GASB UPDATE:
The Not So Rapid Fire Session!

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GASB 95 - Deferral of Effective Dates

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (Issued May 2020)
- The following standards are delayed for one year:
  - GASB Statements Nos. 83, 84, 88, 89, 90, 91, 92, 93
  - Implementation Guide Nos. 2017-3, 2018-1, 2019-1, 2019-2
- The following standards are delayed for 18 months:
  - GASB Statement No. 87
  - Implementation Guide No. 2019-3

Early application is permitted and encouraged to the extent specified in each originally issued standard

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Effective Dates: December 31

Fiscal Year 2020

- Statement 83 – asset retirement obligations
- Statement 84 – fiduciary activities
- Statement 88 – debt disclosures
- Statement 90 – majority equity interests
- IG 2018-1 – Update
- IG 2019-2 – fiduciary activities

Fiscal Year 2021

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

Fiscal Year 2022

- Statement 87 – leases
  - IG 2019-3 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal

Fiscal Year 2023

- Statement 94 – public-private partnerships (not part of Stmt No. 95)

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Effective Dates: June 30

Fiscal Year 2020

- Statement 83 – asset retirement obligations
- Statement 88 – debt disclosures
- IG 2018-1 – Update

Fiscal Year 2021

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

Fiscal Year 2022

- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal
- IG 2019-3 – leases

Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships (not part of Stmt No. 95)

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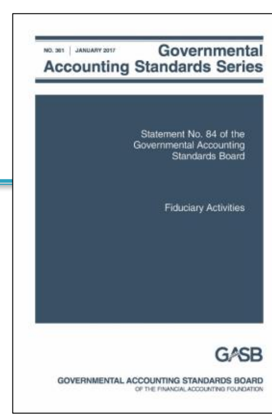
Poll Question #1

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

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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, 2018, COVID Impact

Earlier application is encouraged

Four potential paths to reports assets in a fiduciary fund

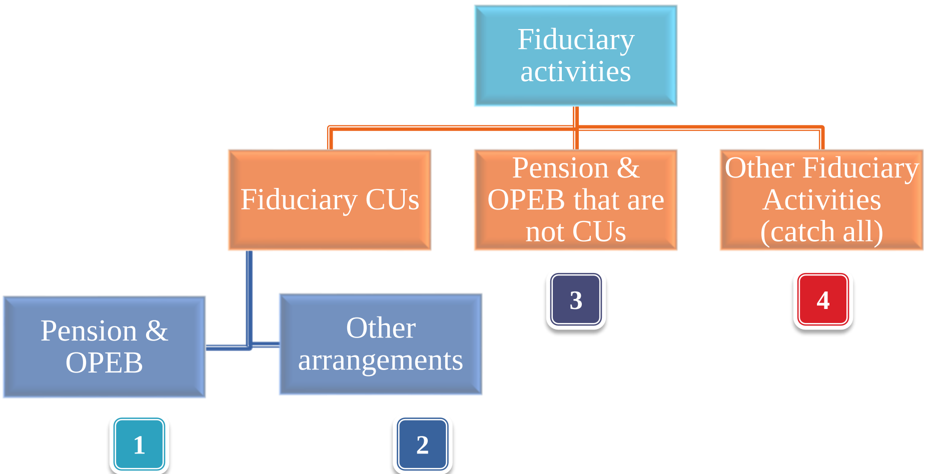
1. Is there a component unit present that are postemployment benefit arrangements? (Pensions / OPEB)

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)?

Fourth Paths - Visual



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Evaluating Potential Fiduciary C.U's

- Legally Separate
  - Are Trust legally separate? – IG Q&A
- Voting Majority of the Board (Test One)
  - IG Q&A
- Imposition of will (Test One)
  - Next slide
- Fiscally dependent (Test Two)
  - Approve budget, approve rates, approve issuance of debt
- Misleading to exclude

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Evaluating Potential Fiduciary C.U's

- Imposition of Will
  - PG has ability to impose will if it can significantly influence programs, projects, activities or level of services performed or provided.
  - Existence of any ONE of the following meets the criteria:
    - Ability to remove appointed members of the orgs. Governing board at will
    - Ability to modify or approved the budget
    - Ability to modify or approve rate or fee changes affecting revenue
    - Ability to veto, overrule or modify other decisions of the orgs governing body
    - Ability to appoint, hire, reassign or dismiss mgmt. of the org.

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Fiduciary component units

- Component unit (CU) criteria of GASB 14

- 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
  - Legally required or assumed the obligation

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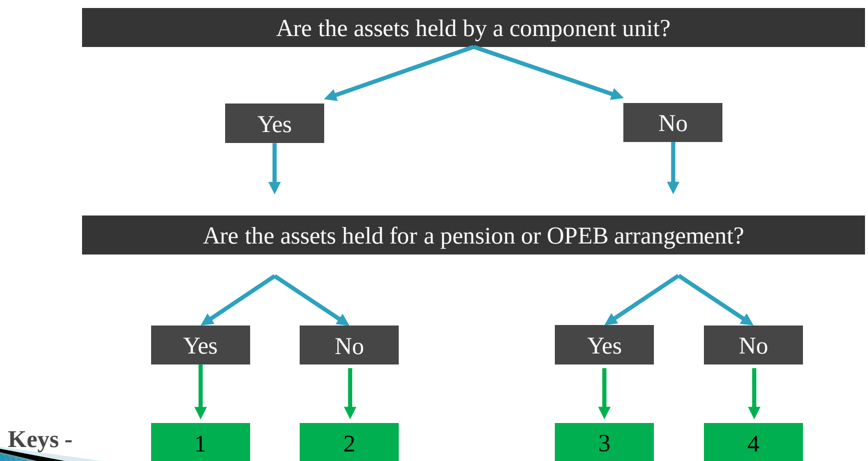
When Should be reported in a Fiduciary Fund?

- **Determination Process:**



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Alternative way to decide fiduciary activities

1. Is the entity a component unit? **If no go to step 3.**
2. Are the assets held for pensions or OPEB arrangements? **If no, go to step 4. If 1 and 2 are yes, then fiduciary reporting.**
3. Does the government **control the assets? If no, stop – not a fiduciary fund. Go to Step 5.**
4. Does the assets meet the revenue and other characteristics? **If no, stop – not a fiduciary fund. If yes – fiduciary fund.**
5. Are the assets held for pension or OPEB arrangements? **If yes, report in a fiduciary fund**
6. Are the assets not derived from certain revenues? **If no, stop – not a fiduciary fund. If yes – fiduciary fund.**

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Component Unit – Postemployment Benefits

- Normally, pension and OPEB plans that are in GASB 67 and GASB 74 compliant trusts are separate legal entities
  - IG – 4.1; Pension/OPEB Trust are consider legally separate for financial reporting purposes
  - IG – 4.3; if Pension/OPEB is an equivalent arrangement legally separate is a legal issue. (legal - consider CU criteria, not - evaluate control)

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Component Unit – Postemployment Benefits

- 4.5 - Absent a Board – Common with OPEB and Single Employer Pension Plans
  - Q—A pension or OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, as applicable, does not have a governing board. Instead, another government (for example, a sponsoring government) performs the duties that a governing board typically would perform (for example, the government determines or amends the structure of the plan [vesting requirements and required contributions]). If that other government (for example, a sponsoring government) is legally obligated to make contributions to the pension or OPEB plan, should the plan be included as a fiduciary component unit of that other government?
  - A—Yes. . For purposes of that paragraph, a government (for example, a sponsoring government) that performs the duties of a governing board in the absence of one should be considered equivalent to a governing board for which the government appoints a voting majority
  - **How does this impact your component unit consideration**:
    - Impact: If there is no board, and governing body/sponsoring govt is acting in the capacity of the board? Does the government have imposition of will? Current Guidance says…. “Wait & See!!!”

