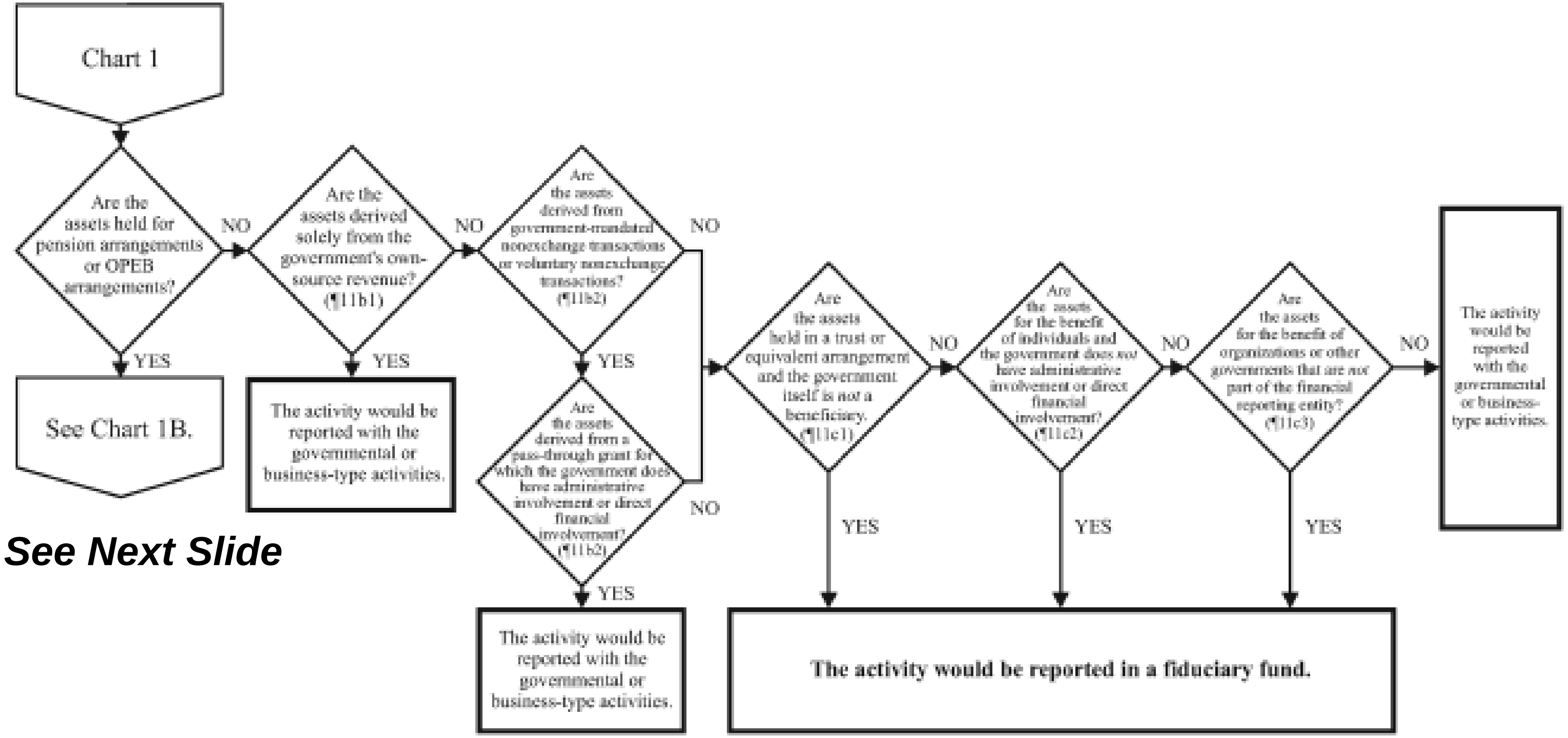
# The Maze!!! GASB-84 part 1!




***See Next Slide***

***Two Slides Down***

# The Maze!!! GASB-84 part 2!

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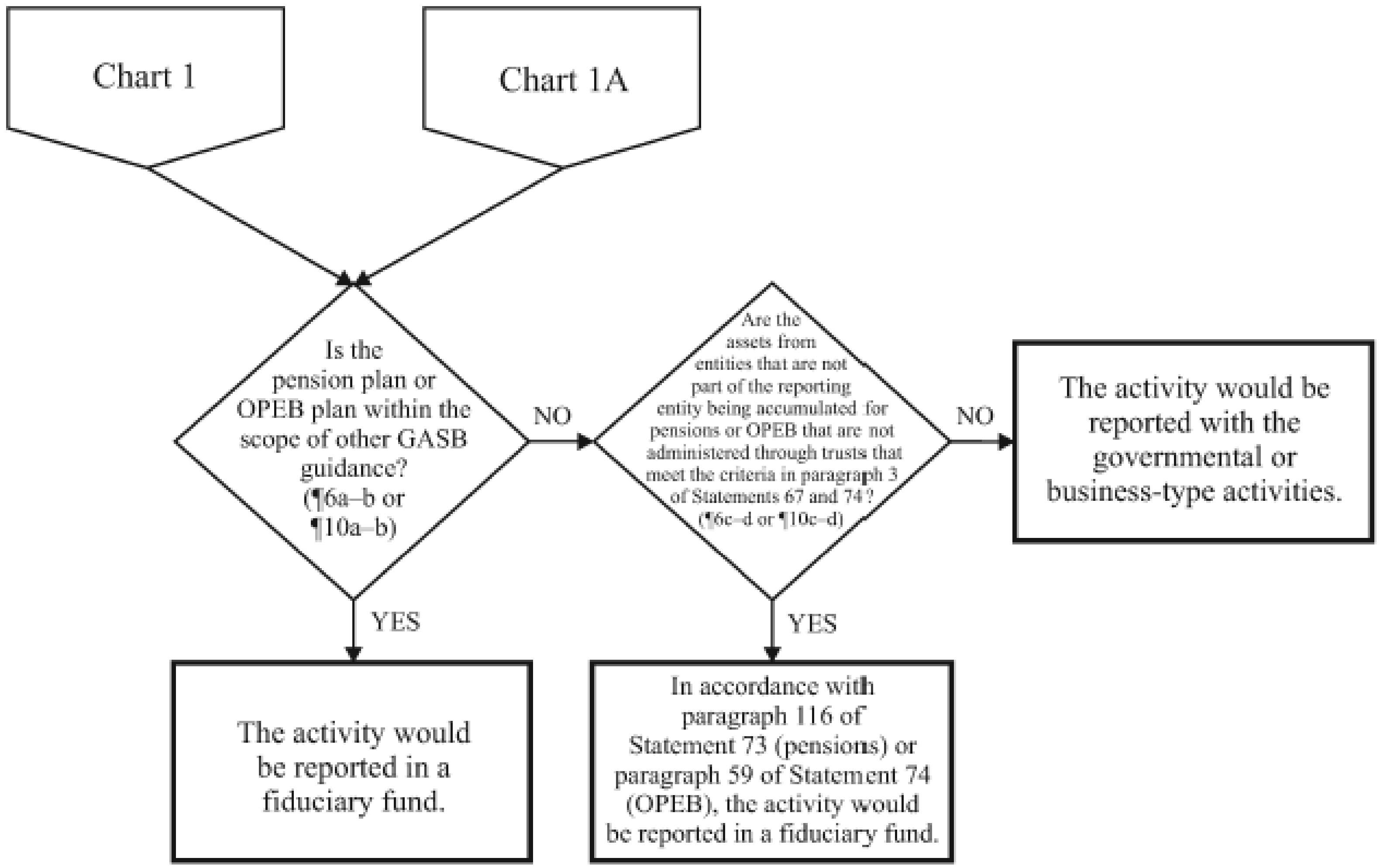
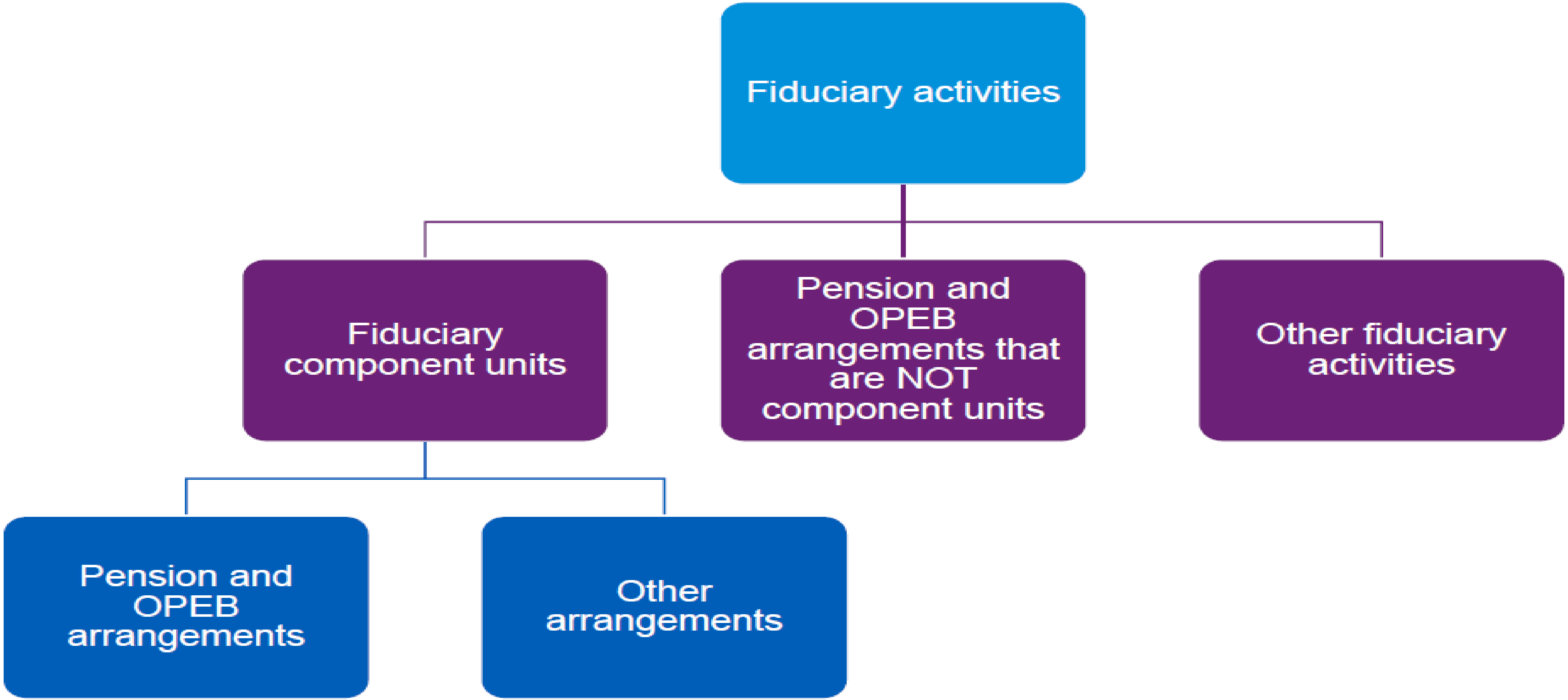
# The Maze!!! GASB-84 part 3!

