

**North Carolina
Office of the State Controller**

**The Latest Inventions
from the Mind of GASB**

June 5, 2019

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Effective Dates—June 30

2018
<ul style="list-style-type: none">• Statement 75—OPEB (employers)• Statement 81—irrevocable split-interest agreements• Statement 85—omnibus (may be implemented by topic)• Statement 86—certain debt extinguishment issues• Implementation Guide 2017-1
2019
<ul style="list-style-type: none">• Statement 83—certain asset retirement obligations• Statement 88—certain debt disclosures• Implementation Guide 2018-1
2020
<ul style="list-style-type: none">• Statement 84—fiduciary activities• Statement 90—majority equity interests
2021
<ul style="list-style-type: none">• Statement 87—leases• Statement 89—interest cost

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Effective Dates—December 31

2018

- Statement 75—OPEB (employers)
- Statement 85—omnibus (may be implemented by topic)
- Statement 86—certain debt extinguishment issues
- Implementation Guide 2017-1

2019

- Statement 83—asset retirement obligations
- **Statement 84—fiduciary activities**
- Statement 88—certain debt disclosures
- Implementation Guide 2018-1
- **Statement 90—majority equity interests**

2020

- Statement 87—leases
- Statement 89—interest cost

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GASB Update – Where are we?

- 2020
 - Implementation Guide Update 2019-1 - **New**
- 2021 (and beyond)
 - GASB-87 – Leases
 - **Implementation Guide ED**
 - **Almost Final – To be GASB-91 – Conduit Debt Obligations**

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Implementation Dates

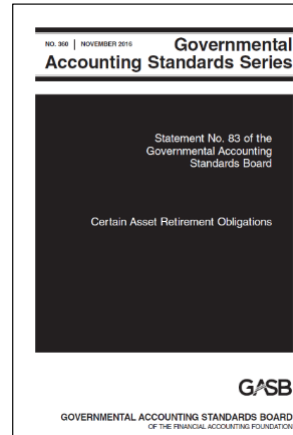
Effective Date - Periods Beginning <i>After</i>	Statement	First Fiscal Years Affected		
		June 30th	Sept. 30th	December 31st
June 15, 2018	GASB-83 – <i>Asset Retirement Obligations</i>	2019	2019	2019
June 15, 2018	GASB-88 – <i>Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements</i>	2019	2019	2019
June 15, 2018	IGU-2018-1	2019	2019	2019
December 15, 2018	GASB-84 – <i>Fiduciary Activities</i>	2020	2020	2019
December 15, 2018	GASB-90 – <i>Majority Equity Interests</i>	2020	2020	2019
June 15, 2019	IGU - 2019-1	2020	2020	2020
December 15, 2019	GASB-87 – <i>Leases</i>	2021	2021	2020
December 15, 2019	GASB-89 – <i>Accounting for Interest Cost before the End of a Construction Period</i>	2021	2021	2020
December 15, 2020	ALMOST FINAL - TO BE GASB-91 – <i>Conduit Debt Obligations</i>	2022	2022	2021

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Certain Asset Retirement Obligations



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Certain Asset Retirement Obligations

What:

The Board issued Statement 83 to establish accounting and financial reporting standards for legal obligations to retire certain capital assets, such as decommissioning nuclear power plants and removing sewage treatment plants

Why:

Statement 18 addressed only municipal landfills but governments have retirement obligations for other types of capital assets; diversity exists in practice

When:

Effective for fiscal years beginning after June 15, 2018

Earlier application is encouraged

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Definitions and Scope

Asset retirement obligation	Retirement of a tangible capital asset	Examples
Legally enforceable liability associated with the retirement of a tangible capital asset	The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)	<ul style="list-style-type: none"> • Nuclear power plant decommissioning • Coal ash pond closure • Contractually required land restoration, such as removal of wind turbines • Sewer Plants • X-Ray Equipment

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DEFINITION OF AN ARO

- Retirement of a tangible capital asset—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal) **but not impairments**:
 - Doesn't matter if capital asset was acquired or constructed;
 - May also occur when government is a lessor;
 - Legal obligation **must be enforceable**.

