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GASB Update

Keith Szymanski and Danny Sklenicka



Goal of this session

- Briefly review upcoming GASB pronouncements that are soon to be effective
 - GASB 84 – Fiduciary Activities
 - GASB 87 – Leases
 - GASB 88 – Debt Disclosures
 - GASB 89 – Interest Incurred During Construction



GASB 84

Fiduciary Activities



Topic

Scope:

- Establishes criteria for identifying fiduciary activities and guidance on reporting those activities.
 - Also, clarifies that stand-alone business-type activities should report fiduciary activities.

Timing:

- Issued January 2017
- Effective for reporting periods beginning after 12/15/2018
 - Essentially effective starting with December 31, 2019 year ends.
 - Apply retroactively for all periods presented (if practicable)



GASB 84

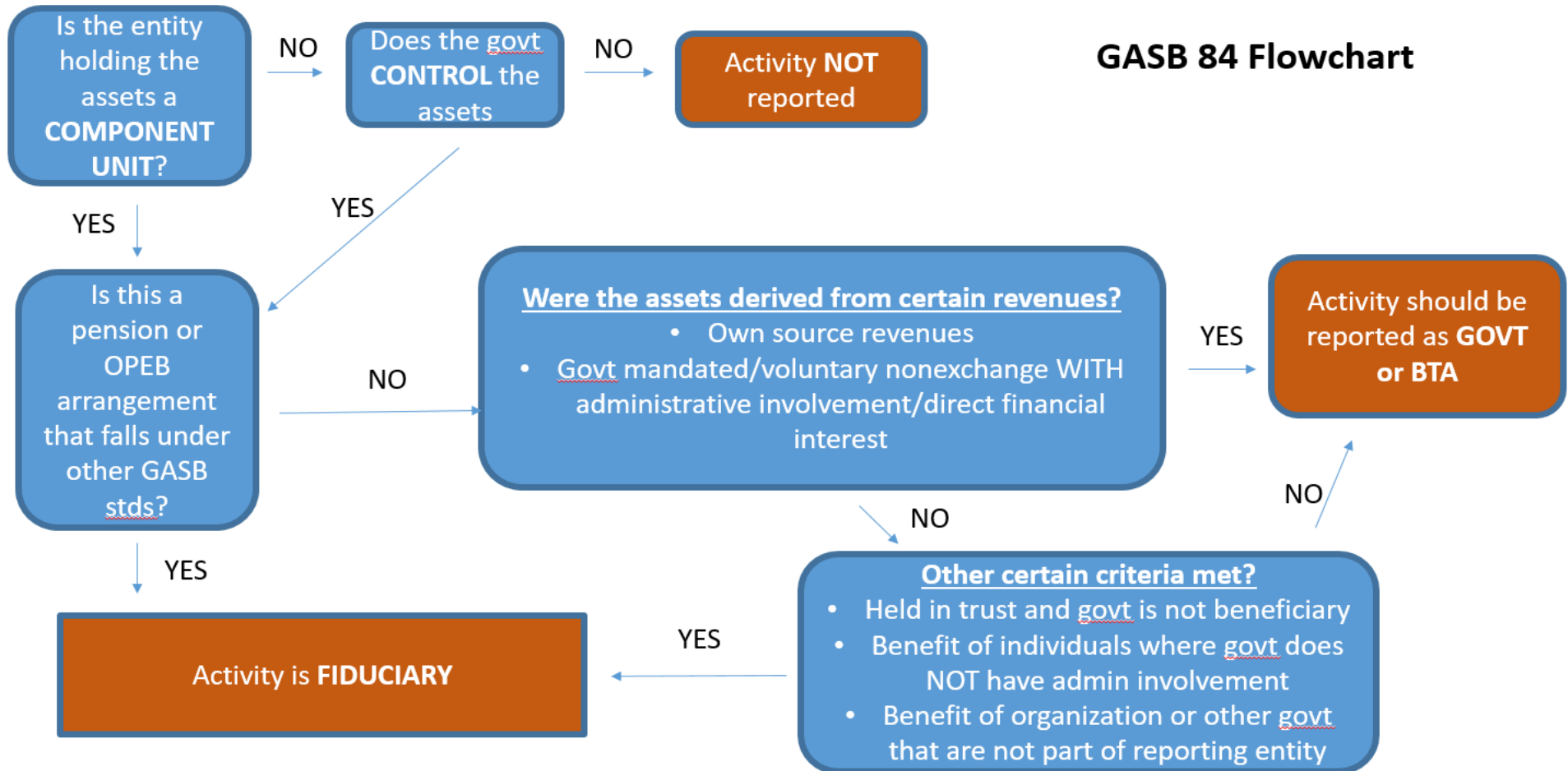
- Changes the definition of a fiduciary activity (this is a biggie!)
 - Provides in-depth framework to analyze various activities
 - Changes how we think about fiduciary activities
- Provides reporting guidance for those activities that are considered fiduciary
 - Redefines the various fiduciary fund types
 - Changes terminology of AGENCY funds to CUSTODIAL funds
 - Requires a statement of changes (income statement) for all custodial funds
 - Custodial funds no longer would necessarily be reporting liabilities equal to their assets