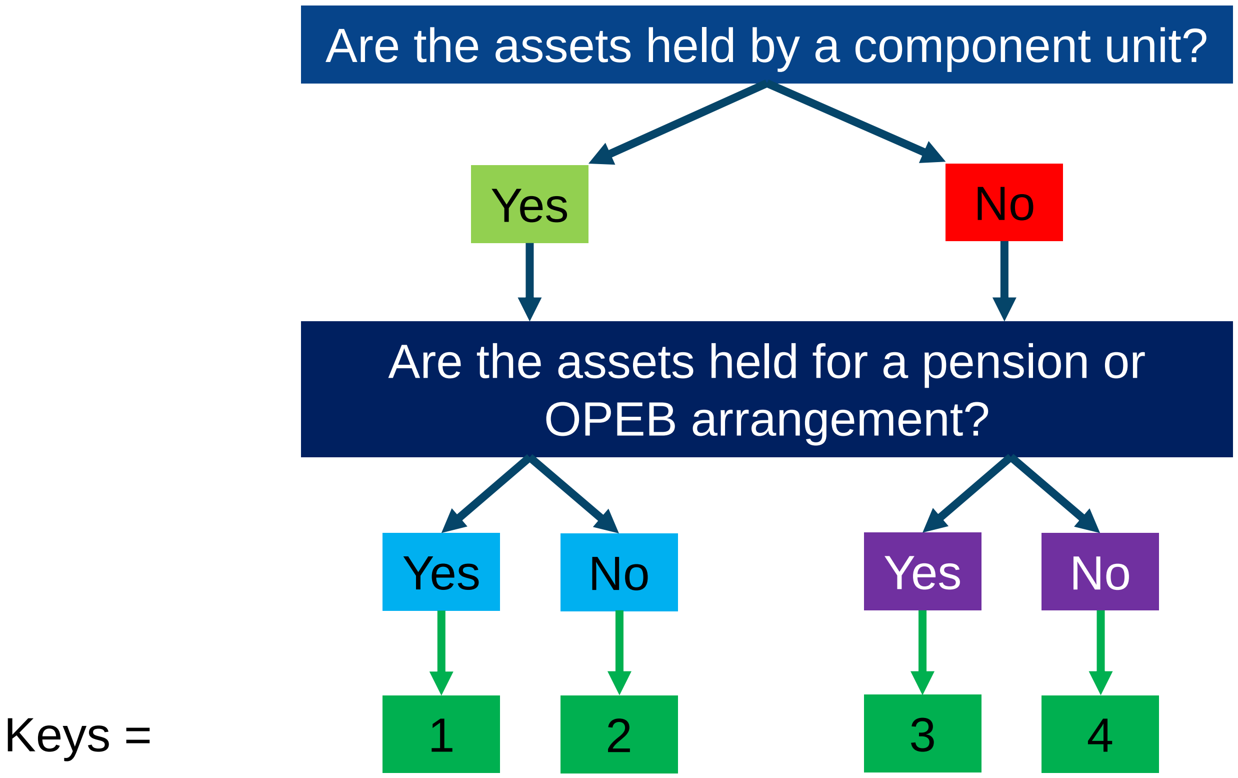


# Types fiduciary activities



# When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



# The Four Keys to fiduciary

1

Is there a component unit that is providing postemployment benefits (Pensions or OPEB)?

**Example –**Statewide PERS is a component unit of a State.

2

Is there a component unit that does not provide postemployment benefits, *but is a fiduciary*?

**Example –** Foundation of an Institution of Higher Education that is a component unit.

# The Four Keys to fiduciary

3

Are there postemployment benefit arrangements that are ***not component units***?

**Example –** Municipal Plan that is not an irrevocable trust and is currently reported as an Agency Fund.

4

Are there any other fiduciary activities – such as:

- Investment Trust Funds?
- Other Endowments?
- Funds or activities that are *currently* Agency Funds?

**Examples –** Conservation Trust, Library or School Endowment, School Activity Funds

# Fiduciary funds – Four types

- Pension and other employee benefit trust funds
- Investment trust funds
- Private-purpose trust funds
- Custodial funds

- Component Units that are Postemployment Benefit Arrangements 1

# Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if…

1

They are one of the following arrangements:

- **St. 67 ¶3** Pension plan administered through a trust that meets criteria
- **St. 74 ¶3** OPEB plan administered through a trust that meets criteria
- **St. 73 ¶116** Assets from entities not part of the reporting entity accumulated for pensions
- **St. 74 ¶59** Assets from entities not part of the reporting entity accumulated for OPEB

- Other Component Units

2

# Other Component Units Are Fiduciary if…

They have one or more of the following characteristics:

2

Assets are:

- Administered through a **trust** in which government is *not* a beneficiary
- Dedicated to providing benefits, AND
- Legally protected from the creditors of government

or

- Assets are for the benefit of **individuals**
- Assets are *not* derived from government's provision of goods or services to the individuals AND
- Government does *not* have administrative involvement or direct financial involvement w/ the assets

or

- Assets are for the benefit of **organizations / governments** *not* part of the reporting entity AND
- Assets are *not* derived from government's provision of goods or services to them

# What is Administrative Involvement vs. Direct Financial Involvement?

***Administrative Involvement* Could Be:**

- Monitoring compliance - (Sub-recipient relationship).
- Determining eligible expenditures (Sub-recipient relationship).
- Having the ability to exercise discretion in how assets are allocated.

***Direct Financial Involvement* Could Be:**

- Providing matching resources for the activities. (ex. grant match)
- When liable for disallowed costs (or the sub-recipient through the pass-through-entity).

# Fiduciary component units

- **Control is not a factor in determining whether the activity is fiduciary if the entity is a Component Unit.**

- Postemployment Benefit Arrangements that are <u>Not</u> Component Units

3

# Postemployment Benefit Arrangements That Are Not Component Units Are Fiduciary if…

3

- Arrangement is one of those in 1 AND
- The government **controls** the assets of the arrangement
  - (control will be explained in two slides)
- **Because this is not a component unit,  the aspect of CONTROL becomes essential.**

# Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if…

1

They are one of the following arrangements:

- **St. 67 ¶3** Pension plan administered through a trust that meets criteria
- **St. 74 ¶3** OPEB plan administered through a trust that meets criteria
- **St. 73 ¶116** Assets from entities not part of the reporting entity accumulated for pensions
- **St. 74 ¶59** Assets from entities not part of the reporting entity accumulated for OPEB

# Control of Assets

- Control means one or both of the following is true:

- Government *holds* the assets
- Government has ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries

This definition is true for both Postemployment Benefit Arrangements that are Not Component Units and For Other Fiduciary Activities.

# What is Control?

3

- Control for those pension or OPEB arrangements that are not component units must be evaluated.

- Concept Statement No. 4:
  - Control of an asset is the ability of the government to utilize the resource's present service capacity and to determine the nature and manner of use of the present service capacity embodied in the resource.
    - Restrictions that stipulate assets can only be use for purpose described in custodial agreements/trust do not negate a government’s control.

# What is Control?

3

- Other criteria that apply to the Control Criteria for Postemployment Benefit Arrangements that are Not Component Units:
  - Appointing a designee / administrator / contractor does not eliminate fiduciary responsibility by the government.
  - Restriction on assets does not matter.

- All Other Activities (i.e. not postemployment benefit arrangements and not component units)

4

# All Other Activities Are Fiduciary if…

4

Arrangement meets one or more of the criteria in

2

**and**

The government **controls** the assets

**and**

Those assets are *not* derived either:

- Solely from the government's own-source revenues, or
- From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement

# Other Activities if

They have one or more of the following characteristics:

2

Assets are:
- Administered through a trust in which government is *not* a beneficiary
- Dedicated to providing benefits, AND
- Legally protected from the creditors of government

or

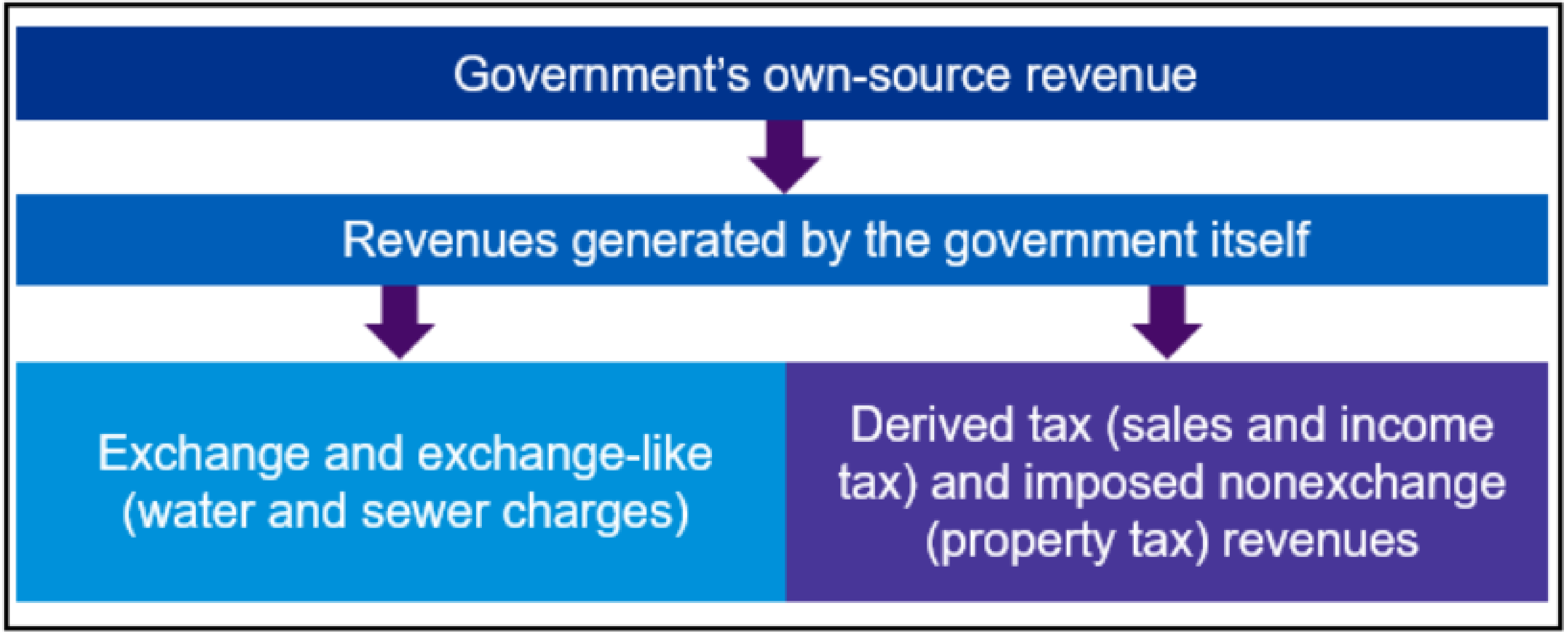
- Assets are for the benefit of individuals
- Assets are *not* derived from government's provision of goods or services to the individuals AND
- Government does *not* have administrative involvement or direct financial involvement w/ the assets

or

- Assets are for the benefit of organizations/ governments *not* part of the reporting entity AND
- Assets are *not* derived from government's provision of goods or services to them

# Own-Source Revenue

- Assets associated with activity not derived:
  - solely from the government's own-source revenue, or
  - from government-mandated or voluntary nonexchange transactions



# Implementation Consideration

## *Evaluating Whether Activity is Derived from Government's Own Source Revenue*

— Basic principle: the government cannot be a fiduciary for its own resources

| | |
|---|---|
| Tuition – Student activity fees | Nursing home patient accounts |
| Other student activity accounts | Deposits (customers vs. other) |
| Jails – Prisoner inmate account | Retainage payable on contracts |
| Property taxes | Employee benefits |
| Tax increment financing (TIFs) | Courts |

# Its Fiduciary Now What?

# Fiduciary Fund Classes

| Pension and other employee benefit trust fund | Investment trust fund | Private-purpose trust fund | Custodial fund |
|---|---|---|---|

Trust agreement or equivalent arrangement should be present

# Fiduciary Fund Types

- Pension/OPEB trust funds – we know these!!
- Investment trust funds - report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust that meets the criteria in paragraph 11c(1).
- Private-purpose trust funds - report all fiduciary activities that (a) are not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust that meets the criteria in paragraph 11c(1).
- Custodial funds - report fiduciary activities that are not required to be reported in the other three trust funds. You may report more than one type of activity in a custodial fund.