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Included in the Scope of GASB-83

Retirement of tangible capital assets – Examples:

- Nuclear power plant decommissioning.
- Coal ash pond closure (those that are not landfills).
- Contractually required land restoration such as removal of wind turbines.
- Removing sewage treatment / waste-energy plants.
- Other similar obligations.
- **But Not the Pollutions they Cause.**

Disposal of a replaced part that is a component of a capital asset (example – x-ray tube).

Environmental remediation associated with a retirement of tangible capital assets that results from the **normal** operations of those tangible capital assets.

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Included?

- What about underground Gasoline storage tanks?
- Do they meet the definition of an ARO?

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EXCLUDED FROM THE SCOPE OF THE GASB-83

- Obligations associated with:
 - Plan to sell or otherwise dispose of a tangible capital asset.
 - Preparation of a tangible capital asset for an alternative use.
 - Asbestos removal or pollution remediation (GASB-49) [GASB Cod. Sec. P40].
 - Maintenance of a tangible capital asset.
- Cost of replacement part that is a component of a capital asset.
- Landfill closure and postclosure care obligations (GASB 18).
- Conditional obligations to perform asset (for example depending on the year of regulation) retirement activities

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Recognition of Liabilities

- ▶ Similar to **GASB-49**:
 - Liability has to be incurred and reasonably estimable.
 - Must be external and internal events to obligate the government

EXTERNAL EVENTS EXAMPLES	INTERNAL EVENTS EXAMPLES
<ul style="list-style-type: none"> • Federal, state, local laws / regulations; • Legally binding contracts; • Court judgment imposing legally enforceable liability. 	<ul style="list-style-type: none"> • For contamination related events – occurrence; • Non-contamination: <ul style="list-style-type: none"> • Pattern of incurrence based on use (mine excavation); • Placing of capital asset into service; • Abandonment before use (permanent construction stoppage). • Acquisition of a capital asset with existing ARO.

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Recognition & Measurement

Initial Recognition	<p>ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events.</p> <p>Measured based on the best estimate of the current value of outlays expected to be incurred.</p> <p>Current value is the amount that would be paid if all costs were acquired at the end of the current reporting period.</p>	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	<ul style="list-style-type: none"> • At least annually, adjust for general inflation or deflation • At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant 	An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned.

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Summary of ARO Events

- ▶ **Asset Retirement Obligations (ARO):**
 - Legally enforceable liability
 - Internal obligating event
 - Associated with a tangible capital asset
 - Recognize a liability when incurred and reasonably estimable
 - Use probability weighing of all potential outcomes or if this is not available at a reasonable cost, then use most likely amount
 - Record a deferred outflow = to liability
 - Remeasure the liability for effects of inflation and deflation annually and other relevant factors. Book if significant
 - Special recognition for minority interests calculated under other than GASB GAAP

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Measurement Exception for a Minority Owner of a Jointly Owned Capital Asset

Minority share (less than 50 percent) of ownership interest in an undivided interest arrangement is one of the following:

- A nongovernmental entity is the majority owner
- No majority owner, but a nongovernmental owner has the operational responsibility

Initial and Subsequent Measurement Exception

- The governmental minority owner should report its minority share of ARO using the measurement produced by the **nongovernmental** joint owner

The measurement date of such an ARO should be no more than one year and one day prior to the government's financial reporting date

Specific disclosure requirements in this circumstance

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Effects of Funding and Assurance