Fiduciary Activities

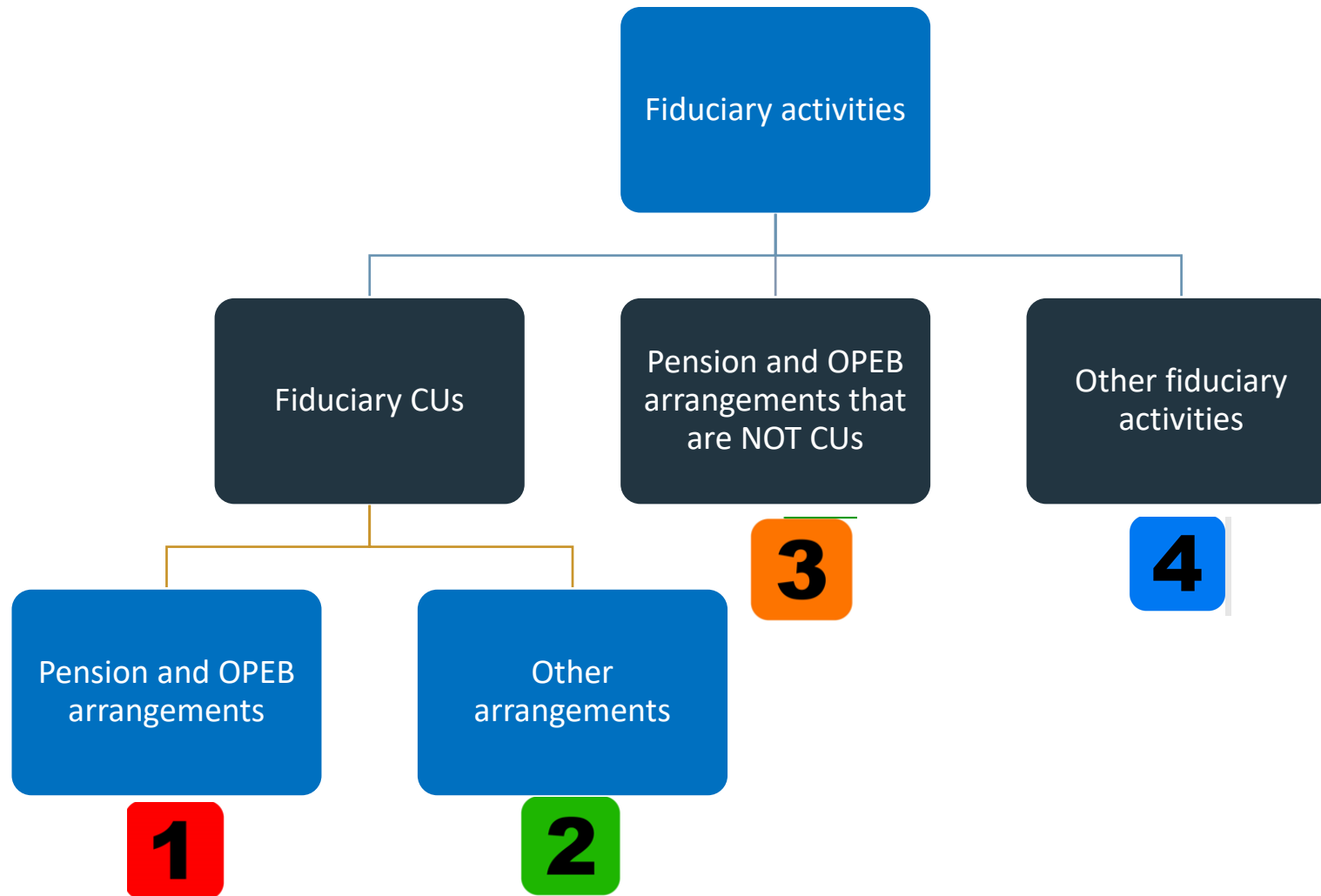
Flowchart

GASB 84 Flowchart





Path of Fiduciary Activities





Identifying Fiduciary Activities Path



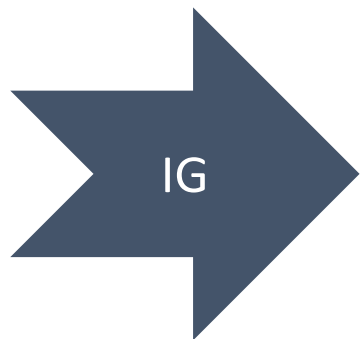
- **Fiduciary CUs – pension/OPEB plans**
- Pension/OPEB plans administered through trusts:
 - Irrevocable contributions
 - Plan assets are dedicated to providing benefits
 - Plan assets are legally protected from creditors
- Resources accumulated for pension/OPEB benefits for other governments



Identifying Fiduciary Activities Path



- **Fiduciary CUs – pension/OPEB plans**
- Decision Points:



Legally
Separate

Q 4.1 through 4.3

Board
Composition

Q 4.4 through 4.6

Financial
Burden

Q 4.7

(Paragraph 7 of Stmt 84)



Identifying Fiduciary Activities Path

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- **Fiduciary CUs – Other CUs**
- Other CUs are fiduciary activities if they met one of the following characteristics:
 - 1) Assets are administered through a trust
 - a) Government itself is not a beneficiary
 - b) Assets are dedicated to providing benefits
 - c) Assets are legally protected from creditors
 - 2) Assets are for the benefit of individuals
 - a) Government does not have **administrative or direct financial involvement** with the assets
 - b) Assets are not derived from the government's provision of goods or services to those individuals
 - 3) Assets are for the benefit of organizations or other governments
 - a) Beneficiary is not part of the reporting entity
 - b) Assets are not derived from the government's provision of goods or services to those organizations or governments



Identifying Fiduciary Activities Path



- **Pension/OPEB plans not considered CUs**
- Non-CU pension and OPEB plans are considered fiduciary activities if:
 - 1) Government entity **controls** the assets
 - 2) Administered through a qualifying trust or held for entities that are not part of your reporting entity for pensions or OPEB outside of a trust



