

# **GASB Update**

## **California Society of Municipal Finance Officers**

### **GASB Update—The Standards Section**

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.

# Effective Dates—June 30

## 2019

- Statement 83—Certain Asset Retirement Obligations
- Statement 88—Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Implementation Guide 2018-1

## 2020

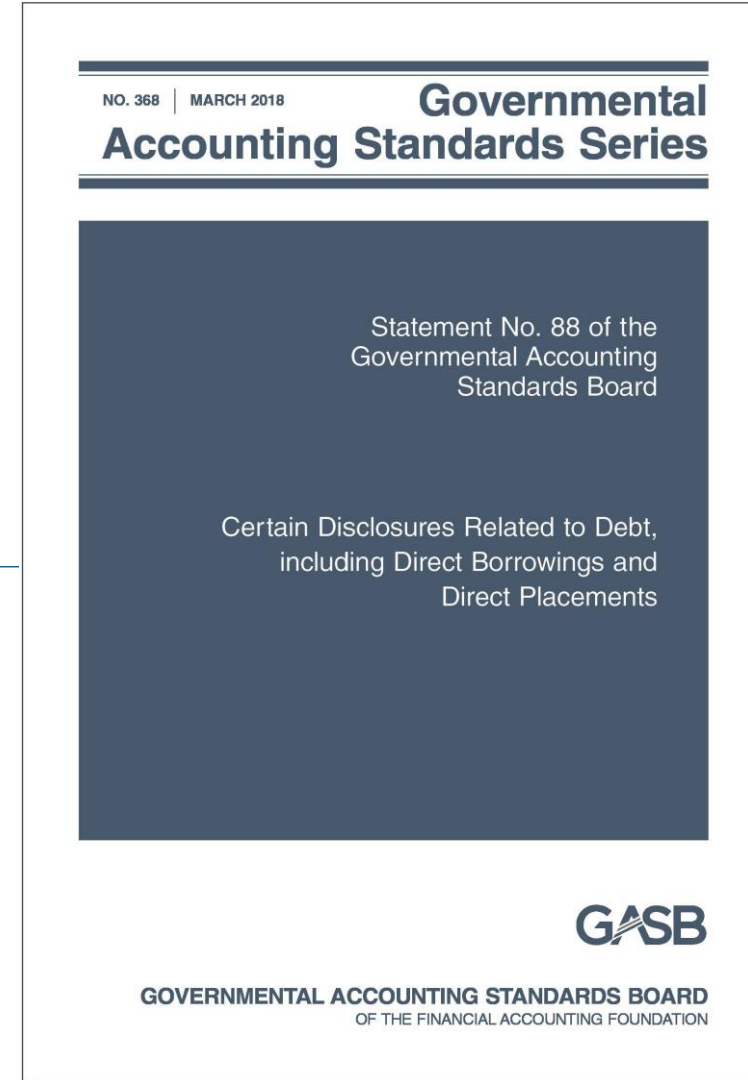
- Statement 84—Fiduciary Activities
- Statement 90—Majority Equity Interests

## 2021

- Statement 87—Leases
- Statement 89—Interest Cost Incurred before the End of a Construction Period

# Debt Disclosures

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# Debt Disclosures

## What:

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

## Why:

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

## When:

Effective for periods beginning after June 15, 2018

# 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 <i>All</i> Types of Debt		
Amount of unused lines of credit	Assets pledged as collateral for debt	Terms specified in debt agreements related to significant: <ul style="list-style-type: none"><li>• Events of default with finance-related consequences</li><li>• Termination events with finance-related consequences</li><li>• Subjective acceleration clauses</li></ul>

