GASB Update

Ohio GFOA

The views expressed in this presentation are those of Mr. Bean.
Official positions of the GASB are reached only after extensive due process and deliberations.

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates—December 31

2019

- Statement 83—Certain Asset Retirement Obligations
- Statement 84—Fiduciary Activities
- Statement 88—Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement 90—Majority Equity Interests
- Implementation Guide 2018-1
- Implementation Guide 2019-2

2020

- Statement 87—Leases
- Statement 89—Interest Cost Incurred before the End of a Construction Period
- Implementation Guide 2019-1
- Implementation Guide 2019-3

2021

- Statement 91—Conduit Debt

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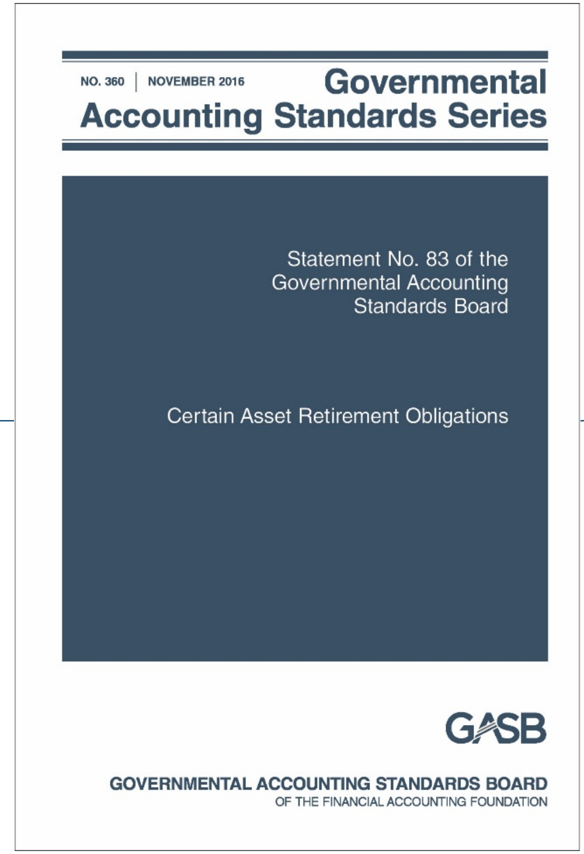
Certain Asset Retirement Obligations


NO. 360 | NOVEMBER 2016

Governmental Accounting Standards Series

Statement No. 83 of the Governmental Accounting Standards Board

Certain Asset Retirement Obligations

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Definitions and Scope

Asset retirement obligation

- Legally enforceable liability associated with the retirement of a tangible capital asset

Retirement of a tangible capital asset

- The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)

Examples

- X-ray machines
- Water treatment facilities
- Contractually required land restoration, such as removal of wind turbines
- Other similar obligations

Recognition and Measurement

Initial Recognition	ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events. Measured based on the best estimate of the current value of outlays expected to be incurred.	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	• At least annually, adjust for general inflation or deflation • At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant	An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned.

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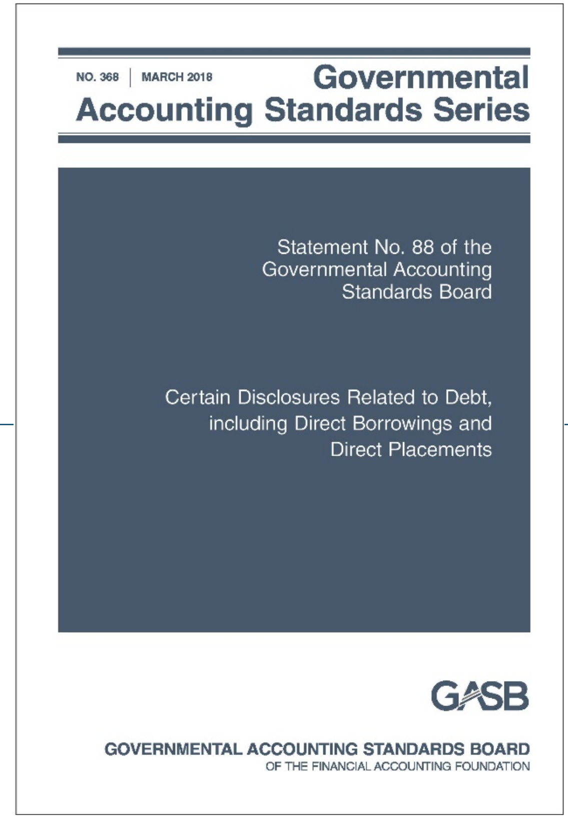
Effects of Funding and Assurance