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What About Statement 32

- With GASB Statement No. 32 many of the 457 plans where no longer reported within the reporting entity.
- Does this statement change the treatment under Statement No. 84?
- What about other DC type plans 403(b), 401(a)?
- Main question is how does previous slides impact component unit status?
  - Most do not have a board – IG 4.5 – Absent a board = Sponsoring Government.
  - DC Plans Contributions = "Financial Burden" ??
- Standard Issuance - Soon

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Fiduciary Component Units and Deferred Compensation Plans

What?

The GASB has proposed changes to 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?

Comment deadline is April 10, 2020

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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

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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 a new proposal including guidance on component units

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Proposals for 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) would apply only to defined benefit plans

The effective date for the relevant Q&As in Implementation Guide 2019-2 – 4.3, 4.5, and 4.6 – would be delayed until completion of this project

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Proposals for 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 would be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator would be eliminated)

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Poll Question #2

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Project Timeline

Original Project Added to Current Technical Agenda	December 2018
Original Exposure Draft Approved	June 2019
Expanded Project Approved	January 2020
New Exposure Draft Issued	March 2020
Comment Deadline	April 10, 2020
Final Statement Expected	June 2020

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Pension & OPEB - Evaluations

Pension/OPEB

- Single Employer Defined Benefit Pension Plan
  - 5 member Board
    - 1 elected by active participants
    - 1 elected by retired participants
    - 3 appointed by City Council
  - Qualifying Trust – meeting 3 criteria
  - Employer contributions to the plan
  - No approval of the plan's budget or contribution requirements by the PG

Fiduciary or not fiduciary?

Evaluation

- Single Employer – DB Plan

Description (fund name/activity)	
Step 1	Answers
Component Unit Criteria Met	
OR	
Govt. controls the assets AND Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
Step 2	
Trust which meets the criteria of a qualifying trust of Statements 67 & 74	
OR	
Assets (accumulated for penison/OPEB) from entities that are not part of the reporting entity and not administered through qualifying trust	
Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary	

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Evaluation

- Single Employer – DB Plan

Is the plan considered to be a component unit?

- Legally separate? Yes, - IG 4.1
- Majority appointment? Yes – (3 of 5)
- Financial benefit/burden AND fiscal dependency
  - Financial benefit/burden –
    - Yes, employer contributions = burden
  - Fiscal dependency – No
  - Conclusion: Meets Component Unit Criteria

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Evaluation

- Single Employer – DB Plan

Description (fund name/activity)	
Step 1	***Answers***
Component Unit Criteria Met	Yes
OR	
Govt. controls the assets ***AND*** Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
Step 2	
Trust which meets the criteria of a qualifying trust of Statements 67 & 74	
OR	
Assets (accumulated for penison/OPEB) from entities that are not part of the reporting entity and not administered through qualifying trust	
Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary	

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Evaluation

- Single Employer – DB Plan

Description (fund name/activity)	
Step 1	***Answers***
Component Unit Criteria Met	Yes
OR	
Govt. controls the assets ***AND*** Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
Step 2	
Trust which meets the criteria of a qualifying trust of Statements 67 & 74	Yes
OR	
Assets (accumulated for penison/OPEB) from entities that are not part of the reporting entity and not administered through qualifying trust	
Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary	Yes

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Pension/OPEB

- Single Employer Defined Contribution Plan
  - Qualifying Trust – meeting 3 criteria
  - Employer has not established a board for the trust
  - Employer has hired a third party administrator (TPA)
  - Employer contributions to the plan - match of 3% up to $1,000
  - Employee has ability to direct investments through TPA

Fiduciary or not fiduciary?

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Evaluation

- Single Employer – DB Plan

Is the plan considered to be a component unit?

- Legally separate? Yes, - IG 4.1
- Majority appointment? Yes – No Board ref to IG 4.3, Proposed guidance makes DC exception!
- Financial benefit/burden AND fiscal dependency
  - Financial benefit/burden –
    - Yes, employer contributions = burden; proposed guidance makes DC exceptions!
  - Fiscal dependency – Yes, approval of rates by PG
    - But in would need both dependency and burden in this scenario
  - Conclusion: Not a component unit

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What is Control?

- GASB 84 defines Controls as:
  - Government holds the assets
  - Government (or designee) has the ability to direct the use, exchange, or employment
    - Having a designee does not relinquish fiduciary responsibility from the government

- Appointing a designee / administrator / contractor doesn't matter.

- Restriction on assets does not matter.

  - Footnote 5 – appointment of a designee to act on the govt's behalf does not alter a govt's ability to direct the use, exchange, or employment.

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All Other Activities

Fiduciary if all three of the following are met:

- The government **<u>controls</u>** the assets
- Those assets are *not* derived either:
  - Solely from the government's own-source revenues
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have administrative or direct financial involvement
- One of the criteria on the next slide is met

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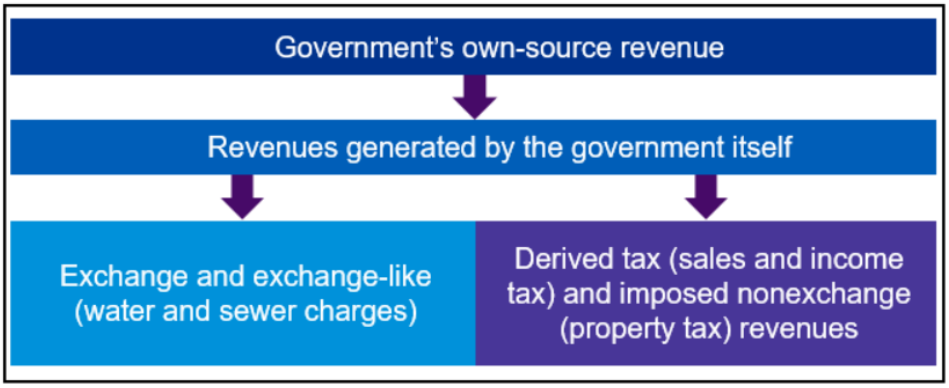
Own-Source Revenue

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



Poll Question #3

All other Activities(cont.)

- Criteria for Control of the assets, and
- Assets not derived from own source revenue or govt mandated or voluntary nonexchange:

1
- Administered through a trust or equivalent, government not beneficiary
- Dedicated to provide benefits to recipients per the benefit terms
- Legally protected from the government's creditors

2
- Benefit of individuals and government does not have administrative or direct financial involvement with the assets
- Not derived from provision of goods and services to those individuals

3
- Benefit of organizations or other governments not part of reporting entity
- Not derived from provision of goods and services to those organizations or other governments

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Implementation Guide Q and A

- 4.16. Q—The chess club of a public high school is established in accordance with the school's operating policies and is not legally separate from the high school. The club members organize and conduct fundraising activities to pay for the club's annual tournament and other club activities during the school year. The proceeds from the 7 fundraising activities are held in a separate bank account in the school's name. In determining whether those resources controlled by the school are a fiduciary activity, are the assets held for the benefit of individuals as addressed in paragraph 11c(2) of Statement 84 (and thus require evaluation of whether the school has administrative involvement or direct financial involvement), or do they benefit an organization as addressed in paragraph 11c(3) of Statement 84 (and thus require evaluation of whether the club is part of the primary government)?

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Individual Vs Organization

- Key consideration as one requires consideration of Administrative Involvement
  - Individual – Have to consider
  - Organization – No consideration

- 2019-2 IG 4.16 – Chess Club Answer:
  - Assets are for the benefit of an organization if the benefits accrue to the organization as an institution….club is not legally separate…it is not itself an institution. As a result, the provisions in paragraph 11c(2) should be applied.

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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).

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Administrative Involvement – 2020 IG

- Q—A school district holds the resources raised by the ski club. There is a school board policy that states that the resources raised by the ski club can be spent only on an annual ski club trip. The policy does not establish the specific types of ski trip disbursements that are acceptable for payment. A school district staff member is required to monitor compliance with the requirements of the activity. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

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Administrative Involvement – 2020 IG

- A—Yes, the school district has administrative involvement. The school district's role is substantive because the school district has established specific guidelines in an approved policy that defines the purposes for which the club's resources can be spent. In addition, the school district has administrative involvement because a school district staff member is monitoring compliance with the requirements of the activity.