Identifying Fiduciary Activities Path



- **Control is defined as EITHER:**

Holding the asset

Ability to direct use,
exchange or
employment of assets,
providing benefits to
specified recipients



Identifying Fiduciary Activities

Path

Other Fiduciary Activities



Must meet **ALL** of the following criteria:

PLUS any of the following:




 Assets controlled by government

Assets held in a qualifying trust in which gov't is not beneficiary, legally protected and dedicated to providing benefits to recipients **OR**

 Assets not derived from own source revenues

Assets held for the benefit of individuals without the government having administrative or direct financial involvement **OR**

 Assets not derived from government mandated or voluntary nonexchange transactions

Assets held for the benefit of outside organizations not part of the government's reporting entity



Identifying Fiduciary Activities Path

4

- **Own-source revenue**

- Defined as revenue generated by the government entity itself. Includes charges or services, interest earnings, income taxes, property taxes, etc.



Identifying Fiduciary Activities Path



- **Administrative or direct financial involvement**
 - Monitoring secondary recipients for compliance with program-specific requirements
 - Determining eligible secondary recipients or projects, even if using grantor-established criteria
 - Having the ability to exercise discretion in how the funds are allocated.
 - Financing direct program costs or providing matching resources



Identifying Fiduciary Activities

	Fiduciary	NOT Fiduciary
Payroll clearing accounts		X
Performance deposits		X
Single ER DB pension plans	X	X
Retainages		X
Seized cash/assets prior to adjudication	X	
Inmate commissary accounts	X	
Property taxes collected for other LUGs	X	
Property tax administration fees		X



Identifying Fiduciary Activities

- Do not ignore the **potential** inclusion of:
- Defined contribution plans
- Section 403b plans
- Section 401(a) plans
- Others.....