# Implementation Guidance Update

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2018-1

# Implementation Guide 2018-1

Adds new questions on standards regarding

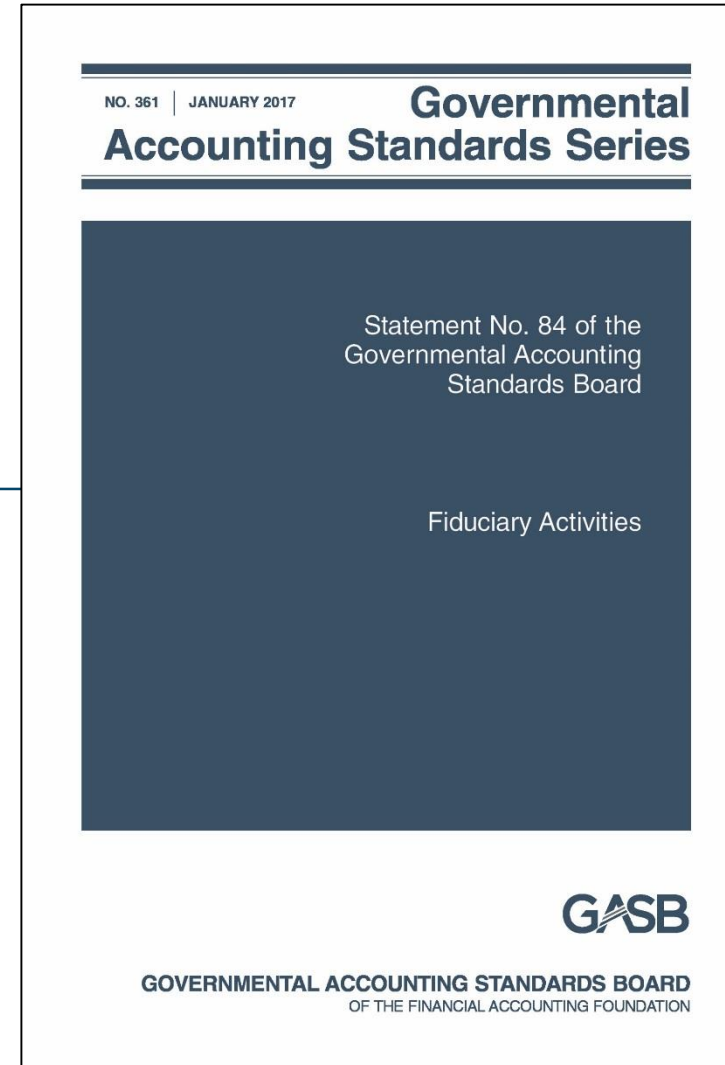
- OPEB
- Pensions
- Regulated operations
- Statistical section
- Tax abatement disclosures