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Everything Else! - Evaluations

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Property Tax

- Local School District has levied a property tax for the fiscal year
- Property tax levies are billed and collected by the County Government
- The County collects and remits the amounts associated with the Districts levy monthly as the amounts are collected
- The School District is not part of the reporting entity of the County.

Fiduciary or not fiduciary?

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Evaluation

- Property Tax

Step 1	Answer
Component Unit Criteria Met	
OR	
Govt controls the assets ***AND*** Assets not derived from the goverments own source revenue/govt. mandated/voluntary nonexchange	Y
Step 2	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
OR	
For the benfit of individuals & govt ***does not*** have *administrative involvement* or *direct financial involvement* ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	
OR	
For the benfit of organizations or other govts that are not part of financial reporting entity ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	Y
Conclusion (if you have a yes answer in step 1 and step 2 the activiy is fiduciary	Y

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Property Tax –IG 4.39

- Q—A county collects property taxes on behalf of the other tax-levying governments within its jurisdiction. The county collects a fee, equal to 1 percent of the amount billed, from the other governments to provide this service. The taxes are deposited into the county collector's property tax distribution account, a custodial fund. Should the county report the fees in the custodial fund with the taxes collected?

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Property Tax –IG 4.38

- A—No. The county is obligated to provide the collection service for which a fee is charged to the other taxing governments. The nature of that transaction is exchange or exchange-like, resulting in own-source revenues of the county. Paragraph 11b(1) of Statement 84 states that an activity is not fiduciary if the assets are derived from the government's own-source revenues. Therefore, the county should report the fees in its governmental fund financial statements.

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Payroll withholding – IG 4.15

- Q—A government uses a clearing account to accumulate resources from withholding of employee payroll deductions and accrued employer payroll taxes that will be submitted to the appropriate taxing bodies when due. Should the government report the clearing account in the fiduciary fund financial statements?

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Payroll withholding –IG 4.15

- A—No. Although the government has control of the assets because it has custody of the cash withheld, the unremitted amounts in the clearing account are a liability of the government. When the deductions are withheld from an employee's pay, the amounts withheld and accrued by the employer become a liability of the government. As a result, the government is holding the amounts for its own benefit and the criteria in paragraph 11c of Statement 84 are not met.

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Student Activity Fund –IG 4.20

- A school district holds the funds raised by various student clubs, which are not legally separate from the school district.
- There is no school board or school administration policy related to the club's activities and how the resources can be spent
- The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club.
- Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor.
- The funds are not held in a trust or equivalent arrangement.

Fiduciary or not fiduciary?

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Evaluation

- Student Activity Fund

Step 1	Answer
Component Unit Criteria Met	
OR	
Govt controls the assets ***AND*** Assets not derived from the goverments own source revenue/govt. mandated/voluntary nonexchange	
Step 2	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
OR	
For the benfit of individuals & govt ***does not*** have *administrative involvement* or *direct financial involvement* ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	
OR	
For the benfit of organizations or other govts that are not part of financial reporting entity ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	
Conclusion (if you have a yes answer in step 1 and step 2 the activiy is fiduciary	

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Evaluation

- Student Activity Fund

Step 1	Answer
Component Unit Criteria Met	N
OR	
Govt controls the assets ***AND*** Assets not derived from the goverments own source revenue/govt. mandated/voluntary nonexchange	Y
Step 2	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
OR	
For the benfit of individuals & govt ***does not*** have *administrative involvement* or *direct financial involvement* ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	
OR	
For the benfit of organizations or other govts that are not part of financial reporting entity ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	
Conclusion (if you have a yes answer in step 1 and step 2 the activiy is fiduciary	

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Evaluation

- Student Activity Fund

Step 1	***Answer***
Component Unit Criteria Met	**N**
OR	
Govt controls the assets ***AND*** Assets not derived from the goverments own source revenue/govt. mandated/voluntary nonexchange	**Y**
Step 2	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	**N**
OR	
For the benfit of individuals & govt ***does not*** have *administrative involvement* or *direct financial involvement* ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	**N**
OR	
For the benfit of organizations or other govts that are not part of financial reporting entity ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	**N**
Conclusion (if you have a yes answer in step 1 and step 2 the activiy is fiduciary	

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Evaluation

- Student Activity Fund

Step 1	***Answer***
Component Unit Criteria Met	**N**
OR	
Govt controls the assets ***AND*** Assets not derived from the goverments own source revenue/govt. mandated/voluntary nonexchange	**Y**
Step 2	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	**N**
OR	
For the benfit of individuals & govt ***does not*** have *administrative involvement* or *direct financial involvement* ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	**N**
OR	
For the benfit of organizations or other govts that are not part of financial reporting entity ***AND*** Assets not derived from the goverments provisions of goods & services to those individuals	**N**
Conclusion (if you have a yes answer in step 1 and step 2 the activiy is fiduciary	**N**

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Its Fiduciary Now What?

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.

FIDUCIARY FUND REPORTING – ONLY ONE MAJOR CHANGE

- Pension and other Employee Benefit Trust Funds – **no change**
- Investment Trust Funds – **no change**

- Private-Purpose Trust Funds – **no change**
- Custodial Funds – **NEW**
  - Could be Multi-Column
    - **External portion of investment pool**

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Fiduciary Fund Types - Custodial

- Custodial funds
  - Report fiduciary activities not held in trust
  - Report external portion of investment pool not held in trust in separate 'external investment pool fund' column under custodial funds
- Exception: Assets normally expected to be held 3 months or less by a business-type activity
  - May report asset and corresponding liability instead of a separate custodial fund
  - Additions/deductions reported as operating cash inflows/outflows in statement of cash flows

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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*

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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*

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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*

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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

62

IG Question 4.47

- Q—The city's parks department sponsors a youth soccer program from April through July each year. Registration is free, but each participant is encouraged to contribute to the uniforms and equipment fund. The city has determined that the contributions meet the criteria in Statement 84 to be accounted for in a custodial fund. Should the city recognize a liability in the custodial fund for those expected purchases when the donations are received at registration?

63

IG Question 4.47

- A—No. Liabilities should be recognized when the uniforms and equipment are acquired by the coaches. At that point, the city is compelled to disburse the resources. The city will report net position in the fund for the difference between the resources held and the liabilities incurred.

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Poll Question #4

Stand-Alone Business-Type Activities

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

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.

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How to implement??

Someone has to be in charge to gather information – completeness is key

- May take many *periods*
- May involve legal team and treasurer / CFO
- May involve software changes

Compare each activity against

- GASB-84
- Governmental Fund Provisions in Other Standards
- Enterprise / Proprietary Fund Provisions in Other Standards
- Component Unit Standards

Information could be in

- Laws / regulations (especially student activity funds)
- Contracts
- Trust agreements / similar
- Gather information on revenue sources / uses

DOCUMENT IT – consistent forms a good idea

68

How to implement??