If legally required to provide funding and assurance, disclose that fact

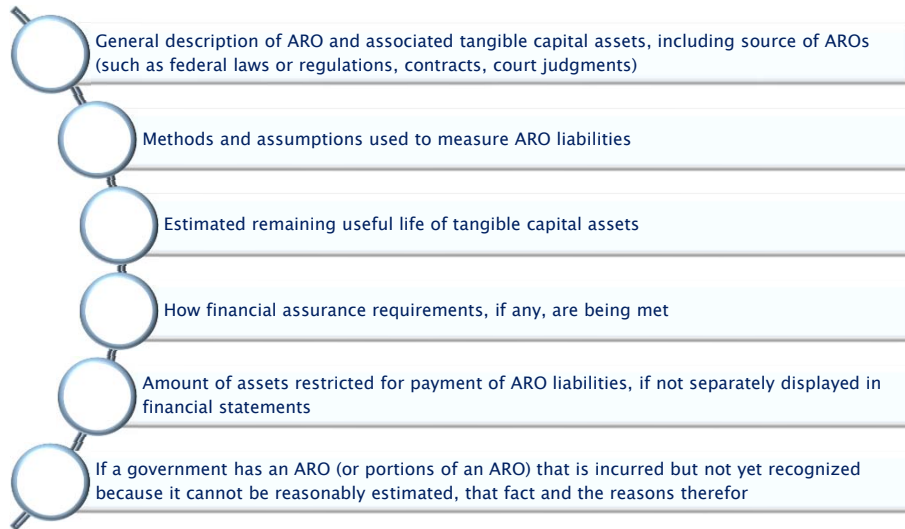
Do not offset ARO with assets restricted for payment of the ARO

Costs to comply with funding and assurance provisions are period costs separate from the ARO expense

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Disclosures



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QUIZ

- ▶ Which is ***not*** an example of a possible ARO under Statement 83?
- A. A landfill
 - B. Radiological equipment at a government hospital
 - C. A nuclear power plant
 - D. A coal ash pond spill
 - E. A. and D.
 - F. All of the above

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QUIZ

- ▶ Which is *not* a prerequisite for recording an ARO?
 - A. A legally enforceable liability
 - B. An internally obligating event
 - C. Payments have been made to retire the asset
 - D. A deferred inflow equal to the liability
 - E. Remeasurement Annually
 - F. All of the above

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QUIZ

- ▶ Which of the following should be disclosed for an ARO?
 - A. Disclose funding or assurance requirements
 - B. Amounts accumulated and restricted for payment of the liability
 - C. Why a liability is not reasonably estimable
 - D. Remaining useful life of the asset
 - E. General Description of the ARO
 - F. All of the above

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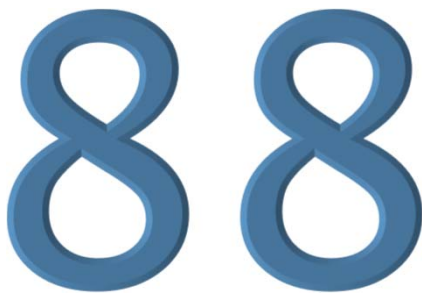
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What should Auditors be doing **Now!**

- Examine capital asset schedules for possible ARO evaluation. Look at Sewer Treatment Facilities and X-ray equipment in particular.
- Ask about any assurance arrangements the government has with Federal or State regulators.
- Utilize any assurance amounts to determine the best estimate of the ARO liability at the present time.
- If there is no assurance agreement, then ask the entity to obtain an engineering estimate of the closure and postclosure costs. Do this now.
- For radiological equipment, ask if the medical facility has plans for getting rid of the equipment at the end of its useful life. Likely, they pay a company to accept the nuclear component.
- Determine materiality for the Opinion Unit. If material, record the ARO.

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Debt Disclosures

What:

The Board issued Statement 88 to improve existing standards for disclosure of debt

Why:

A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made

When:

Effective for periods beginning after June 15, 2018

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Certain disclosures related to debt, including direct borrowings and direct placements

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Debt Disclosures

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Effective for periods beginning after June 15, 2018

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Definition of Debt for Disclosure Purposes

“A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established”

- For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.
- **Capital Leases** are still debt but are considered financed purchases.

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Disclosures that Meet the Definition of Debt

- So based on the above definition, what would not be considered debt?
 - Compensated Absences?
 - Accrued Payroll?
 - IRS Penalties?
 - Net Pension Liabilities
 - Net OPEB Liabilities?
 - Claims and Judgments?
- So should all the above be disclosed?

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Disclosures that Meet the Definition of Debt

- SUMMARIZED Information (Not Details) on the following:
 - Amount of unused **lines** of credit;
 - Assets pledged as collateral for debt;
 - Terms specified in debt agreements related to *significant*:
 - Events of default with finance-related consequences *or* termination events with finance-related consequences;
 - Subjective acceleration clauses.
- Debt disclosures separated into the following categories:
 - Direct borrowings and direct placements of debt;
 - Other Debt.