# Stand-Alone Business-Type Activities

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

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 in the statement of cash flows

# Statement of Changes in Fiduciary Net Position

*All* fiduciary funds should be included in the statement of changes in fiduciary net position

Additions should be disaggregated* by source and, if applicable, separately display investment earnings, investment costs, and net investment earnings

Deductions should be disaggregated* by type and, if applicable, separately display administrative costs

*Disaggregation requirement applies to all fiduciary funds *except* custodial funds held for three months or less

- For those custodial funds, governments may report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

# Statement of Change in Net Position - Custodial Funds

- Required to report for Custodial Funds:
  - Agency funds did not report this statement.
- If resources held for three months or less
  - Option to report single aggregated totals for
    - Additions
    - Deductions
  - Example – County collects and remits property taxes to other taxing bodies
    - Addition – *Property taxes collected for other governments*
    - Deduction – *Property taxes remitted to other governments*

Government ABC
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 20X2
(in thousands)

| | Pension (and Other Employee Benefit) Trust Funds | Investment Trust Funds | Private-Purpose Trust Funds | Custodial Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 184,351 | $ 840,693 | $ 104,747 | $ 58,196 |
| Receivables: | | | | |
| Employee | 2,123 | — | — | — |
| Employer | 83,004 | — | — | — |
| Taxes for other governments | — | — | — | 206,937 |
| Interest and dividends | 175,402 | 12,166 | — | — |
| Sale of investments | 30,879 | — | — | — |
| Total receivables | 291,408 | 12,166 | — | 206,937 |
| Investments at fair value: | | | | |
| Short-term investments | 2,268,960 | 241,645 | 61,591 | — |
| Bonds, notes, mortgages, and preferred stock | 14,115,391 | 804,576 | 187,650 | — |
| Common stock | 20,342,440 | — | 520,196 | — |
| Real estate | 3,408,145 | — | — | — |
| International investments | 1,723,951 | — | — | — |
| Mutual funds | 72,315 | 178,046 | — | — |
| Pooled investment funds | 23,128 | — | — | — |
| Total investments | 41,954,330 | 1,224,267 | 769,437 | — |
| Securities lending collateral | 1,746,544 | — | — | — |
| Other assets | 13,519 | 181 | 81,157 | 361 |
| Total assets | 44,190,152 | 2,077,307 | 955,341 | 265,494 |
| **LIABILITIES** | | | | |
| Accounts payable and other liabilities | 130,846 | 1,361 | 61,447 | 1,451 |
| Due to local governments | — | — | — | 164,201 |
| Obligations under securities lending | 1,346,544 | — | — | — |
| Other long-term liabilities | 1,617 | — | 7,870 | — |
| Total liabilities | 1,479,007 | 1,361 | 69,317 | 165,652 |
| **NET POSITION** | | | | |
| Restricted for: | | | | |
| Pensions | 29,897,802 | — | — | — |
| Postemployment benefits other than pensions | 12,813,343 | — | — | — |
| Pool participants | — | 2,075,946 | — | — |
| Individuals, organizations, and other governments | — | — | 886,024 | 99,842 |
| Total net position | $ 42,711,145 | $ 2,075,946 | $ 886,024 | $ 99,842 |

- *Similar except for Custodial Funds – Think 529 College Funds, when does the government owe the contributions?*

Government ABC
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
for the Year Ended June 30, 20X2
(in thousands)

| | Pension (and Other Employee Benefit) Trust Funds | Investment Trust Funds | Private-Purpose Trust Funds | Custodial Funds |
|---|---|---|---|---|
| **ADDITIONS** | | | | |
| Contributions: | | | | |
| Members | $ 297,846 | $ — | $ — | $ — |
| Employers | 1,259,384 | — | — | — |
| Other plans | 148,792 | — | — | — |
| Gifts and bequests | — | — | 197,258 | — |
| Total contributions | 1,706,022 | — | 197,258 | — |
| Investment earnings: | | | | |
| Net increase in fair value of investments | 1,852,408 | 64,663 | 33,702 | — |
| Interest, dividends, and other | 1,416,448 | 58,465 | 30,378 | — |
| Securities lending income | 76,075 | — | — | — |
| Total investment earnings | 3,344,931 | 123,128 | 64,080 | — |
| Less investment costs: | | | | |
| Investment activity costs | 32,281 | 50,236 | 63 | — |
| Securities lending costs | 73,642 | — | — | — |
| Net investment earnings | 3,239,008 | 72,892 | 64,017 | — |
| Capital share and individual account transactions: | | | | |
| Shares sold | — | 2,817,210 | — | — |
| Reinvested distributions | — | 72,892 | — | — |
| Shares redeemed | — | (2,776,843) | — | — |
| Net capital share and individual account transactions | — | 113,259 | — | — |
| Sales tax collections for other governments | — | — | — | 1,811,120 |
| Miscellaneous | 1,130 | — | — | 1,468 |
| Total additions | 4,946,160 | 186,151 | 261,275 | 1,812,588 |
| **DEDUCTIONS** | | | | |
| Benefits paid to participants or beneficiaries | 1,963,047 | — | — | — |
| Medical, dental, and life insurance for retirees | 536,027 | — | — | — |
| Refunds and transfers to other systems | 170,514 | — | — | — |
| Administrative expense | 19,920 | — | 43 | 293 |
| Beneficiary payments to individuals | — | — | 211,179 | — |
| Payments of sales tax to other governments | — | — | — | 1,811,120 |
| Distributions to shareholders | — | 72,892 | — | — |
| Total deductions | 2,689,508 | 72,892 | 211,222 | 1,811,413 |
| Net increase (decrease) in fiduciary net position | 2,256,652 | 113,259 | 50,053 | 1,175 |
| Net position—beginning | 40,454,493 | 1,962,687 | 835,971 | 98,667 |
| Net position—ending | $ 40,454,493 | $ 1,962,687 | $ 835,971 | $ 99,842 |

- *Similar except for Custodial Funds*

# Liability Recognition

- Recognize a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources
  - Events that compel a government to disburse resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the asset.

Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus

# Reporting Entity Consideration

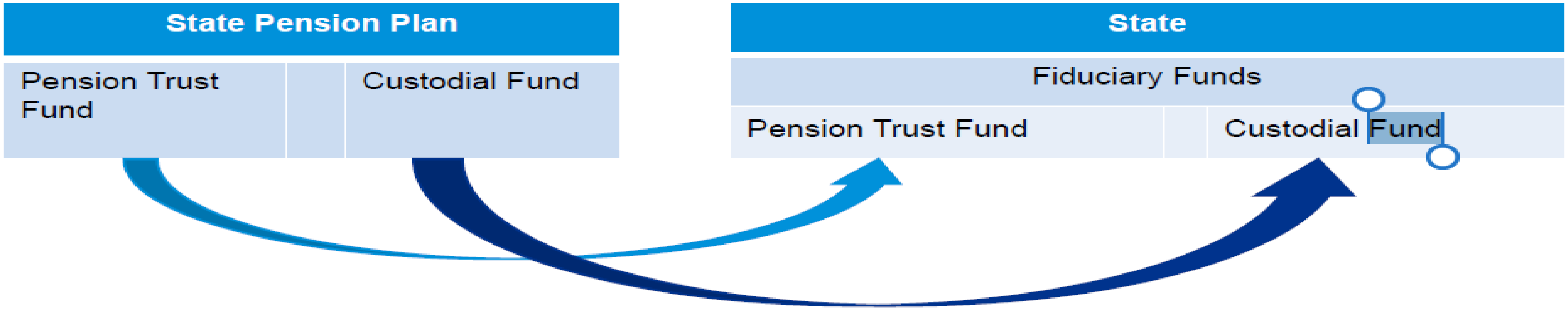
- As the primary government what is the appropriate treatment of fiduciary funds of a discrete component unit?

- Statement 84 does not affect the current guidance of Statement 34 par. 126.
  - Requires inclusion of the aggregated total of a CU, which does not include its fiduciary funds or fiduciary CU's.
  - Exception, see next slide.

# Fiduciary component units

— Fiduciary fund financial statements of a primary government

- Fiduciary component unit should include combined information of its own fiduciary component units
- Aggregated with primary governments fiduciary funds
- Example: State Pension Plan is a component unit of the State. State Pension Plan has a component unit that is a custodial fund



# Reporting Component Units

- Reporting Fiduciary Component Units (CUs) engaged only in fiduciary activities are fiduciary component units. Fiduciary activities use fiduciary fund accounting to report assets held and administered in a fiduciary (trustee) capacity for individuals, private organizations, or other governments. GASBS No. 34, paragraph 125, as amended by GASBS No. 84, requires all fiduciary CUs to be combined and aggregated with the corresponding primary government fiduciary fund type and reported in the fiduciary fund financial statements. Although this reporting is identical to the requirements for blending (paragraph 1006.7), this requirement is without regard to the criteria for blending discussed in paragraph 1006.3, and the GASB does not refer to it as blending.