Could result in

- Reclassification to governmental / enterprise funds
- Reclassification from one fiduciary type to another
- Adjustments
- Redrafting of policies / procedures for fund creation, accounting and reporting
- Systems updating

DOCUMENT DECISIONS / CHANGES – consistent forms a good idea

Implementation Guide issued 2019-2

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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 fiduciary funds of the reporting government, or it could be based on the significance of those funds to all funds of the government

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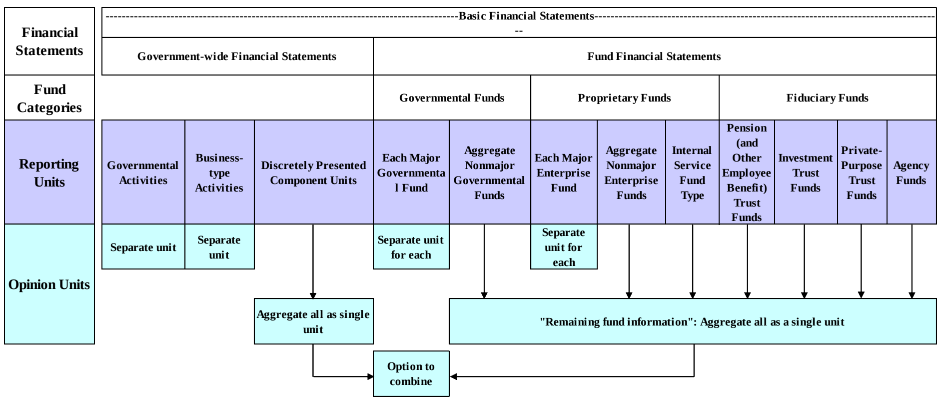
Materiality - Auditor

Overview of Reporting Units and Opinion Units
FOR DISCUSSION PURPOSES ONLY



Audit Materiality is based on the opinion unit

71

TQA – 6950.23-.24

- A BTA has not previously reported any fiduciary activities …In accordance with guidance in the AICPA Audit and Accounting Guide *State and Local* …considered only one opinion unit for the BTA in previous audits..GASB Statement No. 84, the BTA determines that it has an activity that meets the criteria to be reported as a fiduciary fund in its financial statements. However, the BTA elects not to present the only identified fiduciary fund in the financial statements because it considers it to be immaterial based on the guidance in GASB *Implementation Guide 2015-1*, Q7.4.1, as amended.

- How should the auditor assess the appropriateness of the government's omission of the fiduciary fund?

72

TQA – 6950.23-.24

- …first ***assess management's assertion that the omission of the fiduciary fund is appropriate*** (that is, the fiduciary fund is both quantitatively and qualitatively immaterial based on relevant GAAP). Based on the guidance in GASB Implementation Guide 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. In all cases, qualitative materiality aspects should be appropriately considered. ***If the auditor agrees with management's assessment of materiality (quantitative and qualitative)*** relevant to the omission, the ***auditor does not need to perform any further audit procedures*** related to this omitted fund.

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How to implement??

Someone has to be in charge to gather information – completeness is key

- May take many *periods*
- May involve legal team and treasurer / CFO
- May involve software changes

Compare each activity against

- GASB-84
- Governmental Fund Provisions in Other Standards
- Enterprise / Proprietary Fund Provisions in Other Standards
- Component Unit Standards

Information could be in

- Laws / regulations (especially student activity funds)
- Contracts
- Trust agreements / similar
- Gather information on revenue sources / uses

DOCUMENT IT – consistent forms a good idea

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Implementation

- Inventory Potential Fiduciary Activities
  - Current activates reported as fiduciary
  - Component Units
  - Current reported BTA/Governmental funds
  - Bank Accounts
  - Activities/Fees Collected/Remitted to Other Entities
  - Non-reported activities
    - Ex. Defined Contributions plans
    - Resources potentially controlled by Government

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How to implement??

Could result in

- Reclassification to governmental / enterprise funds
- Reclassification from one fiduciary type to another
- Adjustments
- Redrafting of policies / procedures for fund creation, accounting and reporting
- Systems updating

DOCUMENT DECISIONS / CHANGES – consistent forms a good idea

Implementation Guide issued 2019-2

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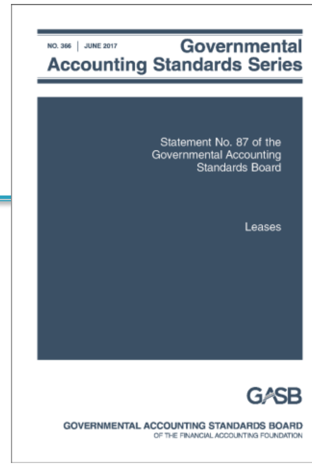
Leases

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

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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 periods beginning after December 15, 2019, COVID Impact

Earlier application is encouraged

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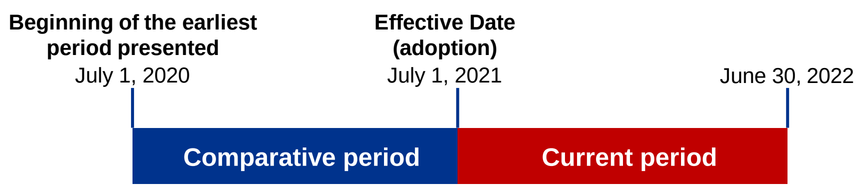
Transition

- Based on a June 30 year-end



- Implementation – use facts and circumstances that existed a the beginning of the earlies period presented
- No hindsight 20/20 – do not have to use the commencement date of the lease.

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Definition of a Lease

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

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IG 2019-3 – 4.1

- Q—A government obtains the right to use land, which has a market rent of $100,000 per year, for $1 per year. Should the government apply the requirements in Statement 87 to that transaction?

A—No. The definition of a lease in paragraph 4 of Statement 87 specifies that the Statement should be applied only to exchange or exchange-like transactions. Paragraph 1 of Statement No. 33, …classifies all transactions of state and local governments into two categories: (a) exchange and exchange-like and (b) nonexchange. *The government's right to use land for $1 does not meet the description of an exchange or exchange-like transaction because each party does not receive or give up essentially equal value or not quite equal value.*

Don't forget Exchange-like transactions

One in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition.

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Definition of a lease - Control

- Control requires both of the following:
  1. the right to obtain the present service capacity from use of the underlying asset, and
  2. the right to determine the nature and manner of use of the underlying asset
- Control applied to the right-to-use lease asset (a capital asset) "specified in the contract"
  - Control criteria NOT limited to contracts that convey substantially all of the present service capacity from use of the underlying asset
    - Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day

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IG 2019-3 – 4.2

- Q—A government enters into a multiyear agreement for the right to use a facility. The government has exclusive use of the facility three days a week. Other parties use the facility on the other days. To meet the definition of a lease, is the government required to have uninterrupted control of the right to use the facility? Control applied to the right-to-use lease asset (a capital asset) "specified in the contract"

A—***No***. In determining whether a contract conveys control of the right to use an underlying asset, a government should assess whether it has (a) the right to obtain the present service capacity from use of the underlying asset and (b) the right to determine the nature and manner of use of the underlying asset "as specified in the contract" (paragraph 5 of Statement 87). ***If the contract specifies that the government has control of those rights during three days of each week, the control criterion is met.*** The provision in the lease definition that the contract be for a period of time does not require uninterrupted control of the right to use the facility.

Control & Uninterrupted Use

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Poll Question #5

84

Leases

- Nonfinancial assets
  - Assets that are not "financial assets", as defined by GASB 72, *Fair Value*
  - Common Examples: land, buildings, vehicles, and equipment
    - Unless determined to be Investments/Financial

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Leases scope exclusions

- **Intangible assets (mineral rights, patents, software, copyrights)**
  - Except for the sublease of an intangible right-to-use asset
    - SBITA – Exposure Draft
- **Biological assets (including timber, living plants, and living animals)**
- Inventory
- Service concession arrangements (See GASB Statement 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- **Supply contracts (such as typical power purchase agreements, which do not convey control of the right to use the underlying power generating facility)**

Implementation: While many software/IT related agreements may be excluded from Statement No. 87; they may be included with SBITA.

"Inventory" those as well!!

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Leases

- No classification of leases into operating/capital or other categories
- Underlying assumption that leases are financings
- Exceptions (lessors and lessees)
  - Short-term leases
  - Leases that transfer ownership and do not contain termination options
- Exceptions for lessors
  - Leases of assets that are investments
  - Certain regulated leases (e.g., airport-airline agreements)

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IG 2019-3 – 4.21 Transfer Ownership

- Q—A vendor installs equipment in a government's building to increase energy efficiency. The government will own the equipment at the end of the agreement, and the contract does not contain a termination option. For financial reporting purposes, should this transaction be reported as a lease or a financed purchase?