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Terminology

- **Direct Borrowing** –when a government enters into a loan agreement with a lender (any financial institution)
- **Direct Placement** – when a government *issues* a debt security directly to an investor.
- **Lines of credit** are different from *letters of credit*.
 - A letter of credit is more of a *guarantee* of payment.
 - A line of credit is a full agreement to receive resources that are available to draw.
- **Assets pledged as collateral** (different than GASB-48 provisions which are *revenue* pledges)

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Debt Disclosures

- ▶ **GASB 88 Disclosures:**
 - This standard is about disclosures, not accounting.
 - The disclosures in Statement 88 are in addition to all other required disclosures for debt.

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Disclosure Example

Disclosure

Changes in long-term obligations for the year ended June 30, 20X2, are as follows:

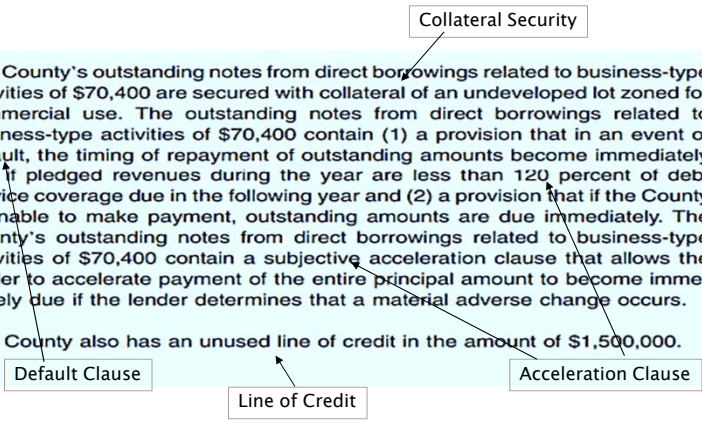
	Balance at July 1, 20X1	Increases	Decreases	Balance at June 30, 20X2	Due within One Year
Governmental activities:					
General obligation bonds	\$21,500,000	\$ -	\$ 8,970,000	\$ 12,530,000	\$ 7,050,000
Notes from direct borrowings and direct placements	1,412,877	-	470,959	941,918	470,959
Total	\$22,912,877	\$ -	\$ 9,440,959	\$ 13,471,918	\$ 7,520,959
Business-type activities:					
Notes from direct borrowings	\$ 76,800	\$ -	\$ 6,400	\$ 70,400	\$ 6,400

The County's outstanding notes from direct borrowings and direct placements related to governmental activities of \$941,918 contain a provision that in an event of default, outstanding amounts become immediately due if the County is unable to make payment.

Disclosure Example

The County's outstanding notes from direct borrowings related to business-type activities of \$70,400 are secured with collateral of an undeveloped lot zoned for commercial use. The outstanding notes from direct borrowings related to business-type activities of \$70,400 contain (1) a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if pledged revenues during the year are less than 120 percent of debt service coverage due in the following year and (2) a provision that if the County is unable to make payment, outstanding amounts are due immediately. The County's outstanding notes from direct borrowings related to business-type activities of \$70,400 contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs.

The County also has an unused line of credit in the amount of \$1,500,000.



Debt Disclosures

- ▶ **GASB 88 Disclosures:**
 - Disclosures about the above should be made for **significant**:
 - Events of default
 - Termination Events
 - Subjective acceleration clauses

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Disclosure Example

Debt service requirements on long-term debt at June 30, 20X2, are as follows:

Year Ending June 30,	Governmental Activities				Business-Type Activities	
	Bonds		Notes from Direct Borrowings and Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
20X3	\$ 7,050,000	\$ 497,700	\$ 470,959	\$ 30,024	\$ 6,400	\$ 2,640
20X4	4,880,000	215,950	470,959	10,008	6,400	2,400
20X5	50,000	21,000	-	-	6,400	2,160
20X6	50,000	19,250	-	-	6,400	1,920
20X7	50,000	17,500	-	-	6,400	1,680
20X8-20Y2	250,000	52,500	-	-	32,000	4,800
20Y3-20Y7	200,000	17,500	-	-	6,400	240
	<u>\$12,530,000</u>	<u>\$ 841,400</u>	<u>\$ 941,918</u>	<u>\$ 40,032</u>	<u>\$ 70,400</u>	<u>\$ 15,840</u>