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

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

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

Debt Disclosures


NO. 368 | MARCH 2018 Governmental Accounting Standards Series

Statement No. 88 of the Governmental Accounting Standards Board

Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

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Definition of Debt for Disclosure Purposes

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

- For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.

- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.

New Disclosure Requirements

Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures

New Disclosures about *All* Types of Debt		
Amount of unused lines of credit	Assets pledged as collateral for debt	Terms specified in debt agreements related to significant: • Events of default with finance-related consequences • Termination events with finance-related consequences • Subjective acceleration clauses

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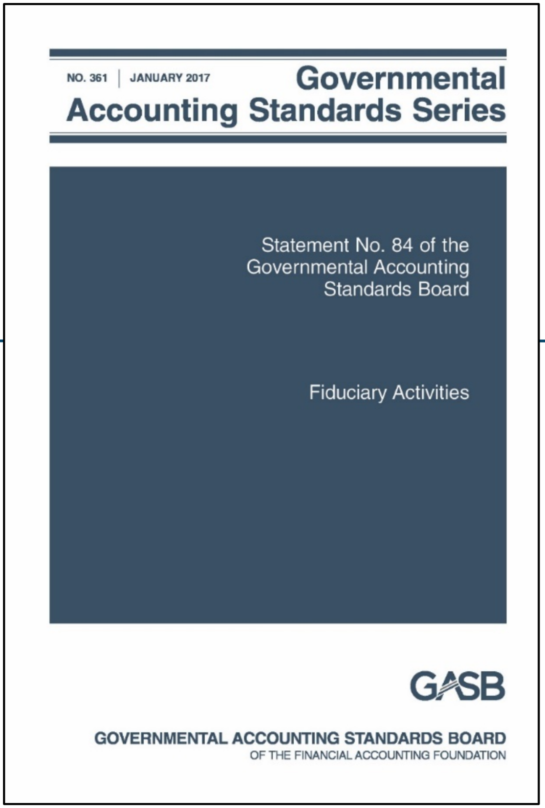
Fiduciary Activities


NO. 361 | JANUARY 2017 Governmental Accounting Standards Series

Statement No. 84 of the Governmental Accounting Standards Board

Fiduciary Activities

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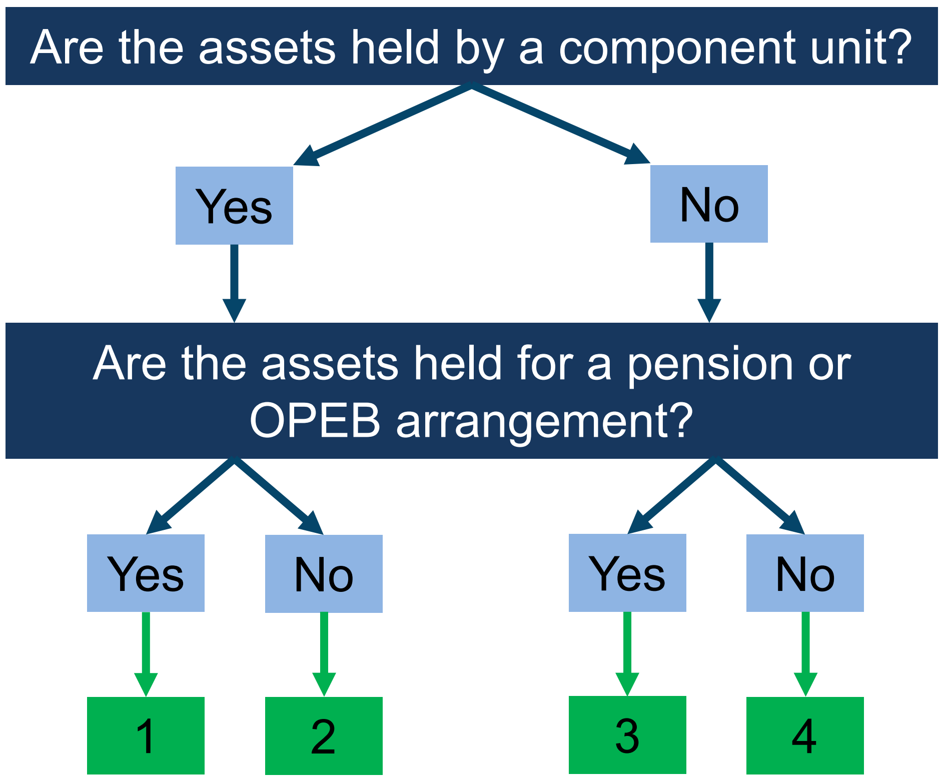
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