A—This transaction should be *reported as a financed purchase*. If *title to the equipment transfers to the lessee* by the end of the contract, the ***transaction is not accounted for as a lease*** for financial reporting purposes. Rather, the transaction is a financed purchase, as discussed in paragraph 19 of Statement 87.

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Lease Term

- For financial reporting purposes, when does the lease start and end?
  - Start with the noncancelable period

  - Plus periods covered by options to:
    - Extend lease, if reasonably certain of being exercised
    - Terminate lease, if reasonably certain of *not* being exercised
  - Excludes cancelable periods
    - Periods for which lessee and lessor both have option to extend or terminate (such as rolling month-to-month leases)
  - Fiscal funding and cancellation clauses are ignored unless reasonably certain of being exercised

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IG 2019-3 – 4.13 Holdover Period

- Q—A lease contract has a noncancellable period of five years and specifies that at the end of the five years, both the lessor and lessee have the right to cancel the lease or may continue the lease, using the same terms on a month-to-month basis. Is the month-to-month holdover period included in the initial assessment of the lease term?

A—***No***. During the holdover period, the lessee has not contracted for a noncancellable right to use an underlying asset, and the lessor is not required to continue providing the asset. That is, the ***holdover period is cancellable*** by either party and, therefore, is excluded from the lease term, as defined in paragraph 12 of Statement 87.

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IG 2019-3 – 4.15 Cancellation penalties

- Q—A lease contract allows either party to unilaterally terminate the lease at any time but also provides for cancellation penalties. The cancellation penalties are so great that it is reasonably certain that neither party will terminate the lease. Should the cancellable periods be excluded from the lease term?

A—Yes. Paragraph 12 of Statement 87 requires that periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party be excluded from the lease term as cancellable periods. ***The presence of cancellation penalties does not affect that conclusion***. Even if, as in this example, both parties are reasonably certain that the lease will not be terminated, the ***cancellable periods should be excluded*** from the lease term.

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Contracts with Multiple Components

- Separate contracts into lease and nonlease components or multiple lease components
- Allocate consideration to multiple underlying assets if:
  - Service components of contract,
  - Differing lease terms, or
  - Are in differing major asset classes for disclosure
- Allocation process:

Identify individual components, are they reasonable? → Maximize observable information → Estimate using professional judgment → If not practicable to determine best estimate, may account for components as single lease unit

Consider **Contract Combinations** when reviewing Multiple Components

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Lease Term - Example

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

Lessee Options		Lessor Options		Term
Terminate	Extend	Terminate	Extend	
Uncertain	N/A	N/A	N/A	5 years
Reasonable Certain	N/A	N/A	N/A	4years

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Lease Term - Example

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

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Lease Term - Example

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

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Lease Term – Reassessment

- Reassess the lease term only if one or more of the following occurs:
  - Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would *not* exercise that option
  - Lessee or lessor elects to *not* exercise an option even though previously determined that the lessee or lessor would exercise that option
  - An even specified in the contract that requires an extension or termination of the lease takes place

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Short-term lease exception

- A *short-term* lease is one that, at the beginning of the lease, has a "maximum possible term" under the contract, including any options to extend, of 12 months or less
- Practicality exception for short-term leases
  - For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the noncancelable period including any notice period

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IG 2019-3 – 4.18 Short-Term Leases

- Q—A government enters into a lease with a 6-month noncancellable period and an option to extend for another 12 months after the noncancellable period. The government is not reasonably certain that it will exercise the option to extend and, therefore, assesses the lease term as six months. Is this agreement a short-term lease under Statement 87?

A—***No***. Paragraph 16 of Statement 87 states that a short-term lease "has a ***maximum possible term*** under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised." Therefore, the lessee should report a lease liability and a lease asset; however, the lease term would be only six months.

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Short-term lease exception

- Accounting:
  - Lessee: lease payments recognized as expenses/expenditures based on the payment provisions of the contract
  - Lessor: lease payments recognized as revenue based on the payment provisions of the contract
- Disclosures:
  - None

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Poll Question #6

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Leases Overview—Initial Reporting

	Assets	Liability	Deferred Inflow
LESSEE	Intangible 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 including same items as lessee liability) • Continue to report leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

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Leases Overview—Subsequent Reporting

	Assets	Liability	Deferred Inflow
LESSEE	Amortize the intangible 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) • Reduce receivable by lease payments (less payment needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

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Lessee – Initial Measurement

- Initial measurement of a lease liability includes:
  - Fixed payments over lease term
  - Variable payments based on an index / rate in effect at that date (ex. CPI)
  - Variable payments that are in-substance fixed
  - Residual value guarantees that are *reasonable certain* of being required
  - Termination penalties if based on the determination of the lease term, the termination option is *reasonable certain* of being exercised
  - Purchase options *reasonably certain* of being exercised
  - Any other *reasonably certain* payments

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LESSEE – Recognition & Measurement

- Recognize a lease liability and intangible lease asset
- In governmental funds, report capital outlay and other financing source

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LESSEE – Lease Liability

- Initial measurement of a lease liability includes:
  - Fixed payments (less any lease incentives receivable from the lessor)
  - Variable payments based on an index or rate (such as CPI),
    - Use the rate as of the beginning of lease
  - Variable payments that are fixed in substance
  - Residual value guarantees *reasonably certain* of being required
  - Purchase options *reasonably certain* of being exercised
  - Termination penalties, if lease term reflects lessee exercising termination options/fiscal funding clauses
  - Any other reasonably *certain* payments

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LESSEE – Lease Liability

- Initial measurement of a lease liability includes:
  - Lease liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset
- Discount the lease liability payments using the rate the lessor charges the lessee
  - Interest rate may be implicit in the lease
  - if that rate cannot be readily determined, the lessee's incremental borrowing rate

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LESSEE – Lease Liability

- Remeasure **lease liability** when certain changes occur (if expected to significantly affect liability measurement)
- If **lease liability** remeasured
  - Adjust liability for change in variable payments index/rate
  - Update discount rate when certain other judgments change
- Adjustments to the **lease liability** generally should adjust the lease asset by the same amount
  - Exception if adjustment is greater than carrying value of asset, difference is recognized in the flows statement

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LESSEE – Lease Right-to-Use-Asset

- Initially measure **lease asset** as the sum of:

a. Initial lease liability

b. Any prepayments (amounts paid for the lease prior to measuring the lease liability)
   - Less any incentives *received* from the lessor

c. Initial direct costs that are necessary ancillary charges to place the leased asset into use
   - Other initial direct costs (e.g., insurance, legal, administrative) should be expensed

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LESSEE – Lease Right-to-Use-Asset

Lease Asset Subsequent Recognition and Measurement

- **Lease asset** amortized (e.g., amortization expense) using a systematic and rational manner over the shorter of the useful life of the underlying asset or the lease term
  - Lease asset amortization *may* be combined with depreciation expense for other capital assets
  - If the lease has a purchase option which is reasonably certain of being exercised, amortize over the useful life of the underlying asset as if the lessee owns the underlying asset, using the lessee's depreciation policy, unless non-depreciable.

LESSEE – Lease Right-to-Use-Asset

Lease Asset Subsequent Recognition and Measurement

- Lease asset generally adjusted by the same amount as lease liability.
  - If this change reduces the carrying value of the lease asset to zero, any remaining amount is a gain
- If the underlying asset becomes impaired, apply capital asset impairment guidance of Statement 42 to the right-to-use lease asset

Poll Question #7

LESSEE—disclosures

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

LESSEE—disclosures

e. Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)
f. 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
g. Lease commitments, other than short-term leases, for which the lease term has not yet begun
h. Components of any net impairment loss (gross impairment loss less change in lease liability)

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LESSEE – Pumper Truck Example (cont.)