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QUIZ

- ▶ **Under Statement 88 what journal entries should be made to record direct debt?**
 - A. Debit Cash and Credit a current liability.
 - B. Debit Cash and Credit a long-term liability.
 - C. Debit Notes Receivable and Credit a long-term liability.
 - D. All of the above depending on the circumstances
 - E. None of the above

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QUIZ

- ▶ **Which of the following should be disclosed for direct debt and direct placements?**
 - A. Subjective acceleration clauses
 - B. Default clauses
 - C. Collateral pledged
 - D. Unused lines of credit
 - E. A. and B.
 - F. All of the above

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QUIZ

- ▶ Which of the following should be disclosed as separate information for direct debt and direct placements?
 - A. Names of banks from which direct debt was borrowed
 - B. Repayment Schedules
 - C. Changes in long-term debt
 - D. Where the audit report for the bank that provided direct borrowing can be obtained
 - E. B. and C.
 - F. All of the above

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The image shows the numbers '89' in a large, blue, 3D-style font. The numbers are centered within a white rectangular frame.

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Accounting for Interest Cost Incurred before the End of a Construction Period

What:	Why:	When:
<p>The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting</p>	<p>Accounting guidance has been based on FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of GASB's Concepts Statements</p>	<p>Effective for periods beginning after December 15, 2019.</p> <p>Earlier application is encouraged.</p>

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Recognizing Construction Period Interest Cost

Financial statements prepared using the economic resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.

Financial statements prepared using the current financial resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.

Prospective application at transition

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Accounting for Interest Cost Incurred before the End of a Construction Period

- Removes the requirement to capitalize construction period interest costs in proprietary funds and BTA
- Prospective application only
- Perhaps the only GASB Statement you can implement by doing NOTHING (No restatements, no reclassifications, no capitalization, no lookback period)
- An easy target if you wish to early implement; in fact, we recommend it

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Accounting for Interest Cost Incurred before the End of a Construction Period

- What do you do if the GASB 89 implementation date comes right in the middle of a construction project? (Para. 6)
- Does GASB 89 apply to Regulated Industries that choose to capitalize or are required to capital interest costs. (GASB 62.476 and 485, and 476–500)

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Construction Period Interest Costs

▶ Exception

- Interest may be capitalized, like other period costs, for a regulatory asset if
 - The government qualifies as a regulated entity
 - The government has elected to utilize regulatory accounting
 - Interest costs will be recovered through future rates

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QUIZ

- ▶ Which of the following is a *True* statement about Statement 89?
 - A. This may be the best standard ever issued
 - B. This is one of the best standards ever issued
 - C. All of GASB Standards should be this simple
 - D. Accountants can actually read and understand this standard without spending a lot of time and effort.
 - E. None of the above
 - F. It depends

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QUIZ

- ▶ **The journal entry to record construction period interest is?**
 - A. Different for a governmental fund as opposed to an enterprise fund
 - B. Debit an expense/expenditure and credit cash
 - C. Debit a capital asset and credit cash
 - D. None of the above

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Accounting and Financial Reporting for Majority Equity Interests

Statement No. 90

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Majority Equity Interests

What: The Board issued Statement 90 to clarify whether a majority equity interest should be reported as an investment or as a component unit and to provide consistent measurement of elements of acquired organizations and 100% equity interests in component units	Why: Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance	When: Effective for periods beginning after December 15, 2018
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Majority Equity Interests

▶ **Equity Interests Ownership Issues:**

◦ **Example:**

▶ Assume that Government A acquires 80 percent of the voting stock of a for-profit enterprise (the corporation). Government A appoints 8 of the 10 members of the governing body of the corporation and is able to impose its will on the corporation. Furthermore, the corporation is expected to provide financial benefits to, and impose financial burdens on, Government A. Under Statement 14, the corporation meets the financial accountability criteria for a component unit of Government A. However, if the sole purpose behind the acquisition of the corporation is to produce income or profit for Government A, should the definition of an investment in paragraph 64 of Statement 72 prevail, regardless of the fact that Government A is financially accountable for the corporation?