Identifying Fiduciary Activities Q&As

- Fiduciary Component Units
  - Intended to clarify whether pension or OPEB plans (both defined benefit and defined contribution) that are administered through a trust or an equivalent arrangement are legally separate
    - Potentially different answer for trust and equivalent arrangement
  - Intended to clarify other Implications of Statement 14, as amended
    - Financial accountability applicability
    - Implication of being legally obligated or otherwise assuming the obligation to make contributions to a pension or OPEB plan

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Other Component Units Are Fiduciary if…

2

They have one or more of the following characteristics:

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

or

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

or

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

All Other Activities Are Fiduciary if…

4

- Arrangement meets one or more of the criteria in 2 AND
- The government **controls** the assets AND
- Those assets are *not* derived either:
  - Solely from the government's own-source revenues, or
  - From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement

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When Does A Government Control Assets?

- A government controls the assets of an activity if:
  - The government *holds* the assets.
  - The government (or its designee acting on behalf of the government) has the ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

A government uses an asset when it expends or consumes that asset for the benefit of individuals, organizations, or other governments, outside of the government's provision of services to them.

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Fiduciary Fund Classes

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

Trust agreement or equivalent arrangement should be present

Liability Recognition

- A government should 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 fiduciary 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 assets.
    - County would recognize a liability when it collects taxes for other governments, even though it may not be required to distribute the taxes to those governments for a prescribed period
- Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus.

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Business-Type Activities (BTAs)

- A BTA’s fiduciary activities would be reported in separate fiduciary fund financial statements.
- Assets that are, upon receipt, normally expected to be held 3 months or less could be reported instead in the statement of net position with corresponding liabilities, and with inflows and outflows reported as operating cash flows in the statement of cash flows
- A BTA that chooses to report resources in its own statement of net position would separately report additions and deductions, if significant, as cash inflows and cash outflows in the operating activities category of its statement of cash flows

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Other Reporting Requirements

- Additions would be presented disaggregated by source and, if applicable, separately display investment earnings, investment costs, and net investment earnings
- Deductions would be presented disaggregated by type and, if applicable, separately display administrative costs
  - Disaggregated additions and deductions requirement would apply to the statement of changes in fiduciary net position for all fiduciary funds *except* custodial funds held for three months or less
    - For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