Assumptions for Lease Liability calculation:

- The Pumper Truck is delivered on January 1, 2021, date of 1st payment.
- Payment schedule 5 years, assuming a 6% interest rate.
- Purchase price, not certain of being exercised (exclude)
- Present value of $2,000 monthly payments for 5 years (60 months):
  - Rate = (6% per year / 12 months to get rate per month)
  - Nper (number of payments) = 60
  - Pmt (monthly payment) = 2,000
  - FV (future value) = 0
  - Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period

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LESSEE – Pumper Truck Example (cont.)

Assumptions for Lease Liability calculation:

- The Pumper Truck is delivered on January 1, 2021, date of 1st payment.
- Payment schedule 5 years, assuming a 6% interest rate.
- Purchase price, not certain of being exercised (exclude)
- Present value of $2,000 monthly payments for 5 years (60 months):
  - Rate = (6% per year / 12 months to get rate per month)
  - Nper (number of payments) = 60
  - Pmt (monthly payment) = 2,000
  - 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 = 103,968

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LESSEE – Pumper Truck Example (cont.)

Annualized Payment Schedule

	Principal	Interest	Total Payment
2021	18,808	5,192	24,000
2022	19,419	4,581	24,000
2023	20,616	3,384	24,000
2024	21,888	2,112	24,000
2025	23,237	761	24,000
	103,968	**16,032**	**120,000**

Year 1	Amortization	20,794
Year 2	Amortization	20,794
Year 3	Amortization	20,794
Year 4	Amortization	20,794
Year 5	Amortization	20,792
		103,968

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LESSEE – Pumper Truck Example (cont.)

Governmental Fund - Initial Journal Entry	Debit	Credit
Capital outlay	103,968	
Other financing sources - lease proceeds		103,968
To record capital expenditure and related proceeds from lease of vehicles		

Entity-wide - Initial Journal Entry	Debit	Credit
Other financing sources - lease proceeds	103,968	
Lease liability – due within one year		18,808
Lease liability – due beyond one year		85,160
Intangible lease asset - vehicles	103,968	
Capital outlay		103,968
To record intangible asset and related liability from lease of vehicles		

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LESSEE – Pumper Truck Example (cont.)

Enterprise funds - Initial Journal Entry	Debit	Credit
Intangible lease asset - vehicles	103,968	
Lease liability – due within one year		18,808
Lease liability – due beyond one year		85,160

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LESSEE – Pumper Truck Example (cont.)

Governmental Fund - Year 1 Journal Entry	Debit	Credit
Interest expense	5,192	
Lease principal payment expenditure	18,808	
Cash		24,000
To record 12 monthly lease payments for first year		

Entity-wide - Year 1 Journal Entries	Debit	Credit
Lease liability – due within on year	18,808	
Lease principal payment expenditure		18,808
Amortization expense	20,794	
Accumulated amortization		20,794
To eliminate fund level activity for first year		

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LESSEE – Pumper Truck Example (cont.)

Enterprise funds - Year 1 Journal Entry	Debit	Credit
Lease liability – due within one year	18,808	
Interest expense	5,192	
Cash		24,000
To record 12 monthly lease payments for first year		
Amortization expense	20,794	
Accumulated amortization		20,794
To record annual amortization expense		

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LESSOR
Recognition & Measurement

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LESSOR - Recognition & Measurement

- Recognize a lease receivable and deferred inflow of resources
- Do not derecognize the underlying asset and do not recognize a residual asset
  - Depreciate underlying asset as normal, unless required to be returned in its original or enhanced condition or has an indefinite useful life
- In governmental funds, report lease receivable and deferred inflow of resources
  - Recognize deferred inflow of resources as revenue when “available”

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LESSOR – Lease Receivable

- Initial measurement of a lease receivable includes:
  - + Fixed payments
  - + Variable payments that depend on an index or rate (such as CPI)
    - Use the rate as of beginning of lease
  - + Variable payments that are fixed in substance
    - Exclude variable lease payments that are dependent on a lessee's performance or usage of an underlying asset
  - + Residual value guarantees that are fixed in substance
  - Less provision for uncollectible amounts

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LESSOR – Lease Receivable

- Discount the lease receivable using the rate the lessor charges the lessee
  - Interest rate may be implicit in the lease
- Initially excludes the following
  - Residual value guarantees that are not fixed in substance should be recognized as a receivable when:
    a. Payment is required, and
    b. Amount can be reasonably estimated
  - Purchase option payments or termination penalties
    - Recognized when exercised

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LESSOR – Deferred Inflow of Resources

- Initial Measurement
  - Receivable amount, plus
  - Any cash received up front that relates to future periods (e.g., final month's rent)
- Recognition:
  - Recognize revenue over the lease term on a systematic and rational manner over the lease term

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Poll Question #8

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LESSOR – Subsequent Recognition & Measurement

- Recognize amortization of the discount on the lease receivable (interest revenue) to produce a constant periodic rate of return on the receivable
- Lease payments allocated first to accrued interest receivable and then to the lease receivable
- Remeasure the lease receivable and update the discount rate when one or more of the following occur and are expected to *significantly* affect the receivable amount:

There is a change in lease term	There is a change in the rate the lessor charges the lessee	A contingency is resolved making variable payments fixed

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LESSOR – Subsequent Recognition & Measurement

- If remeasured:
  - also remeasure for changes in an index/rate used to determine variable lease payments
- If the discount rate is updated:
  - the receivable should be adjusted using the revised rate
- The deferred inflow of resources generally adjusted by the same amount as the lease receivable

- Underlying Asset –
  - Do not derecognize
  - Continue to depreciate during the lease term
  - If asset is to be returned at original condition or enhanced, then do not depreciate during lease term

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Lessor – Governmental Funds

- Accounting in governmental funds (lessor)
  - Inception: debit lease receivable; credit deferred inflow
  - Lease payments received: debit cash; credit lease receivable
  - Systematically over lease term: debit deferred inflow; credit revenue

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LESSOR - exceptions

Two main transactions do not apply the general lessor recognition and measurement guidance (but still required to provide certain disclosures)

- Leases of tangible assets that are investments
  - No lease receivable reported for leased investment assets because investments are reported at fair value
- Certain regulated leases (e.g., airport-airline agreements)
  - Airport-airline agreements have features that don't operate like financings

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LESSOR - disclosures

Lease activities may be grouped for disclosure purposes

a. A general description of leasing arrangements
   - The basis, terms, and conditions on which variable lease payments not included in the lease receivable are determined

b. The total amount of inflows recognized in the reporting period related to leases, if not displayed on face of financials

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LESSOR - disclosures

c. The lease inflows related to variable lease payments and other payments not previously included in the lease receivable
   - Include inflows related to residual value guarantees and termination penalties

d. If lease payments secure lessor's debt:
   - The existence, terms, and conditions of options by the lessee to terminate a lease or abate lease payments

Similar disclosures required for certain regulated leases (airport-airline agreements)

132

LESSOR - disclosures

- If government's *principal ongoing operations* consist of leasing to other entities,
  - Disclose maturity analysis of all future lease payments included in lease receivable
    - Payments for each of the first five years
    - Payments in five-year increments thereafter
    - Show principal and interest separately

133

Lease Modifications

For LESSORS

- Remeasure the lease receivable on the effective date of modification
  - Assess the need for an updated discount rate
- Adjust the deferred inflow of resources by the difference between the modified receivable and the receivable immediately before the modification
  - However, to the extent any change relates to payments for the current period, recognize in current period flows statement (for example, revenue)
- If change results from refunding related debt and passing savings on to the lessee, see remeasurement guidance in paragraph 76

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Lease Terminations

For LESSORS

- For partial/full lease terminations (other than sales), lessors reduce/remove the lease receivable and related deferred inflow of resources
- Recognize the difference as a gain or loss
- If the lessor sells the underlying asset, derecognize underlying asset
  - Include in the calculation of any gain or loss

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Considerations for Implementation

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Materiality Considerations

- Asset value and liability value
  - What if the underlying assets do not meet the government's capitalization threshold?
- IG question on this 7.9.8 – directing governments to capitalize the **collective** amount if material in total
- IG 2019-3 question 4.23 – applications of a similar threshold as capital assets to the lease liability