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Does the Majority Equity Interest Meet the Definition of an Investment?

YES	NO
Report as an investment	Report as a component unit
Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205-209 <i>Exception:</i> the following should apply fair value in accordance with Statement 72, paragraph 64: <ul style="list-style-type: none"> • Special-purpose governments engaged only in fiduciary activities • Fiduciary funds • Endowments (including permanent and term endowments) and permanent funds 	Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205-209
Applied prospectively only	

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100% Equity Interest That *Does Not* Meet the Definition of an Investment



These provisions would only be applied prospectively

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GFOA Summary

MEMORANDUM

DATE: November 13, 2017

TO: CAAFR

FROM: Michele Mark Levine
Todd Buikema

RE: GASB ED: *Accounting and Financial Reporting for Majority Equity Interests*

On November 1, 2017, the Governmental Accounting Standards Board (GASB) issued an Exposure Draft (ED) entitled *Accounting and Financial Reporting for Majority Equity Interests* for public comments, which are due by January 19, 2018.

The ED addresses situations where a government owns a majority interest in a *legally separate entity*, and was issued because governments were questioning if such interests should be accounted for as Investments in accordance with GASB 72 or as Component Units in accordance with GASB 14, as amended (Cod. Sec. 2100.119-144).

The proposed guidance would distinguish between majority equity interests that are investments, as defined by Statement 72, paragraph 64 (Cod. Sec. 150.103) and those that are not.

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GFOA Summary

MEMORANDUM

▶

Investments:

- ▶ For majority equity interest *Investments** held by a special-purpose government (such as special districts or authorities that exist separate and apart from the general government) engaged only in fiduciary activities, a fiduciary fund, an endowment or a permanent fund, the value of the interest should be determined in accordance with the requirements in paragraph 64 of Statement 72, generally at fair value.
- ▶ For the majority equity interest Investments of other governments, the ED proposes that they should be accounted for as investments using the Equity Method, as defined in paragraphs 205 – 209 of GASB 62 (Cod Sec. 150.116). In these cases, the entity in which the majority equity investment is held should **not** be reported as a component unit, even if the entity meets the criteria to be a component unit.

* An investment is a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

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GFOA Summary

MEMORANDUM

▶ Non-Investments:

- ▶ Where the majority equity interest does not meet the definition of an investment, the entity should be reported as a component unit and the government or fund that holds the majority interest should also report an asset using the equity method. If the component unit is a blended component, the asset and net position of the component unit should be eliminated as part of the blending process.
- ▶ The ED also proposes special requirements for reporting a component unit in which the primary government acquires a 100% interest.
- ▶ Such wholly-owned component units should measure assets, liabilities, deferred items in accordance with paragraphs 29-42 of GASB 69 (Cod. Sec Co10.126-139), generally at acquisition value, at the date of acquisition.
- ▶ The flows statements of the component unit would then only report activity that took place after the date of acquisition.

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QUIZ

- ▶ **Statement 90 is applicable to?**
 - A. All government equity interests in other entities
 - B. Majority and Minority equity interests
 - C. Majority equity interests in other government entities
 - D. Majority equity interests in governments and other entities
 - E. All of the above