Four Fund Types

Pension and OPEB Trust Funds

- Report Pension and OPEB plan activity administered through **trusts** under GASB 67 or GASB 74
- Other Employee Benefit Plans where resources held in trust and contributions are irrevocable

Investment Trust Funds

- Assets held in **trust**
- External portion of investment pools

Private-purpose Trust Funds

- Fiduciary activities held in **trust** that are NOT required to be reported as pension, other employee benefit or investment funds

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



Financial Statement Reporting

- Current reporting for Agency Funds
 - Assets/Liabilities
 - $Assets = Liabilities$
- Reporting for Custodial funds under GASB 84
 - Assets/Deferred Outflows/Liabilities/Deferred Inflows/Net Position
 - Additions/Deductions
 - $Assets + Deferred\ Outflows - Liabilities - Deferred\ Inflows = Net\ Position$



Financial Statement Reporting

Required financial statements under GASB 84

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private purpose Trust Funds	Custodial Funds
Statement of Fiduciary Net Position	<ul style="list-style-type: none"> • Assets • Deferred Outflows • Liabilities • Deferred inflows • Fiduciary Net Position 	<ul style="list-style-type: none"> • Assets • Deferred Outflows • Liabilities • Deferred inflows • Fiduciary Net Position 	<ul style="list-style-type: none"> • Assets • Deferred Outflows • Liabilities • Deferred inflows • Fiduciary Net Position 	<ul style="list-style-type: none"> • Assets • Deferred Outflows • Liabilities • Deferred inflows • Fiduciary Net Position
Statement of Changes in Fiduciary Net Position	<ul style="list-style-type: none"> • Additions • Deductions 	<ul style="list-style-type: none"> • Additions • Deductions 	<ul style="list-style-type: none"> • Additions • Deductions 	<ul style="list-style-type: none"> • Additions • Deductions



External Investment Pools

Held in trust = Investment Trust Fund

Not held in trust = External investment pool column
within the custodian funds classification



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	<u>291,408</u>	<u>12,166</u>	<u>—</u>	<u>206,937</u>
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	<u>41,954,330</u>	<u>1,224,267</u>	<u>769,437</u>	<u>—</u>
Securities lending collateral	1,746,544	—	—	—
Other assets	13,519	181	81,157	361
Total assets	<u>44,190,152</u>	<u>2,077,307</u>	<u>955,341</u>	<u>265,494</u>
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	<u>1,479,007</u>	<u>1,361</u>	<u>69,317</u>	<u>165,652</u>
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	<u>\$ 42,711,145</u>	<u>\$ 2,075,946</u>	<u>\$ 886,024</u>	<u>\$ 99,842</u>



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	<u>1,706,022</u>	<u>—</u>	<u>197,258</u>	<u>—</u>
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	<u>3,344,931</u>	<u>123,128</u>	<u>64,080</u>	<u>—</u>
Less investment costs:				
Investment activity costs	32,281	50,236	63	—
Securities lending costs	73,642	—	—	—
Net investment earnings	<u>3,239,008</u>	<u>72,892</u>	<u>64,017</u>	<u>—</u>
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	<u>—</u>	<u>113,259</u>	<u>—</u>	<u>—</u>
Sales tax collections for other governments	—	—	—	1,811,120
Miscellaneous	1,130	—	—	1,468
Total additions	<u>4,946,160</u>	<u>186,151</u>	<u>261,275</u>	<u>1,812,588</u>
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	<u>2,689,508</u>	<u>72,892</u>	<u>211,222</u>	<u>1,811,413</u>
Net increase (decrease) in fiduciary net position	<u>2,256,652</u>	<u>113,259</u>	<u>50,053</u>	<u>1,175</u>
Net position—beginning	40,454,493	1,962,687	835,971	98,667
Net position—ending	<u>\$ 42,711,145</u>	<u>\$ 2,075,946</u>	<u>\$ 886,024</u>	<u>\$ 99,842</u>

Custodial funds could have TWO columns underneath – external investment pools, and other custodial funds



Reporting Nuances

- **Business-type activities**
 - 3-month exception
- **Additions/deductions schedule**
 - Aggregation for transactions held 3 months or fewer
- **Custodial funds**
 - Liabilities no longer automatically= assets
 - Liabilities to beneficiaries recognized only when event occurs that compels the government to disburse resources
 - Demand for resources made
 - No further action, approval, or condition is required to be taken or met by beneficiary to release the assets