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Identifying the Rate Charged

- From the lessee perspective
  - GASB 62 par 173-187

- From the lessor perspective
  - Proposed IG Question

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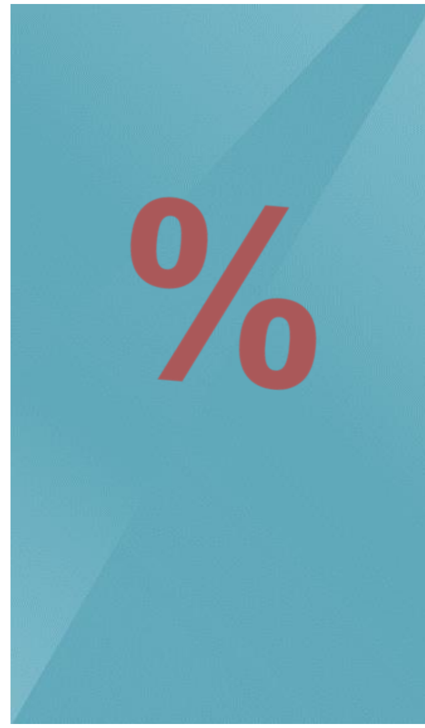
Identifying the Rate Charged

- Q—Paragraph 47 of Statement 87 requires a lessor to discount the future lease payments to be received using the interest rate the lessor charges the lessee. How should the lessor determine that rate?



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Identifying the Rate Charged

A—If the lease contract contains a stated interest rate, the lessor should use that rate. In the absence of a stated rate, the lessor should determine if the rate implicit in the lease can be estimated. Paragraph 47 of Statement 87 provides that lessors may apply the guidance for imputation of interest in paragraphs 173–187 of Statement 62. Paragraph 183 of Statement 62 indicates that the <u>prevailing rates for similar instruments of issuers with similar credit ratings normally will help determine an appropriate interest rate</u>. Lessors may use professional judgment to determine their best estimate for the interest rate, maximizing the use of observable information; for example, using the lessee's estimated incremental borrowing rate or published market rates for similar instruments. If <u>it is not practicable</u> for the lessor to estimate the discount rate through those methods, the <u>lessor's own incremental borrowing rate may be used.</u>

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Effective Date & Transition

- Effective for periods beginning after December 15, 2019
  - Earlier application encouraged
- Transition
  - Apply retroactively
    - Restate if practicable, cumulative effect if not
  - Leases recognized and measured *using the facts and circumstances that exist at the beginning of the period of implementation* (hindsight)
  - Lessors should not restate the assets underlying their existing sales-type or direct financing leases
    - Any residual assets for those leases would become the carrying values of the underlying assets

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Implementation Ideas

- Start reviewing existing leases as soon as possible
- Implement internal controls to identify leases and lease modifications
- Update accounting systems for new information needs
- Read GASB 87 & Leases Implementation Guide

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Implementation Ideas

- Consider impact on capitalization policy
- Consider effects of reporting lease liabilities on…
  - Debt limitations
  - Bond covenants
  - Grant agreements

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Other Accounting and Reporting Provisions

- Lease Incentives
- Subleases
- Sale-Leasebacks
- Lease-Leasebacks
- Intra—Entity Leases
- Leases Between Related Parties

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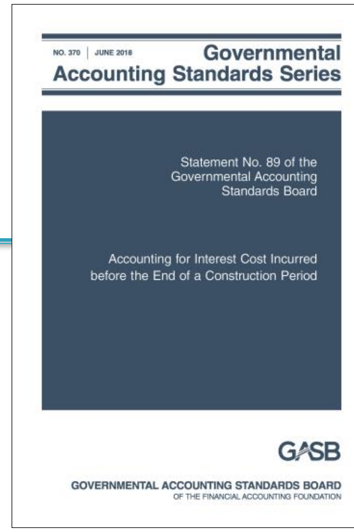
Accounting for Interest Cost Incurred before the End of a Construction Period

Statement No. 89


NO. 370 | JUNE 2018

Governmental Accounting Standards Series

Statement No. 89 of the Governmental Accounting Standards Board

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

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Interest Cost

What?

The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting

Why?

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

When?

Effective for periods beginning after December 15, 2019

Earlier application is encouraged

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Recognizing 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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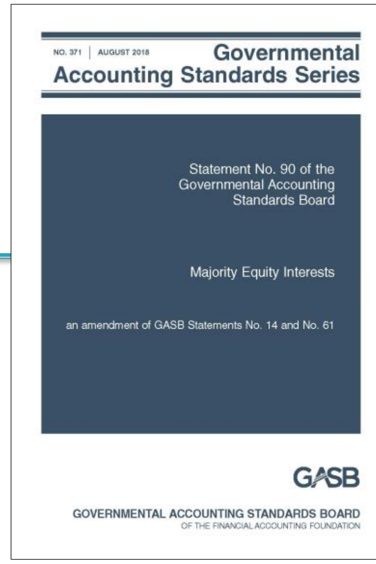
Poll Question #9

148

Majority Equity Interests

Statement No. 90


NO. 371 | AUGUST 2018 Governmental Accounting Standards Series

Statement No. 90 of the Governmental Accounting Standards Board

Majority Equity Interests

an amendment of GASB Statements No. 14 and No. 61

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Majority Equity Interests

What?	Why?	When?
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	Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance	Effective for periods beginning after December 15, 2018 Earlier application is encouraged

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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 *Exception:* the following should apply fair value in accordance with Statement 72, paragraph 64: • 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

If a government acquires a 100% equity interest in a legally-separate entity that *does not* meet the definition of an investment

Component unit should remeasure assets, liabilities, and deferrals by applying acquisition value as described in Statement 69

Government holding the 100% equity interest would recognize an asset and measure by using acquisition value

These provisions would be applied prospectively only

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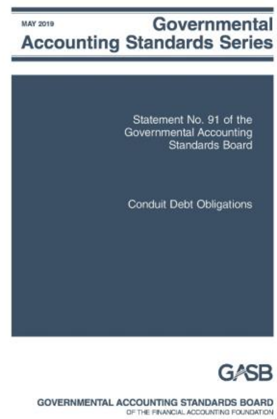
Conduit Debt Obligations

Statement No. 91



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Conduit Debt

What?	Why?	When?
The Board improved the existing standards related to conduit debt obligations by providing a single reporting method for government issuers	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	Effective for periods beginning after December 15, 2020 Earlier application is encouraged

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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.

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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.

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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

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Poll Question #10

158

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"

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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

160

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

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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

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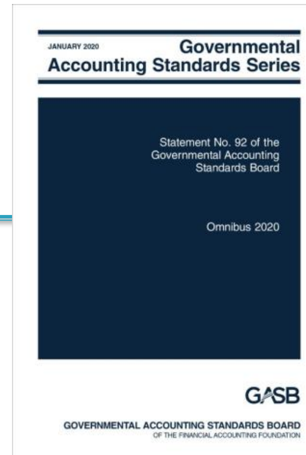
Omnibus 2020

Statement No. 92


JANUARY 2020 Governmental Accounting Standards Series

Statement No. 92 of the Governmental Accounting Standards Board

Omnibus 2020

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Omnibus 2020

What?	Why?	When?
The Board has amended existing standards covering multiple topics	Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project	Effective dates vary by topic Earlier application is encouraged and permitted by topic

164

Provisions of Statement 92

Leases

- Effective date of Statement 87 and Implementation Guide 2019-3 is changed to "fiscal years beginning after December 15, 2019, and all reporting periods thereafter"

Government combinations and disposals of operations

- Provides an exception to the use of acquisition value in the measurement of an acquired asset retirement obligation

Derivative instruments

- Amends NCGA and GASB pronouncements to standardize the terminology used to refer to derivative instruments

165

Provisions of Statement 92 (continued)