# Reporting Component Units

- GASB Codification - 2600.105
- **Reporting Component Units**
- .105 Financial statements of the reporting entity should provide an overview of the entity, yet allow users to distinguish between the primary government and its component units. Because of the closeness of their relationships with the primary government, component units that meet the criteria of **paragraph .113** should be blended as though they are part of the primary government and therefore included in both government-wide and fund financial statements. (See **paragraphs .112–.114**.) However, most component units, including those that meet the criteria of Section 2100, **paragraph .141**, should be discretely presented and reported in the government-wide statements. (See **paragraphs .107–.111**.) Fiduciary component units, however, should be included only in the fund financial statements with the primary government's fiduciary funds. [**GASBS 14, ¶42**; **GASBS 34, ¶6** and **¶125**, as amended by **GASBS 84, ¶5**; **GASBS 39, ¶7**]

# Reporting Component Units

- GASB Codification - 2600.107
- ***Discrete Presentation of Component Units***
- .107 As noted in paragraph .105, most component units should be included in the financial reporting entity by discrete presentation. Discrete presentation entails reporting component unit financial data in columns and rows separate from the financial data of the primary government. Financial data for fiduciary component units should be reported only in the fund financial statements in the primary government's statements of fiduciary net position and changes in fiduciary net position. That data should be reported using the economic resources measurement focus and accrual basis of accounting. (See Section 1600, “Basis of Accounting,” paragraph .138.) All other discretely presented component units should be reported only in the government-wide financial statements. The government-wide statement of net position and statement of activities should include one or more columns to display the combined data of the discretely presented component units, prepared using the economic resources measurement focus and accrual basis of accounting. The discrete column(s) should be located to the right of the total column of the primary government, distinguishing between the financial data of the primary government (including its blended component units) and those of the discretely presented component units by providing descriptive column headings. [GASBS 14, ¶44, as amended by GASBS 35, ¶5; GASBS 34, ¶14 and ¶107; GASBS 34, ¶106 and ¶125, as amended by GASBS 63, ¶8 and GASBS 84, ¶5; GASBS 34, ¶126, as amended by GASBS 63, ¶8 ]

# Reporting Component Units

- GASB Codification - 2600.121
- **Note Disclosures**
- .121 The notes to the reporting entity's financial statements should include a brief description of the component units of the financial reporting entity and their relationships to the primary government. This disclosure should include a discussion of the rationale for including each component unit in the financial reporting entity and whether it is discretely presented, blended, or included in the fiduciary fund financial statements. Component units may be disclosed together if they have common characteristics as long as each component unit is separately identified. The notes should also include information about how the separate financial statements for the individual component units may be obtained. [**GASBS 14, ¶61**, as amended by **GASBS 61, ¶11**]

# Materiality - Accountant

- Add IG question regarding materiality from GASB IG 2015-1 Question 7.4.1

- Q—In preparing financial statements, how should those financial statements be viewed for determining materiality?
  - Quantitative and Qualitative significance
  - Components of remaining fund info consider professional judgement considering relevant qualitative factors and relationship of fund reporting units to other info in the financial statements
    - quantitative materiality determination for each fiduciary fund type could be made based on the significance of those funds to all <u>fiduciary funds</u> of the reporting government, or it could be based on the significance of those funds to <u>all funds of the government</u>

**The provisions of this Statement need not be applied to immaterial items.**

# GASB 84, Materiality Q&A

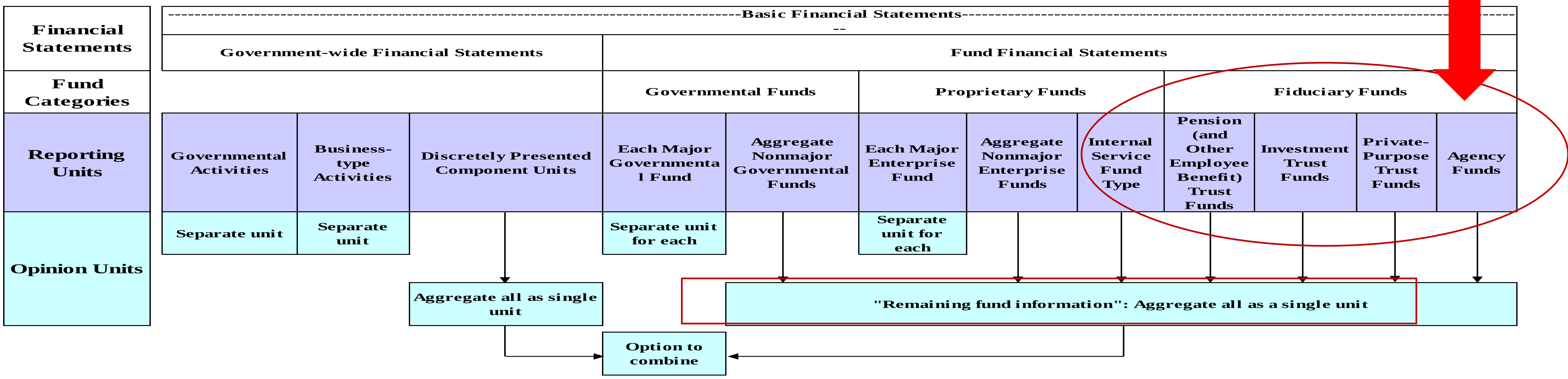
- **From the AICPA:**
- **Fiduciary TQA Issued**
- **On December 19, 2019, the AICPA issued nonauthoritative guidance in TQA 6950.23–.24 (AICPA, Technical Questions and Answers), Auditor Assessment of a Special-Purpose Government's Only Immaterial Fiduciary Fund , to address a question that has arisen because of changes to the reporting entity that may result from implementation of GASB Statement No. 84. The TQA provides background information on GASB Statement No. 84 and explains that one result of this standard is that some special-purpose governments engaged in business-type activities (BTAs) will be reporting fiduciary activities for the first time. The detailed question and answer provided in the TQA address the auditor's consideration of materiality when a BTA elects not to present the only identified fiduciary fund in the financial statements because it considers it to be immaterial.**
- **Summary- It's Complicated:**
- **GASB 84 may require certain defined contribution pension plans (e.g., 403b and 401k plans) to be reported for the first time. Some governments (especially colleges, universities and casinos) may wish to argue these plans are immaterial and not include them. GAAP permits that (i.e., "the provisions of this statement need not be applied to immaterial items"). However, materiality considerations get dicey when the omitted fiduciary fund would otherwise have been an opinion unit unto itself. Does that make it inherently material, regardless of size? The AICPA says "no", not necessarily:**
- **Based on GASB IG 2015-1, Q7.4.1 (as amended), the government can assess quantitative materiality of the fiduciary fund type based on the significance of those funds to all funds of the government. Of course, qualitative materiality should also be considered.**
- **Would this be a misstatement??**

# GASB Governments

Materiality from the Auditor's Perspective

Now Custodial Funds

**Overview of Reporting Units and Opinion Units**
**FOR DISCUSSION PURPOSES ONLY**




**Audit Materiality is based on the opinion unit, is this the level we should use?**

# Implementation Guide 2019-2

## 52 questions and answers, including:

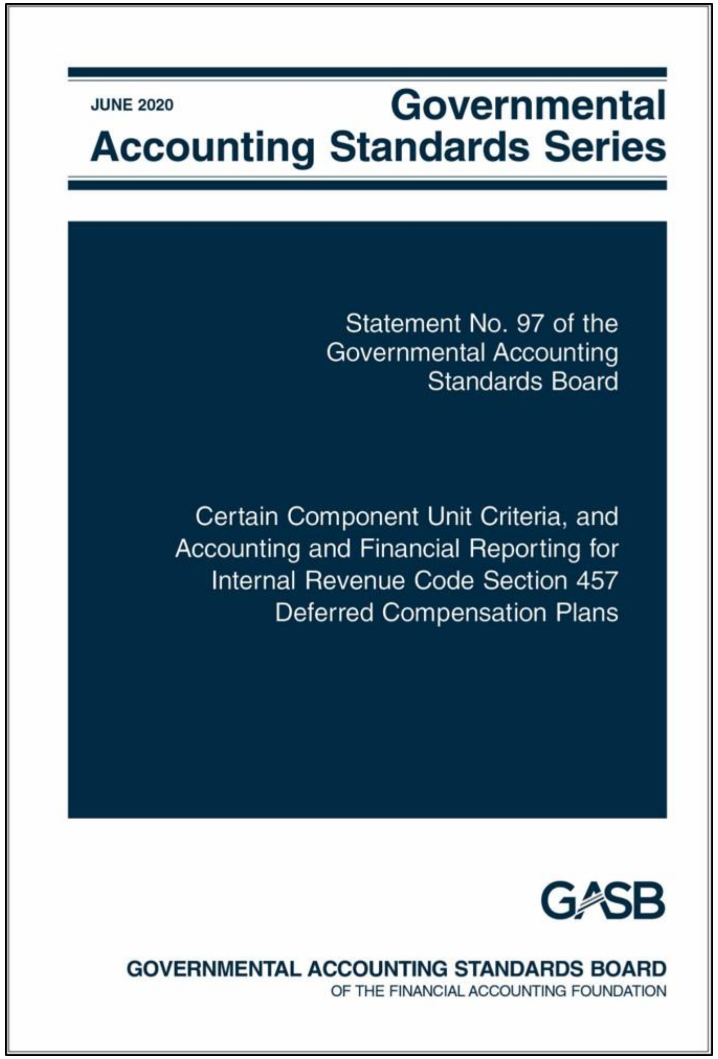
- Classifying fiduciary activities
- Applying the criteria for control and own-source revenues
- Applying the clarified definitions of fund classes, including determining eligibility for the custodial fund exception for BTAs
- Fiduciary fund financial statements, including the determining eligibility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

## Revisions to 3 existing questions and answers

97

# Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

Statement No. 97


JUNE 2020 Governmental Accounting Standards Series

Statement No. 97 of the Governmental Accounting Standards Board

Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

# Fiduciary Component Units and Deferred Compensation Plans

## What?

The GASB has changed the criteria for including certain employee benefit plans as component units and improvements to Statement 32 on IRC Section 457 plans

## Why?

Some 457 plan characteristics have changed due, in part, to changes in the IRC; questions have been raised about whether certain employee benefit plans should be included as component units

## When?

Effective dates vary by topic

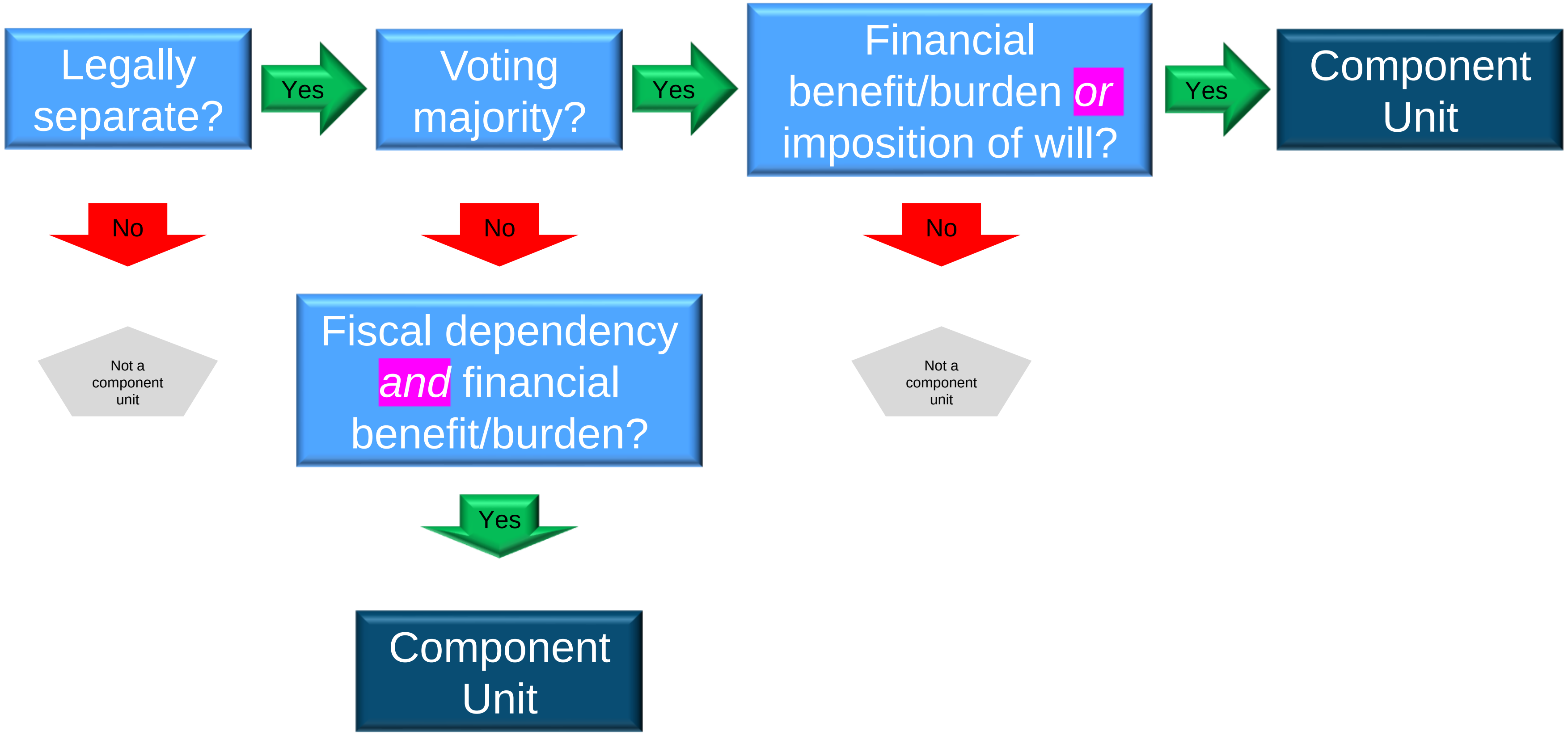
Earlier application is encouraged and permitted for certain topics