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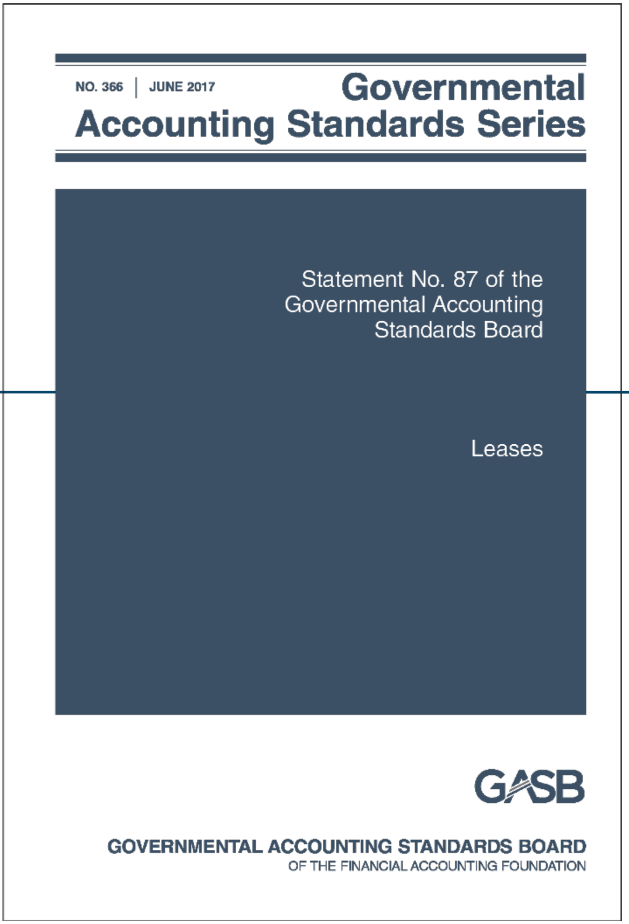
Leases



NO. 366 | JUNE 2017

Governmental Accounting Standards Series

Statement No. 87 of the Governmental Accounting Standards Board

Leases

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Scope and Approach

- Capital/operating distinction is eliminated
- Statement 87 applies to any contract that meets the definition of a lease:

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

- Leases are financings of the right to use an underlying asset

Single approach applied to accounting for leases with some exceptions, such as short-term leases

Leases—Implementation Suggestions

- Determine if bond covenants or debt limit provisions need to be modified
- Establish policies now so that those policies can be applied to leases that are currently being entered into and still will be in effect when Statement 87 becomes effective
- Potential policies that could be considered
  - Identify a working threshold for assessing leases
  - Operationalize “reasonably certain”
  - Operationalize allocation procedures for nonlease components
- Develop a system to capture data related to lease terms, estimated lease payments, and other components of lease agreements that could effect the liability being reporting

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Scope Exclusions

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

Short-Term Leases

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

Lease Term

- For *financial reporting,* when does the lease start and end?
  - Starts with the noncancelable period, plus periods covered by lessees' and lessors' options to:
    - Extend the lease, if the option is *reasonably certain* of being exercised
    - Terminate the lease, if the option is *reasonably certain* of NOT being exercised
  - Excludes "cancelable" periods
    - Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend
      - Rolling month-to-month leases
  - Fiscal funding/cancelation clauses ignored unless *reasonably certain* of being exercised

Initial Reporting

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

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LESSEE—Initial Measurement

- 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), using 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

LESSEE—Initial Measurement (continued)

- Lease liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset
- Lease liability payments discounted using the rate the lessor charges the lessee (may be implicit) or, if that rate cannot be readily determined, the lessee's incremental borrowing rate

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Subsequent Reporting

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

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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:
  - Differing lease terms, or
  - Are in differing major asset classes for disclosure
- Allocation process:
  - First — use any prices for individual components if price allocation not unreasonable based on contract terms and professional judgment (maximizing observable information)
  - If no prices or if not reasonable, use best estimate based on professional judgment (maximizing observable information)
  - If not practicable to determine best estimate, may account for components as single lease unit

Other Topics Covered by Statement 87

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

Project Update

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Major and Practice Issue Projects

Timetable		
Subscription-Based IT Arrangements	Exposure Draft—May 2019	Comment Deadline was August 23
Public-Private Partnerships	Exposure Draft—June 2019	Comment Deadline was September 13
Deferred Compensation Plans	Exposure Draft—June 2019	Comment Deadline—September 27
Omnibus	Exposure Draft—June 2019	Comment Deadline—October 4
Secured Overnight Financing Rate	Exposure Draft—August 2019	Comment Deadline—November 27

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Big Three

Timetable	
Financial Reporting Model	Exposure Draft—June 2020
Revenue and Expense Recognition	Preliminary Views—May 2020
Note Disclosures	Concepts Due Process Document—February 2020

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Questions

Website information: www.gasb.org