Application of Statement 84 to Postemployment Benefit Arrangements

- Limit the requirements of paragraphs 22 and 25 to defined benefit pension and OPEB plans
- Supersedes guidance in Statements 73 and 74 regarding recognition of a liability to employers and NECEs for the excess of assets over liabilities for benefits payments and administrative expenses in custodial funds in circumstances in which assets are accumulated for the pensions and OPEB of other employers and NECEs

Applicability of Statements 73 and 74

- Amend Statements 73 and 74 to replace references to *control* of assets in those same circumstances, to avoid limiting the application of the associated requirements of those Statements

Fair value measurements

- Amends paragraph 81 of Statement 72 to adjust the example of nonrecurring fair value measurements

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Provisions of Statement 92 (continued)

Intra-entity transfers of assets

- Amends paragraph 15 of Statement 48 to clarify that amounts associated with the transfer of capital or financial assets from an employer or NECE to a defined benefit pension or OPEB plan within the same financial reporting entity should be reported as contributions to the plan, in accordance with Statements 68 and 75
- Clarifies that the provisions of paragraph 15 apply to all transfers of assets within a financial reporting entity

Reinsurance recoveries

- Amends paragraph 37 of Statement 10 to clarify that amounts that are recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment expenses may be reported as reductions of expenses but are not required to be.

167

Effective Dates for Statement 92

Requirements related to:	Effective Date
1. Leases 2. Reinsurance recoveries 3. Derivative instruments	Upon issuance
4. Intra-entity transfers of assets 5. Applicability of Statements 73 and 74	Fiscal years beginning after June 15, 2020
6. Application of Statement 84 to postemployment benefit arrangements 7. Fair value measurements	Reporting periods beginning after June 15, 2020
8. Government combinations and disposals of operations	For government acquisitions occurring in reporting periods beginning after June 15, 2020

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Poll Question #11

169

Replacement of Interbank Offered Rates

Statement No. 93

170

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?

Provision related to LIBOR effective for reporting periods *ending* after December 31, 2021

All other provisions are effective for reporting periods beginning after June 15, 2020

171

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 <u>all</u> 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)

172

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

173

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

174

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

175

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, 2020
- 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)

176

Poll Questions #12

177

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

Statement No. 94

178

PPPs, 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

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Definitions: PPPs and APAs

Public-private partnerships and **public-public partnerships (PPPs)** 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

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Other Provisions

A PPP 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.

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.

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Comparing SBITA and P3 Project with leases

Leases Element	SBITA	P3 Project
Lease Term	Subscription Term – same factors	Same factors
Terminations, modifications, combinations	Same	Same
Short term exception	Same	No provision in ED
Right to use asset	Same	Same
Liability measurement	Same	Same
Interest rate use – implicit or stated	Same	Same
Reassessment of rates	Same	Same
Impairment of right to use asset	Same	Same
Disclosure	Almost all the same	Almost all the same
Leases that are financings	As applicable	Slightly different – SCA vs. P3

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Where are p3's in practice?

- Road networks
- Airports
- Public transit
- Healthcare
- Student services at public institutions
- Stadiums
- Jails
- Water / sewer
- Museums
- Any capital asset could be involved

183

Transferor Reporting

For all PPPs, recognize:	If underlying PPP asset is a new asset or an existing asset that has been improved…
• Receivable for installment payments to be received, if any • Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the PPP term	• …and the PPP is an SCA: also recognize the capital asset at acquisition value when placed into operation • …and the PPP 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

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Operator Reporting

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

185

Poll Question #13

186

Implementation Guidance Updates

2018-1 and 2019-1

APRIL 2019
Governmental Accounting Standards Series

Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*

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NO. 369 | MAY 2018
Governmental Accounting Standards Series

Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*

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Implementation Guidance Updates

What?

The GASB annually updates its Q&A implementation guidance

Why?

New guidance is added as new pronouncements are issued and new issues arise

When?

2018-1 is effective for periods beginning after June 15, 2018

2019-1 is effective for periods beginning after June 15, 2019

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Implementation Guide 2018-1

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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Implementation Guide 2019-1

Adds new questions on standards regarding

- Cash flows reporting
- Derivative instruments
- Fund balance
- Insurance recoveries
- Irrevocable split-interest agreements
- Intra-entity transfers of assets
- Nonexchange transactions
- Pensions and OPEB
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Derivative instruments
- Financial reporting entity
- Pension and OPEB plan reporting

190

2018-1 Question 4.7

- Q - A government enters into an agreement with the owner of a landmark property in which it agrees to freeze the property's assessed value for property tax purposes for a period of 10 years. In return, the property owner agrees not to change the property's existing purpose or use throughout the period. Does the property owner's agreement not to modify the property's purpose or use constitute a specific action for purposes of applying the Statement 77 definition of a tax abatement for financial reporting purposes?

191

2018-1 Question 4.7

- A - Yes. The government has entered into this agreement to achieve a desired outcome for itself and its citizens. By maintaining the property's existing purpose and use, the property owner is taking a specific action that creates a beneficial outcome for the government or the citizens of the government

192

2018-1 Question 5.3

- Q – A cost-sharing multiple-employer pension plan covers only volunteer firefighters. Employer contributions are assessed as a dollar amount per active plan member. How does this affect requirements for presentation of information I schedules of required supplementary information (RSI) about measures of the net pension liability and contributions in relation to covered payroll?

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2018-1 Question 5.3

- A – Employer contributions to the pension plan are not based on a measure of pay; as a result, there is no covered payroll. Therefore the requirement of pars. 32B and 32C of Statement no. 67….for ratios that present the net pension liability and contributions...as a percentage of covered payroll would not be applicable for this plan….

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2019-1 Question 4.2

- Q—If an index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher is used in the determination of the discount rate for purposes of measuring a total pension liability or total OPEB liability in accordance with Statement No. 67, Financial Reporting for Pension Plans, or Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as applicable, can an average of index rates at different dates be used?

195

2019-1 Question 4.2

- A—No. The index rate is an input into the measurement of the total pension liability or total OPEB liability and, as such, is required to be a rate at the pension or OPEB plan's fiscal year-end. Therefore, an average of rates at different dates is not permitted.

196

2019-1 Question 4.4

- Q—For purposes of applying paragraph 159 or paragraph 199 of Statement 75, if benefit payments for OPEB are implicit in amounts paid by an employer for active employee benefits (sometimes referred to as an "implicit rate subsidy"), should the amount of the deferred outflow of resources related to OPEB reported for amounts paid by the employer for OPEB as the benefits come due subsequent to the measurement date of the (collective) total OPEB liability and before the end of the reporting period include the amount of the implicit payments made during that period?

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2019-1 Question 4.4

- A— Yes. Consistent with the requirements of Statement 75 regarding the projection of benefit payments for purposes of measuring the employer's liability to employees for defined benefit OPEB, benefit payments (which are amounts paid for OPEB as the benefits come due), should include the implicit rate subsidy.

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2019-1 Question 4.10

- Q—A county government owns a parcel of land that it classifies as a capital asset with a carrying value of $150,000. The county has agreed to transfer the land to the county redevelopment agency (RDA), a discretely presented c.u. of the county. The RDA has obtaining an appraisal valuing the land at $1.7 million. Management of the RDA believes its intent is to sell the parcel at the appraised value. …can the RDA reclassify the land as an investment measured at fair value?

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2019-1 Question 4.10

- A—No. Par. 15 of Statement 48 requires that an asset transferred within a financial reporting entity continue to be reported at the transferor's carrying value. Par. 68 of Statement 72….an asset that I s initially reported as a capital asset and later is held for sale should not be reclassified as an investment…. Requires that the initial classification of an asset be retained for financial reporting purposes, even if the governments usage changes over time….requirement to retain classification for financial reporting…applies even if asset changes legal ownership within the financial reporting entity.

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Other GASB Projects

- Financial Reporting Model
- Revenue & Expense Recognition
- Compensated Absences
- PPA - Acct Changes, Error Corrections
- SBITA

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Last Question!!!

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Questions??

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