# Relevant Guidance on Fiduciary Component Units

Paragraph 7 of Statement 84 amended Statement 14 to indicate that a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to a pension plan or OPEB plan

Implementation Guide 2019-2 provided guidance that in the absence of a governing board, a government performing the duties of a governing board for a defined contribution (DC) plan that is administered through a trust that meets the criteria in Statement 67 is effectively the same as appointment of a voting majority

# When Is There a Component Unit?



# Relevant Guidance on Fiduciary Component Units (continued)

The implication of that existing and considered guidance is that many governments would be required to report DC plans and other employee benefit plans as component units in their fiduciary fund financial statements

The Board directed the staff to conduct additional outreach on the structure of those types of arrangements and user needs for information about them

Based on the outreach, the Board decided to expand the project and issue guidance on component units

# Component Unit Criteria

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the appointment of a voting majority of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a financial burden applies only to defined benefit plans

# 457 Plans

All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan

All requirements relevant to pensions should be applied by employers to benefits provided through Section 457 plans that meet the definition of a pension plan

Investments should be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator is eliminated)

# Definition of Pension Plan – GASB 67

- IRC Section 457 Plans Potentially May Be Pension Plans:
  - Supersedes GASB Statement No. 32
- If a 457 Plan meets the definition of a pension plan,
  - Plan should follow pension plan guidance if it issues stand- alone financial statements or is included in the statements of another government, and
  - Employers should follow all guidance for reporting pension benefits
- Otherwise, a 457 Plan is an other employee benefit plan for accounting and financial reporting

# Definition of Pension Plan – GASB 67

- Definition – Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due
- Unstated requirement – There must be an employer contribution
  - Including an employer-provided guarantee, such as of minimum benefit levels or rate of return on investments

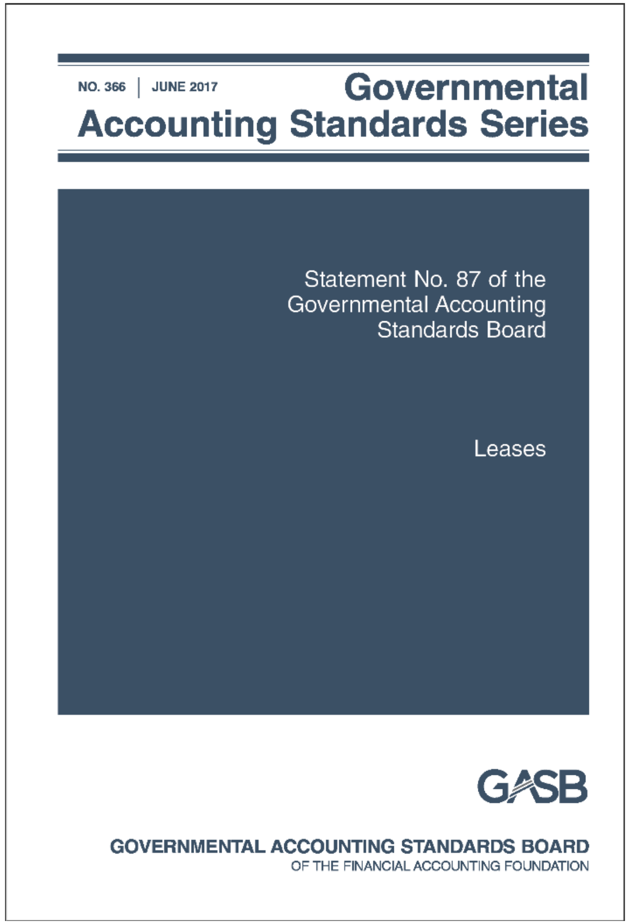
# GASB 32 – Where are You?

- GASB 32 Superseded by statement 84
- GASB 32 Superseded GASB 2 related to 457 Plans,
- GASB 2, required reporting of 457 plans as government assets until it was time for any payouts.

# 87

# Leases

Statement No. 87


NO. 366 | JUNE 2017

Governmental Accounting Standards Series

Statement No. 87 of the Governmental Accounting Standards Board

Leases

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

# 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 fiscal years beginning after June 15, 2021, and all periods thereafter

Earlier application is encouraged

# Summary of Implementations – Statements

| New Statement | | Implement for Fiscal Years Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 84, Fiduciary | Dec. 15, 2019 | 2021 | 2021 | 2021 | 2020 |
| 87, Leases | June 15, 2021* | 2023 | 2022 | 2022 | 2022 |
| 89, Interest Capitalization | Dec. 15, 2020 | 2022 | 2022 | 2022 | 2021 |
| 90, MEI | Dec. 15, 2019 | 2021 | 2021 | 2021 | 2020 |
| 91, Conduit Debt | Dec. 15, 2021 | 2023 | 2023 | 2023 | 2022 |

# History - Existing GAAP for leases

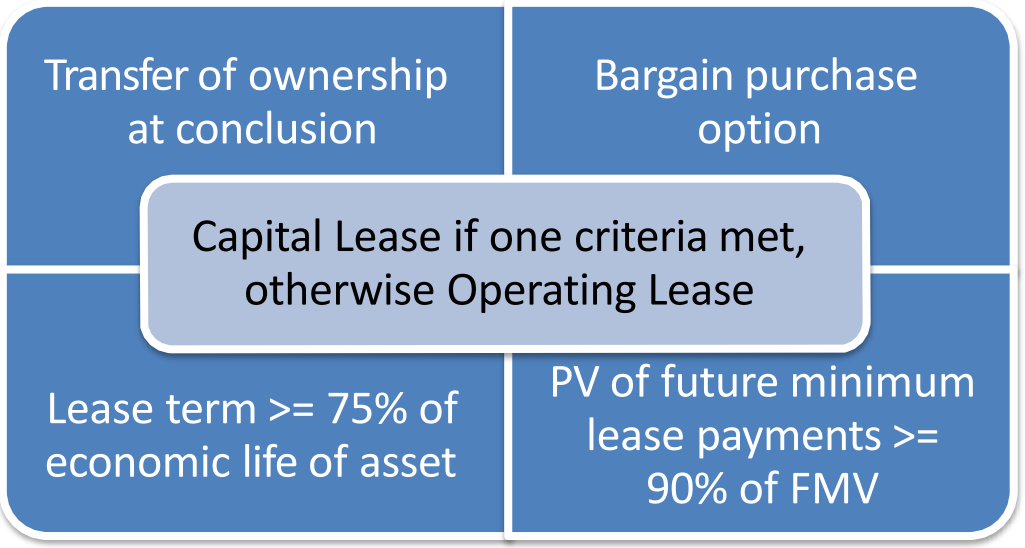
- **GASB Codification Section L20 – Leases**
  - **Accounting Principles Board, 1964 Opinion No. 5, Reporting of Leases in Financial Statements of Lessee**
  - **FASB Statement 13, 1976, formed the basis of existing GAAP for many years.**
  - **NCGA Statement 1, 1979, Governmental *Accounting and Financial Reporting Principles stated that FASB 13,* was applicable to governments.**
  - **NCGA Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments,* made some amendments for governments.**
  - **GASB Statement 13, *Accounting for Operating Leases with Scheduled Rent Increases***
  - **GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* codified FASB 13.**

# Current Lease Guidance

- Statement No. 87, Leases
  - 94 paragraphs
- Implementation Guide No. 2019-3, Leases
  - 77 Q&As
- Implementation Guide No. 2020-1, Update – 2020
  - 12 Q&As
- Implementation Guide No. 2021-1, Update – 2021
  - 19 Q&As
- GASB Omnibus 20XX (proposed - Exposure Draft)
  - 7 paragraphs

# Lease Accounting Prior to GASB 87

- **Lessee - determines type of lease – Capital or Operating**




| Lease Type | Accounting – accrual basis | Disclosure |
|---|---|---|
| Capital | Debit: capital assets<br>Credit: long-term debt for PV of future minimum payments | Disclose future minimum payments |
| Operating | Expense payments as made | Disclose future minimum payments<br>(if noncancelable) |

# The Problem!

- Many operating leases in government are really noncancelable – current accounting does not meet GAAP definition of a liability (present obligation with little or no discretion to avoid)

# 2017 Tennessee CAFR

| For the Year(s) Ended June 30 | Principal | Interest | Executory Costs | Governmental Activities Lease Obligation Payable |
|---|---|---|---|---|
| 2018 | $ 1,495 | $ 1,162 | $ 772 | $ 3,429 |
| 2019 | 1,541 | 1,156 | 791 | 3,488 |
| 2020 | 1,576 | 1,145 | 811 | 3,532 |
| 2021 | 1,641 | 1,128 | 831 | 3,600 |
| 2022 | 1,693 | 1,104 | 852 | 3,649 |
| 2023-2027 | 8,969 | 4,556 | 4,590 | 18,115 |
| 2028-2029 | 2,479 | 654 | 1,796 | 4,929 |
| Total | $ 19,394 | $ 10,905 | $ 10,443 | 40,742 |
| Less - interest | | | | (10,905) |
| Less - executory costs | | | | (10,443) |
| Present value of net minimum lease payments | | | | $ 19,394 |

# 2017 Tennessee CAFR

## A. Lease Obligations

**Operating lease obligations** — The state has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The state has also entered into various operating leases, which have non-cancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

# 2017 Tennessee CAFR

| For the Year(s) Ended June 30 | Noncancelable Operating Leases | |
|---|---|---|
| 2018 | $ | 17,846 |
| 2019 | | 15,787 |
| 2020 | | 14,990 |
| 2021 | | 12,517 |
| 2022 | | 12,032 |
| 2023-2027 | | 40,924 |
| Total minimum payments required | $ | 114,096 |

Expenditures for rent under leases for the year ended June 30, 2017, amounted to $79.7 million.