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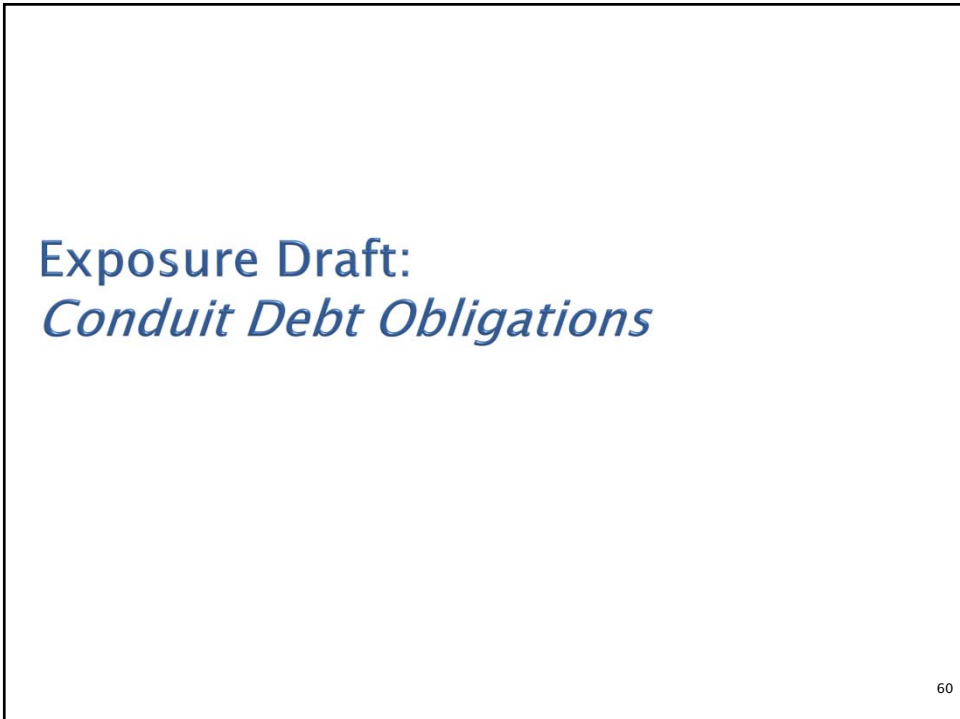
QUIZ

- ▶ **Under Statement 90**
 - A. Investment interests may be recorded under GASB 72
 - B. Equity interests may involve assets other than Investments
 - C. A component unit relationship may be established under certain circumstances.
 - D. Equity interests may be recorded as an asset of the primary government and a component unit of the primary government
 - E. Wholly owned (100%) component units should be recorded in accordance with GASB 69
 - F. All of the above

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Conduit Debt

What:

The Board has proposed improvements to the existing standards related to conduit debt obligations that would provide 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, the Board believes improvements are needed to eliminate diversity in practice

When:

The Board approved an Exposure Draft in July 2018; the comment deadline is November 2, 2018

Effective:

Calendar YE

12/31/21

FYE 6/30/22

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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.

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Proposal: 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 debt 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.
6. The issuer's commitment related to the debt service payments is limited.

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Proposal: Limited and Additional 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** of its own resources and agree 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 guarantee
- Pledging its own property, revenue, or other assets as security
- Requesting appropriations without a moral obligation pledge or appropriation pledge

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Proposal: Recognition by the Issuer

Do *not* recognize a conduit debt obligation as a liability

May have a related liability arising out of an additional commitment

Report a liability only when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation

At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

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Proposal: 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.

- Payments from the third-party obligor are for debt service payments and are made to the debt holder or debt trustee.
- Payment schedule for the arrangement coincides with the debt service repayment schedule and sometimes is characterized as lease payments.
- Ownership (title) of the capital asset may pass to the third-party obligor at the end of the arrangement or remain with issuer.

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Proposal: 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

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Recognition Exception

Record the liability and expense

- When it is “more likely than not” the issuer will support debt payments.

Amount Recognized

- The discounted present value of the best estimate of the future supported debt service payments.
- If no best estimate use a range of estimated values, the calculate the present value

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Proposal: 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 <i>entire</i> capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only <i>portions</i> 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

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Proposal: Leases

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

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Proposal: Disclosures

A general description of the issuer's conduit debt obligations, organized by type of commitment

- Aggregate outstanding principal amount
- Each type of commitment extended by the issuer

If the issuer recognizes a related liability

- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts, if any, expected to be recovered for those payments

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Adds new questions on standards regarding

- OPEB
- Pensions
- Regulated operations
- Statistical section
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Capital assets
- Cash flows reporting
- Investment disclosures
- Net position
- Pensions
- Statistical section
- Tax abatement disclosures

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Questions

- ▶ Yes, I know. It is a bit overwhelming!
- ▶ And the assembly line keeps on rolling.
- ▶ Think I Love Lucy!!

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