Implications

This standard could have considerable impact:

- Activities that previously were fiduciary could now be governmental or proprietary
 - Budget considerations
- Activities that previously were governmental or proprietary could now meet the definition of a fiduciary activity
- Financial systems will need to change
 - Tracking of additions and deductions within custodial funds
 - In consideration of any changes in activity classifications
- Budgetary impacts
- BTA-only reporters that now have to report fiduciary funds



Action Items

- ✓ Read GASB 84 and the related GASB Implementation Guide
- ✓ Identify population of activities that require analysis under GASB 84
- ✓ Analyze activities under GASB 84 guidance; make a determination as to whether or not they are fiduciary funds
 - ✓ Identify items currently in a fiduciary fund that no longer will meet the definition of fiduciary
 - ✓ Identify items NOT currently in fiduciary funds that will meet the definition going forward
- ✓ Identify and implement changes in the financial system
 - ✓ New accounts needed to track activities differently
 - ✓ New accounts for additions/deletions for custodial funds
 - ✓ Impact on budgeting (movement in/out of governmental funds)



Tip





GASB 87

Leases



Existing GAAP

Two types of leases

- Capital leases
 - Record capital asset and long-term debt
 - Disclose future minimum payments
- Operating leases
 - Record expense as payments are made
 - Disclose future minimum lease payments



New GAAP

GASB 87

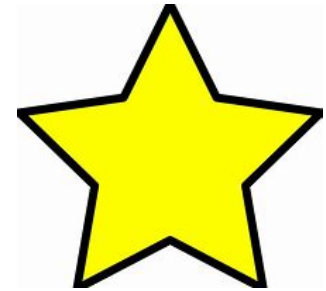
- Follows a similar project by the Financial Accounting Standards Board (FASB)
- Establishes a single model for lease accounting
- Based on the foundational principle that leases are financings of the right to use an underlying asset
- Effective beginning with December 31, 2020 year ends





Leases Definition

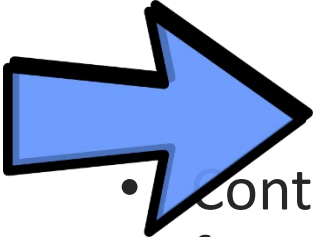
- A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction
- A contract could be a lease even if “lease” terminology is not used in the document





GASB 87 - Leases

Exclusions

- Short-term leases – leases that, at the beginning of the lease, have a maximum possible term of 12 months (or fewer)
 - Includes any options to extend the lease, regardless of their probability of being exercised
 - Note: this is different from the determination of the lease term we'll be discussing soon
-  Contracts that transfer ownership. A contract is excluded from GASB 87 treatment if it:
 - Transfers ownership of the underlying asset to the lessee by the end of the contract, AND
 - Does not contain termination options (other than fiscal funding or cancellation clauses)



GASB 87 - Leases

Exclusions (continued)

- Intangible assets (software contracts, patents, mineral rights, etc.)
- Biological assets (timber, living plants, living animals)
- Inventory
- Service concession arrangements (GASB 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by the lessor
- Supply contracts (power purchase agreements)



GASB 87 - Leases

Exclusions (continued)

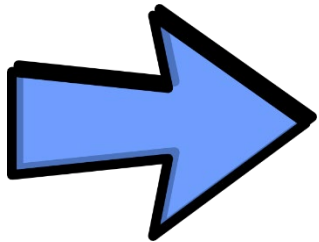
- Contracts for services
- Regulated leases (applies to airports and airlines)
- Transactions that are not exchange or exchange-like (\$1 per year leases)
- The underlying asset is an investment



GASB 87 - Leases

Lease term

- The period during which a lessee has a non-cancelable right to use an underlying asset, plus the following periods, if applicable:
 - Periods covered by a lessee or lessor option to extend the lease if it is reasonably certain of being exercised
 - Periods covered by a lessee or lessor option to terminate the lease if it is reasonably certain of NOT being exercised



- Note: “reasonably certain” is a fairly high bar. It is likely more than “probable”
- Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term. Example: month-to-month leases



GASB 87 - Leases

Contracts with multiple components

- Leases may contain a lease component (right to use a building) and a non-lease component (maintenance services for the building). In these situations, the government must account for the two components as separate transactions
- If a lease involves multiple underlying assets with different lease terms, the components should be separately accounted for