# Issues to Focus on as Soon as Possible

**Debt limits and bond covenants**

- All leases lasting more than a year will be reported by lessees as long-term liabilities
- Review state and local laws and agreements to determine whether that could impact compliance with debt limitations and bond covenants

**Lease policies and procedures**

- May need to consider changing policies and procedures for tracking and reporting leases, both as lessee and lessor
- May need better communication between departments that enter into leases and central accounting staff
- Need procedures that identify when lease agreements have been initiated and when existing leases are modified (such as changes in lease term or estimated payment amounts)
- Should review capital asset policies, such as the capitalization thresholds, especially in light of the need to report intangible right-to-use assets

# Issues to Focus on as Soon as Possible (continued)

**Transition provisions**

- Statement 87 requires that leases be recognized and measured using the facts and circumstances as of the beginning of the period of implementation
- For example:
  - As of January 1, 2022 for FYE December 31, 2022
  - As of July 1, 2021 for FYE June 30, 2022

# Lease Issues for Consideration

- Completeness of the population and embedded leases
- Identifying and documenting key lease provisions and terms
- Separating components and allocating contract prices
- Selecting a discount rate (lessor and lessee)
- AICPA Auditing and Accounting Guide: State and Local Governments – New Upcoming Lease Chapter
  - Guidance for both lessors and lessees
  - Audit guidance primarily focused on lessees
  - Guidance can be adapted to lessors

Tennessee Comptroller of the Treasury

# Statement 87 Implementation Guide

| | |
|---|---|
| Implementation Guide 2019-3:<br>77 questions and answers, including: | Scope and applicability issues |
| | Determining the term of the lease |
| | Eligibility for exception for short-term leases |
| | Recognition, measurement, and disclosure for lessees and lessors |
| | Lease incentives |
| | Contracts with multiple components and contract combinations |
| | Terminations and modifications |
| | Sale-leasebacks, lease-leasebacks, and intra-entity leases |

# Statement 87 Scope and Approach

- Statement 87, para. 4 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

# Lease – Defined

As stated in GASB 87, para. 4:

*A* ***contract*** *that conveys control of the* ***right to use*** *another entity's* ***nonfinancial asset*** *(the underlying asset) as specified in the contract for* ***a period of time*** *in an* ***exchange or exchange-like transaction.***

Capital Assets (e.g. land, buildings, vehicles, and equipment)

In writing or verbal but must be legally enforceable.

Right to use is distinct from the asset itself.

No perpetual type contracts.
May be noncontinuous.

No contracts with nominal rents (e.g. $1/year)

# Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset
- Biological assets (including timber, living plants, and living animals)
- Inventory
- Service concession arrangements (Statement 60)
- Arrangements associated with conduit debt obligations (Statement 91)
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

# Contracts that transfer ownership exception

## If a contract

- Transfers ownership of the underlying asset to the lessee by the end of the contract **AND**
- Does not contain termination options (other than fiscal funding or cancellation clauses)

**This type of contract is not a lease and should be reported as a financed purchase (IG 4.1)**

These contracts are not subject to the measurement or financial reporting requirements of the Leases statement

# Lease term – when does it start/end for financial reporting purposes?

Starts with the noncancelable period, plus periods covered by lessees' and lessors' options to:

- Extend the lease, if the option is reasonably certain of being exercised
- Terminate the lease, if the option is reasonably certain of NOT being exercised

Excludes "cancelable" periods

- Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend
  - Rolling month-to-month leases

Fiscal funding/cancelation clauses ignored unless reasonably certain of being exercised

# Reasonably Certain??

- What does the terminology "Reasonably Certain" mean?
  - Described as "Money in the Bank"
  - Based on previous history, not speculative
  - Based on the stability of the parties to the lease
  - Is there an economic incentive to continue or terminate the lease
  - Specific to the contract (what if you were leasing land for 50 years with an option to extend the lease for another 50 years, where you intend to build a nuclear power plant)
  - Auditor will determine mgmts. Intent by discussion.
  - ***Under any reasonable scenario, that can be foreseen at the time of the contract, the lease will continue or be terminated, with a high degree of certainty***

# Lease Term — Example 1

- 5 year lease with lessee-only option to cancel at 4

| | Lessee options | | Lessor options | | Term |
|---|---|---|---|---|---|
| | Terminate | Extend | Terminate | Extend | |
| | Uncertain | n/a | n/a | n/a | 5 years |
| | **Reasonably Certain** | n/a | n/a | n/a | 4 years |

# Lease Term — Example 2

- 5 year lease with lessee option to extend to 6 and lessor option to cancel at 4

| Lessee options | | Lessor options | | Term |
|---|---|---|---|---|
| Terminate | Extend | Terminate | Extend | |
| n/a | Uncertain | Uncertain | n/a | 5 years |
| n/a | Uncertain | **Reasonably Certain** | n/a | 4 years |
| n/a | **Reasonably Certain** | Uncertain | n/a | 6 years |
| n/a | **Reasonably Certain** | **Reasonably Certain** | n/a | 4 years |

# Lease Term — Example 3

- 5 year lease with lessee and lessor options to cancel at 4

| Lessee options | | Lessor options | | Term |
| --- | --- | --- | --- | --- |
| Terminate | Extend | Terminate | Extend | |
| Uncertain | n/a | Uncertain | n/a | 4 years |
| Uncertain | n/a | **Reasonably Certain** | n/a | 4 years |
| **Reasonably Certain** | n/a | Uncertain | n/a | 4 years |
| **Reasonably Certain** | n/a | **Reasonably Certain** | n/a | 4 years |

- Cancelable after 4th year because both lessee and lessor can cancel

# Initial Reporting

| | Assets | Liability | Deferred Inflow |
|---|---|---|---|
| **Lessee** | Intangible lease asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use | Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.) | NA |
| **Lessor** | • Lease receivable (generally includes same items as lessee's liability)<br>• Continue to report the leased asset | NA | Equal to lease receivable plus any cash received up front that relates to a future period |

# Subsequent Reporting

| | Assets | Liability | Deferred Inflow |
|---|---|---|---|
| Lessee | Amortize the intangible lease asset over shorter of useful life or lease term | Reduce by lease payments (less amount for interest expense) | NA |
| Lessor | • Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)<br>• Reduce receivable by lease payments (less amount needed to cover accrued interest) | NA | Recognize revenue over the lease term in a systematic and rational manner |

# Short-Term Leases

| | |
|---|---|
| Definition | At beginning of lease, *maximum possible term* under the contract is 12 months or less |
| Lessee accounting | • Recognize expenses/expenditures based on the terms of the contract<br>• Do not recognize assets or liabilities associated with the right to use the underlying asset |
| Lessor accounting | • Recognize lease payments as revenue based on the payment provisions of the contract<br>• Do not recognize receivables or deferred inflows |

# Contracts with Multiple Components

| Statement 87 | Implementation Guide 2019-3 |
|---|---|
| • Generally, account for lease and non-lease components as separate contracts and multiple underlying assets as separate lease components in certain circumstances (paragraphs 64 and 65)<br>• Allocate contract price to different components (paragraph 66) | • One component meets scope exclusions and one does not?<br>  • Separate and account for them individually (Q4.59)<br>• Separate utilities and janitorial costs of building lease?<br>  • Yes, if practicable to do so (Q4.60) |

- Examples

# Compliance with GASB 87

- Lease Accounting and Reporting Policy
- GFOA Preexisting Lease Contract
- Incremental Borrowing Rate, NASACT

- GFOA Lease Calculation Tool

- Crawford and Associates Calculation Tool

# Lessor – office space example

- Lease between a Primary Government (State X) and a discretely presented component unit (DPCU) (governmental in stand-alone financial statements) in which both have 6/30 fiscal year ends.
- State X's current rental agreement has expired and is electing to relocate to a new larger space offered by the DPCU. As part of the agreement the DPCU has to install entry security access at each entrance within the first month of the agreement. The cost of the installation is $2,500.00
- The agreement begins on 7/01/2021. The term is for one year with an option to extend each year for the next four years by the lessee.
- With prior agreements, State X has elected the options to extend and current indications are that State X will exercise the options for future agreements.

# Lessor – office space example (cont.)

- The agreement calls for a monthly payment due on the 1st  of each month for an amount of $1,962
- The agreement does not provide a stated interest rate.
- The DPCU, during the implementation of GASB Statement No. 72, determined the building and space being leased was a capital asset at that time.

# LESSOR – office space example (cont.)

## Identifying the Lease term legally

| | Lessee options | | Lessor options | |
|---|---|---|---|---|
| | Terminate* | Extend | Terminate | Extend |
| **Year 1** | Reasonably certain will | N/A | N/A | N/A |
| **Year 2** | Reasonably certain will | N/A | N/A | N/A |
| **Year 3** | Reasonably certain will | N/A | N/A | N/A |
| **Year 4** | Reasonably certain will | N/A | N/A | N/A |
| **Year 5** | Reasonably certain will | N/A | N/A | N/A |

*Legal Requirement based on one year nonappropriation clause.

- What is the term of the lease?

# LESSOR – office space example (cont.)

## Identifying the Lease term for GASB 87

| | Lessee options | | Lessor options | |
|---|---|---|---|---|
| | Terminate* | Extend | Terminate | Extend |
| Year 1 | Reasonably certain will not | N/A | N/A | N/A |
| Year 2 | Reasonably certain will not | N/A | N/A | N/A |
| Year 3 | Reasonably certain will not | N/A | N/A | N/A |
| Year 4 | Reasonably certain will not | N/A | N/A | N/A |
| Year 5 | Reasonably certain will not | N/A | N/A | N/A |

*

- What is the term of the lease? **Five Years**

# LESSOR – office space example (cont.)

The rental begins on July 1, 2021 and that is the date the first payment is due.

Payment schedule, assumes a 4% interest rate.

Present value of $1,962 monthly payments for 5 years (60 months):

- Rate = (4% per year / 12 months to get rate per month)
- Nper (number of payments) = 60
- Pmt (monthly payment) = 1,962
- FV (future value) = 0
- Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period

**Present Value = $106,890**

# LESSOR – office space example

Amortization table – Measurement of the lease receivable based on the fixed payments outlined in the agreement

| | Annualized Payment Schedule | | |
|---|---|---|---|
| | **Principal** | **Interest** | **Total Payment** |
| **2021** | 19,995 | 3,549 | 23,544 |
| **2022** | 20,440 | 3,104 | 23,544 |
| **2023** | 21,273 | 2,271 | 23,544 |
| **2024** | 22,140 | 1,404 | 23,544 |
| **2025** | 23,042 | 502 | 23,544 |
| | **106,890** | **10,830** | **117,720** |

# LESSOR – office space example (cont.)

| Initial Journal Entry | Debit | Credit |
|---|---|---|
| Lease receivable | 106,890 | |
| Deferred inflow of resources | | 106,890 |
| *To record receivable and related deferred inflow (7/1)* | | |

| Initial Journal Entry | Debit | Credit |
|---|---|---|
| Expenditure/expense | 2,500 | |
| Cash | | 2,500 |
| *To record direct cost associated with the agreement (Year 1 July)* | | |

# LESSOR – office space example (cont.)

| Year 1 Journal Entry | Debit | Credit |
|---|---|---|
| Cash | 23,544 | |
| Interest Income | | 3,549 |
| Lease Receivable | | 19,995 |
| *To record receipt of 12 monthly lease payments for first year (systematic/rational manner)* | | |

| Year 1 Journal Entry | Debit | Credit |
|---|---|---|
| Deferred inflow of resources | 19,995 | |
| Interest Receivable | 290 | |
| Lease Revenue | | 19,995 |
| Interest Revenue | | 290 |
| *To record systematic recognition of revenue; and accrued interest (6/30)* | | |

# LESSEE – lease example, expanded (cont.)

## Lease Incentives - LESSEES

### Illustration B2—Lessee Reporting of a Building Lease with a Lease Incentive

The following example illustrates the application of the lease incentive requirements in paragraphs 61 and 62 of Statement 87 by a lessee to a lease that includes a lease incentive.

### Facts and Assumptions

A utility enters into a lease for a building for a noncancellable term of 10 years. Fixed payments of $15,000 are due at the beginning of each year. At the end of the first year, the utility is entitled to a rebate (a lease incentive) of $5,000. The discount rate is 6 percent.

### Accounting and Financial Reporting

#### *Lease Liability*

The lease incentive is treated as a reduction of the lease payments. Because the incentive is provided at the end of year 1, it was determined that the incentive was a reduction of the second year's payment and would be factored into the present value of lease payments for that year, in accordance with paragraph 62 of Statement 87. The calculation of the initial lease liability is as follows:

# LESSEE – lease example, expanded (cont.)

## Lease Incentives - LESSEES

| Year | Payment | Present Value | Incentive | Present Value | Total |
|---|---|---|---|---|---|
| 1 | $ 15,000 | $ 15,000 | $ - | $ - | $ 15,000 |
| 2 | 15,000 | 14,151 | (5,000) | (4,717) | 9,434 |
| 3 | 15,000 | 13,350 | - | - | 13,350 |
| 4 | 15,000 | 12,594 | - | - | 12,594 |
| 5 | 15,000 | 11,881 | - | - | 11,881 |
| 6 | 15,000 | 11,209 | - | - | 11,209 |
| 7 | 15,000 | 10,574 | - | - | 10,574 |
| 8 | 15,000 | 9,976 | - | - | 9,976 |
| 9 | 15,000 | 9,411 | - | - | 9,411 |
| 10 | 15,000 | 8,878 | - | - | 8,878 |
| | | Initial lease liability | | | $ 112,307 |

# LESSEE – lease example, expanded (cont.)

## Lease Incentives - LESSEES

***Lease Asset***

The lease incentive would reduce the lease asset by the same amount as the lease liability.

# LESSEE – lease example, expanded (cont.)

## Lease Variable Payments - LESSEES

### Illustration B3—Variable Payments That Depend on an Index or a Rate

The following examples illustrate the application of the requirements in Statement 87 to a lease of a building by a school district with variable payments that depend on an index or a rate.

### Example 1—Variable Payments That Depend on an Index

#### *Facts and Assumptions*

A school district enters into a lease contract for a building for five years. Lease payments are due at the beginning of each year. The payment for each year is 100 times the Consumer Price Index (CPI) as of December 31 of the prior year. The lease commences on January 1, 20X1. The CPI as of December 31, 20X0, was 251.

#### *Accounting and Financial Reporting*

# LESSEE – lease example, expanded (cont.)

## Lease Variable Payments - LESSEES

### *Accounting and Financial Reporting*

The first payment, due January 1, 20X1, will be $25,100 (100 times the CPI of 251). In accordance with paragraph 21b of Statement 87, the variable payments initially should be measured using the CPI as of the commencement of the lease term. Therefore, the initial measurement of the lease liability will be the present value of $125,500 ($25,100 per year, multiplied by 5 years).

If the CPI at December 31, 20X1, increases to 253, the school district's payment on January 1, 20X2, will be $25,300. The additional $200 will be recognized as an outflow of the period.

# LESSEE – lease example, expanded (cont.)

## Lease Variable Payments/Rates - LESSEES

### Example 2—Variable Payments That Depend on the Change in a Rate

#### *Facts and Assumptions*

A school district enters into a lease contract for a building for five years. Lease payments are due at the beginning of each year. The payment for the first year is $25,000. Payments in subsequent years will increase or decrease based on the change in the prime interest rate over the preceding year. The lease commences on January 1, 20X1. The prime interest rate as of January 1, 20X1, was 5.0 percent.

# LESSEE – lease example, expanded (cont.)

## Lease Variable Payments/Rates - LESSEES

### *Accounting and Financial Reporting*

The first payment, due January 1, 20X1, will be $25,000. In accordance with paragraph 21b of Statement 87, variable payments should initially be measured using the prime interest rate as of the commencement of the lease term. In the initial measurement of the lease liability, the change in the prime interest rate is assumed to be zero, which would result in subsequent payments that would not vary from the first payment amount. Therefore, the initial measurement of the lease liability should be the present value of $125,000 ($25,000 per year multiplied by 5 years).

If the prime interest rate at January 1, 20X2, is 5.1 percent, a 2 percent increase, the school district's payment on January 1, 20X2, will be $25,500. The additional $500 will be recognized as an outflow of the period.

If the prime interest rate at January 1, 20X2, is 4.9 percent, a 2 percent decrease, the school district's payment on January 1, 20X2, will be $24,500. The $500 difference will be recognized as a reduction of the outflows of the period.

# Other Topics Covered by Statement 87

- Disclosures
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks

# Disclosure Fact

- GASB 87 Leases are disclosed separately from other debt Disclosures.
- GASB 88,  Paragraph 4:
- **Definition of Debt for Purposes of Disclosures**
- 4. For purposes of disclosures in notes to financial statements, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed1 at the date the contractual obligation is established.  For disclosure purposes, debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, or accounts payable.

# Capital Assets Note Disclosure

**NOTE E—CAPITAL ASSETS**

Governmental capital asset activity for the year ended June 30, 2020 was as follows:

| | Beginning Balance | Additions | Transfers & Retirements | Ending Balance |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Non-depreciable capital assets: | | | | |
| Construction in progress | $ 1,210,370 | $ 1,578,569 | $ (1,210,370) | $ 1,578,569 |
| Land | 3,383,461 | — | — | 3,383,461 |
| Total Non-depreciable capital assets | 4,593,831 | 1,578,569 | (1,210,370) | 4,962,030 |
| Depreciable capital assets: | | | | |
| Land improvements | 302,664 | — | — | 302,664 |
| Buildings | 39,987,552 | 1,741,147 | — | 41,728,699 |
| Technology equipment | 1,686,293 | 97,959 | — | 1,784,252 |
| Vehicles | 2,132,560 | 119,081 | (60,003) | 2,191,638 |
| Other equipment | 1,243,377 | 43,778 | — | 1,287,155 |
| Total depreciable capital assets | 45,352,446 | 2,001,965 | (60,003) | 47,294,408 |
| Less accumulated depreciation | | | | |
| Land improvements | (4,041) | (15,133) | — | (19,174) |
| Buildings | (19,798,646) | (1,191,231) | — | (20,989,877) |
| Technology equipment | (1,557,156) | (62,784) | — | (1,619,940) |
| Vehicles | (1,496,207) | (140,556) | 60,003 | (1,576,760) |
| Other equipment | (931,377) | (31,848) | — | (963,225) |
| Total accumulated depreciation | (23,787,427) | (1,441,552) | 60,003 | (25,168,976) |
| Total depreciable capital assets, net | 21,565,019 | 560,413 | — | 22,125,432 |
| Intangible Right-to-Use assets: | | | | |
| Leased equipment | 171,772 | 551,639 | (171,772) | 551,639 |
| Less accumulated amortization | (34,354) | (72,341) | 51,532 | (55,164) |
| Net intangible right-to-use assets | 137,418 | 479,298 | (120,241) | 496,475 |
| Governmental activities capital assets, net | $ 26,296,268 | $ 2,618,280 | $ (1,330,611) | $ 27,583,937 |

# Notes to the Financial Statements

- General description of leases arrangements, including:
  - Basis, terms, and conditions, on which variable lease payments are determined
  - Existence, terms, and conditions of residual value guarantees provided by the lessee
- Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets
- Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets
- Variable lease payments recognized during the period but not previously included in the lease liability

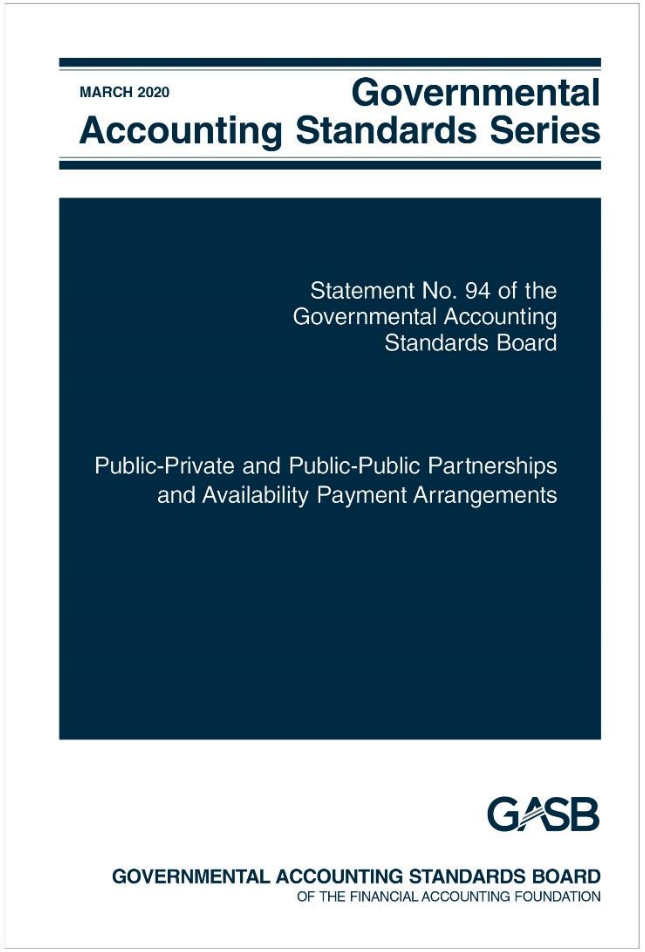
# Notes to the Financial Statements

- Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)
- A maturity analysis of all future lease payments
  - Payments for each of the first five years
  - Payments in five-year increments thereafter
  - Show principal and interest separately
- Lease commitments, other than short-term leases, for which the lease term has not yet begun
- Components of any net impairment loss (gross impairment loss less change in lease liability)

# 94

# Public-Private and Public-Public Partnerships and Availability Payment Arrangements

## Statement No. 94


MARCH 2020

Governmental Accounting Standards Series

Statement No. 94 of the Governmental Accounting Standards Board

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

# P3s, APAs, and SCAs

## What?

The Board issued guidance for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87, and improvements to Statement 60

## Why?

GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60's guidance for service concession arrangements (SCAs)

## When?

Effective for reporting periods beginning after June 15, 2022

# Summary of Implementations – Statements (cont.)

| New Statement | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 94, PPPs and APAs | June 15, 2022* | 2024 | 2023 | 2023 | 2023 |
| 95, Postponements | Incorporated for each affected pronouncement | | | | |
| 96, SBITAs | June 15, 2022* | 2024 | 2023 | 2023 | 2023 |
| 98, ACFR | FYEs *ending* after Dec. 15, 2021 | 2022 | 2022 | 2022 | 2021 |

# What happens to Statement 60?

- *Accounting and Financial Reporting for Service Concession Arrangements*

- Statement 94 supersedes Statement No. 60.