Accounting - Lessee

At lease commencement, *if not a short-term lease or contract with ownership transfer*, lessee recognizes the following:

Full accrual:

Dr.	Right to use leased asset	Amortized over the shorter of lease term or useful life of asset
Cr.	Lease liability	Present value of future lease payments during lease term that will be reduced as lease payments are made

Modified accrual:

- Record payable and expense for lease payment when due



Lessee Subsequent Reporting – Lease Liability

Dr.	Lease liability	Lease liability decreases as lease payments are made Lease payments should be allocated to accrued implied interest first
Dr.	Interest expense	Amortization of the discount on the lease liability which is reported as outflow of resources (interest expense)
Cr.	Cash	

- Consider changes in subsequent periods which could impact lease liability



Lessee Subsequent Reporting – Lease Asset

Dr.	Amortization expense	<ul style="list-style-type: none">• Asset is amortized over the shorter of the lease term or useful life of underlying asset• May be combined with depreciation expense for financial reporting purposes• If lease contains a purchase option that is reasonably certain to be exercised, the lease asset should be amortized over the life of the asset.
Cr.	Accumulated amortization	

- Lease asset generally will be remeasured in conjunction with any changes in lease liability
 - If change reduces carrying value of lease asset to zero, any remaining amount should be recorded in the resource flows statement.
 - Still need to consider asset for impairment under GASB statement 42.



Accounting - Lessor

At lease commencement, *if not a short-term lease or contract with ownership transfer*, lessor recognizes the following:

Full accrual:

Dr.	Lease receivable	Generally same as lessee lease liability, present value of expected lease payments
Cr.	Deferred inflow of resources	Equal to lease receivable plus any cash received in advance for future periods

- Underlying asset under lease— continues to be reported, including depreciation
- Any initial direct costs incurred by lessor is expensed

Modified accrual:

- Recognize lease receivable and deferred inflow of resources
- Would not recognize the original asset subject to the lease



Lessor Subsequent Reporting – Lease Receivable

Dr.	Cash	
Cr.	Lease receivable	<ul style="list-style-type: none">• Lease receivable decreases as lease payments are made• Lease payments should be allocated to accrued interest receivable first
Cr.	Interest income	Amortization of the discount on the lease liability which is reported as inflow of resources (interest revenue)

- Consider changes in subsequent periods which could impact lease receivable



Lessor Subsequent Reporting –Deferred Inflow of Resources

Dr.	Deferred inflow	
Cr.	Revenue	Deferred inflow of resources is recognized as inflows of resources (revenue) in a systematic and rational manner over life of lease

- Deferred inflows of resources generally will be remeasured in conjunction with any changes in lease receivable



GASB 87 - Leases

What to do now

- Begin identifying population of agreements
 - Current operating leases
 - Review capital asset listings
 - Scan trial balance
 - Review cash receipts/disbursements
 - Review board/council minutes
 - Speak to department heads
- Analyze for applicability under GASB 87
- Gather the data
 - Lease agreements, extensions, and amendments
 - Key terms: lease term, options to extend or terminate, payment terms, other components, discount rate





Other Upcoming GASBs



GASB 88

GASB 88, Certain Disclosures Related to Debt

- Changes debt footnote disclosures
 - Effective for June 30, 2019 year ends
- New items to be disclosed
 - Unused lines of credit
 - Assets pledged as collateral
 - Significant terms related to default or termination with finance-related consequences or subjective acceleration clauses



GASB 88, Continued

New items to be disclosed

- Direct borrowings and direct placements will now need to be separately identified
 - Direct placement
 - Government issuing a debt security directly to an investor
 - Direct borrowing
 - Government entering into a loan agreement with a lender directly



GASB 89

GASB 89, Interest Incurred During Construction

- Eliminates capitalized interest for business-type activities; all interest will now be expensed
 - Effective for December 31, 2020 year ends
- Consider implementing NOW to simplify accounting
 - Implementation is done prospectively



Upcoming GASBs

Action plan...

- GASB 88
 - Determine whether new disclosure requirements apply
 - Segregate direct borrowings from other debt
- GASB 89 – Consider early adoption to simplify accounting



Questions?

Keith Szymanski

keith.szymanski@plantemoran.com

Danny Sklenicka

danny.sklenicka@plantemoran.com