# Definitions: PPPs and APAs

**Public-private partnerships** and **public-public partnerships (P3s)** are arrangements “in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.”

**Availability payment arrangements (APA)**:

- Government contracts with another entity to operate or maintain the government’s nonfinancial asset
- Entity receives payments from the government based on the asset’s availability for use
- Asset’s availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

# Some PPPs meet the Definition of a Service Concession Arrangement

- Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement

# Other Provisions

A P3 that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (SCA) – would be reported under Statement 87 unless (a) the underlying PPP assets are not existing assets of the transferor or (b) improvements are required to be made to those existing underlying P3 assets by the operator.

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

# Transferor Reporting

| For all P3s, recognize: | If underlying P3 asset is a new asset or an existing asset that has been improved… |
| --- | --- |
| • Receivable for installment payments to be received, if any<br>• Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term | • …and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation<br>• …and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator’s estimated carrying value as of the future date of the transfer in ownership |

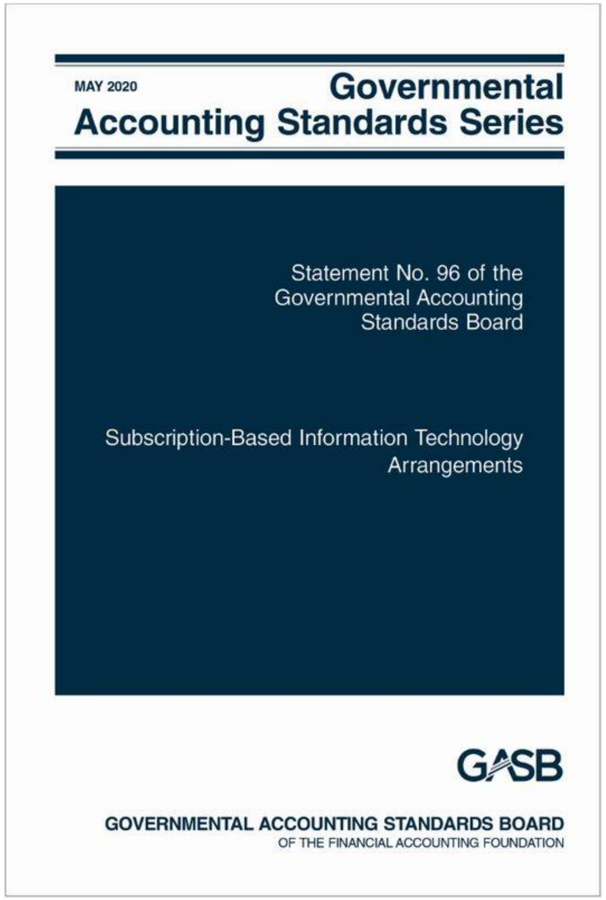
# Operator Reporting

| For all P3s, recognize: | If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA… | If underlying P3 asset is a new asset and the P3 is not an SCA… |
|---|---|---|
| • Liability for installment payments to be made, if any | • …also recognize an intangible right-to-use asset | • Also recognize the underlying P3 asset until ownership is transferred<br>• And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer |

# 96

# Subscription-Based Information Technology Arrangements

Statement No. 96



# Statement 96 on SBITAs

## What?

The Board issued standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts

## Why?

Stakeholders were concerned that those transactions were not covered by the guidance in Statements 51 or 87; diversity existed in practice

## When?

Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter

Earlier application is encouraged

# Summary of Implementations – Statements (cont.)

| New Statement | | Implement for Fiscal Year Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 94, PPPs and APAs | June 15, 2022* | 2024 | 2023 | 2023 | 2023 |
| 95, Postponements | Incorporated for each affected pronouncement | | | | |
| 96, SBITAs | June 15, 2022* | 2024 | 2023 | 2023 | 2023 |
| 98, ACFR | FYEs *ending* after Dec. 15, 2021 | 2022 | 2022 | 2022 | 2021 |

# Scope and Applicability

A subscription-based information technology arrangement (SBITA) "is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction."

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

# Scope and Applicability (continued)

- Statement 96 does not apply to:
  - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset
  - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
  - Contracts that meet the definition of a P3 in Statement 94
  - Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement 51

# Recognition and Measurement

An SBITA should be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

Measurement of the subscription asset should include certain capitalizable implementation costs based on stages similar to those for internally developed software in Statement 51:

- ***Preliminary project stage***
- ***Initial implementation stage***
- ***Operation and additional implementation stage***

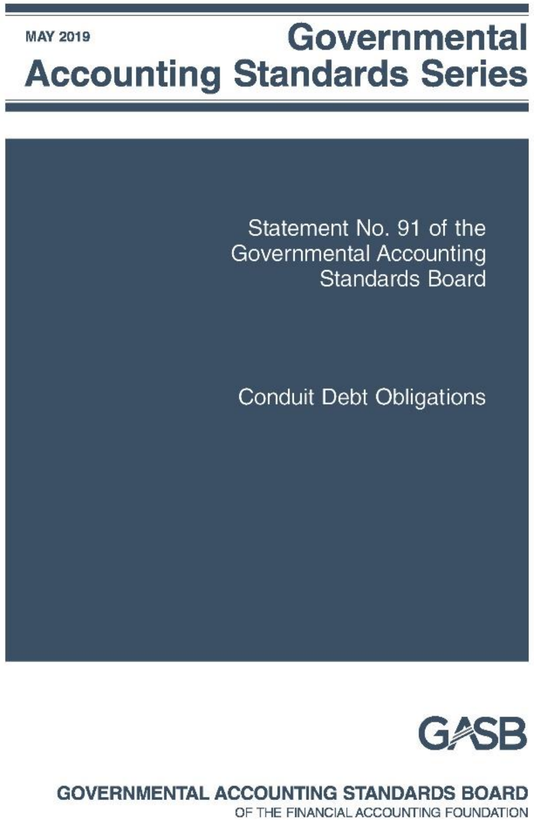
# Accounting for Activities Associated with a SBITA

| Preliminary project stage | Initial implementation stage | Operation & additional implementation stage |
|---|---|---|
| • Outlays should be expensed as incurred | • In general, outlays should be capitalized<br>• However, if no subscription asset is recognized (such as for a short-term SBITA), outlays should be expensed as incurred | • Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria |

91

# Conduit Debt Obligations

## Statement No. 91


MAY 2019

Governmental Accounting Standards Series

Statement No. 91 of the Governmental Accounting Standards Board

Conduit Debt Obligations

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

# 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?

Effective for periods beginning after December 15, 2022

Earlier application is encouraged

| New Statement | | Implement for Fiscal Years Ending | | | |
|---|---|---|---|---|---|
| **Statement #, Topic** | **Effective for Reporting Periods (*Fiscal Years) Beginning After… and All Reporting Periods Thereafter** | **March 31** | **June 30** | **September 30 / October 31** | **December 31** |
| 84, Fiduciary | Dec. 15, 2019 | 2021 | 2021 | 2021 | 2020 |
| 87, Leases | June 15, 2021* | 2023 | 2022 | 2022 | 2022 |
| 89, Interest Capitalization | Dec. 15, 2020 | 2022 | 2022 | 2022 | 2021 |
| 90, MEI | Dec. 15, 2019 | 2021 | 2021 | 2021 | 2020 |
| 91, Conduit Debt | Dec. 15, 2021 | 2023 | 2023 | 2023 | 2022 |

# GASB Interpretation #2

**Summary**

This Interpretation provides disclosure requirements for conduit debt obligations. Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

The required disclosures include a general description of the conduit debt transactions, the aggregate amount of all conduit debt obligations outstanding at the balance sheet date, and a clear indication that the issuer has no obligation for the debt beyond the resources provided by related leases or loans.

The provisions of this Interpretation are effective for financial statements for periods beginning after December 15, 1995. Earlier application is encouraged.

# Definition of Conduit Debt

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

# Parity Bond, Cross-Collaterization

- A parity bond refers to two or more bond issues with equal rights of payment or equal seniority to one another. In other words, a parity bond is an issued bond with equal rights to a claim as other bonds already issued.
- Cross collateralization is the act of using an asset that's collateral for an initial loan as collateral for a second loan. If the debtor is unable to make either loan's scheduled repayments on time, the affected lenders can eventually force the liquidation of the asset and use the proceeds for repayment.

# Limited, Additional & Voluntary Commitments Extended by Issuers

Generally, issuers' commitments are **limited** to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** to support debt service in the event of the third-party obligor's default.

For example:
- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

# Recognition by the Issuer

- Do *not* recognize a conduit debt obligation as a liability
- May have a related liability arising out of an additional or voluntary commitment
- **Additional commitment**: report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- **Voluntary commitment**: if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments
- Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

# More likely than Not??

- What does the terminology “more likely than not” mean?
  - Reasonably certain in GASB 87 is higher than probable
  - Probable (likely to occur):
    - 95% chance of occurrence?
    - 50% chance of occurrence?
    - More than 50% chance of occurrence?

  - GASB 91, paragraph 12, footnote 2. “The term more likely than not means a likelihood of more than 50 percent”

# Arrangements and Capital Assets

Some conduit debt obligations include arrangements* that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Capital asset is built or acquired with proceeds of the conduit debt obligation.
- Issuer retains title to the capital asset from the beginning of the arrangement.
- Payments from the third-party obligor are to cover debt service payments.
- Payment schedule of the arrangement coincides with the debt service repayment schedule.

*Often characterized as “leases”

# Arrangements and Capital Assets (continued)

Accounting by the issuer:

- Do *not* report those arrangements as leases
- Do *not* recognize a liability for the related conduit debt obligations
- Do *not* recognize a receivable for the payments related to those arrangements
- If the arrangement meets the definition of a service concession arrangement, follow Statement 60

# Not a Lease!!

These are Not Leases

- Construction is financed by debt
- Issuer retains title
- Payments from Obligor equal debt service requirements
- Payments coincide with debt service repayment schedule

# Arrangements and Capital Assets (continued)

| Does title pass to third-party obligor at end of arrangement? | Does the issuer recognize a capital asset? | Does the issuer recognize a deferred inflow of resources? |
|---|---|---|
| Yes | No | No |
| No, and third party has exclusive use of *entire* capital asset | Yes, when the arrangement ends | No |
| No, and third party has exclusive use of only *portions* of the capital asset | Yes, at the inception of the arrangement | Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement |

# Disclosures by Type of Commitment

**A general description of the issuer's conduit debt obligations**

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

**If the issuer recognizes a related liability**

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

# Questions?

Gerry Boaz, CPA, CGFM, CGMA

Jerry E. Durham, CPA, CGFM, CFE