Updates existing Q&A guidance related to

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

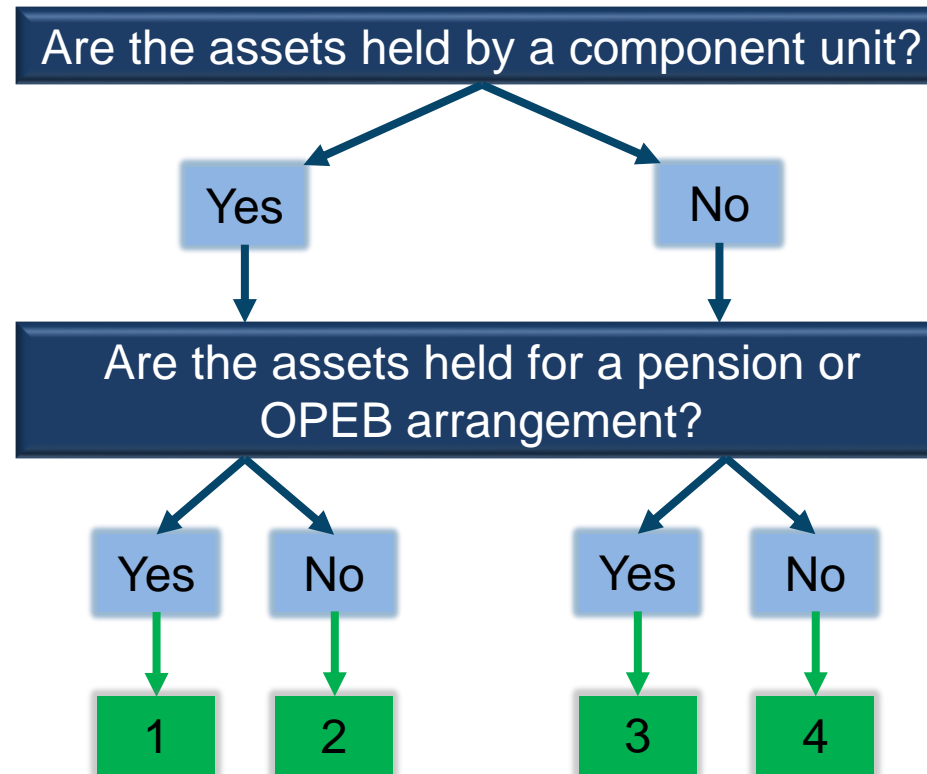


# Fiduciary Activities: Statement 84



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

Four paths to making this determination:



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

They are one of the following arrangements:

1

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

# Other Component Units Are Fiduciary if...

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



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



- 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

2

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

3

- Arrangement is one of those in 1 AND
- The government **controls** the assets of the arrangement
  - Control means one or both of the following is true:

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

# All Other Activities Are Fiduciary if...

4

- Arrangement meets one or more of the criteria in      AND      2
- 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

# 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

# Stand-Alone Business-Type Activities

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

**Exception: Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows**



# Statement 87: Leases

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NO. 366 | JUNE 2017

## Governmental Accounting Standards Series

Statement No. 87 of the  
Governmental Accounting  
Standards Board

Leases




GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
OF THE FINANCIAL ACCOUNTING FOUNDATION

# 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

# 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)

# Initial Reporting

	Assets	Liability	Deferred Inflow
<b>Lessee</b>	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
<b>Lessor</b>	<ul style="list-style-type: none"> <li>• Lease receivable (generally includes same items as lessee's liability)</li> <li>• Continue to report the leased asset</li> </ul>	NA	Equal to lease receivable plus any cash received up front that relates to a future period

# Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	<ul style="list-style-type: none"> <li>• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)</li> <li>• Reduce receivable by lease payments (less amount needed to cover accrued interest)</li> </ul>	NA	Recognize revenue over the lease term in a systematic and rational manner

# Short-Term Leases

Definition	At beginning of lease, <i>maximum possible term</i> under the contract is 12 months or less
Lessee accounting	<ul style="list-style-type: none"><li>• Recognize expenses/expenditures based on the terms of the contract</li><li>• Do not recognize assets or liabilities associated with the right to use the underlying asset</li></ul>
Lessor accounting	<ul style="list-style-type: none"><li>• Recognize lease payments as revenue based on the payment provisions of the contract</li><li>• Do not recognize receivables or deferred inflows</li></ul>

# Other Topics Covered by Statement 87

Disclosures

Lease term

Contracts with multiple components

Contract combinations

Lease modifications & terminations

Lease incentives

Subleases

Sale-leasebacks

Lease-leasebacks

# Final Statements Expected in 2019

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# Exposure Draft: *Conduit Debt Obligations*

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# Proposal: Definition of Conduit Debt

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

# Proposal: Limited and Additional Commitments Extended by Issuers

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

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

For example:

- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a guarantee
- Pledging its own property, revenue, or other assets as security
- Requesting appropriations without a moral obligation pledge or appropriation pledge

# Proposal: Recognition by the Issuer

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

May have a related liability arising out of an additional commitment

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

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

# Proposal: Arrangements and Capital Assets

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

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

# Proposal: Arrangements and Capital Assets (continued)

Accounting by the issuer:

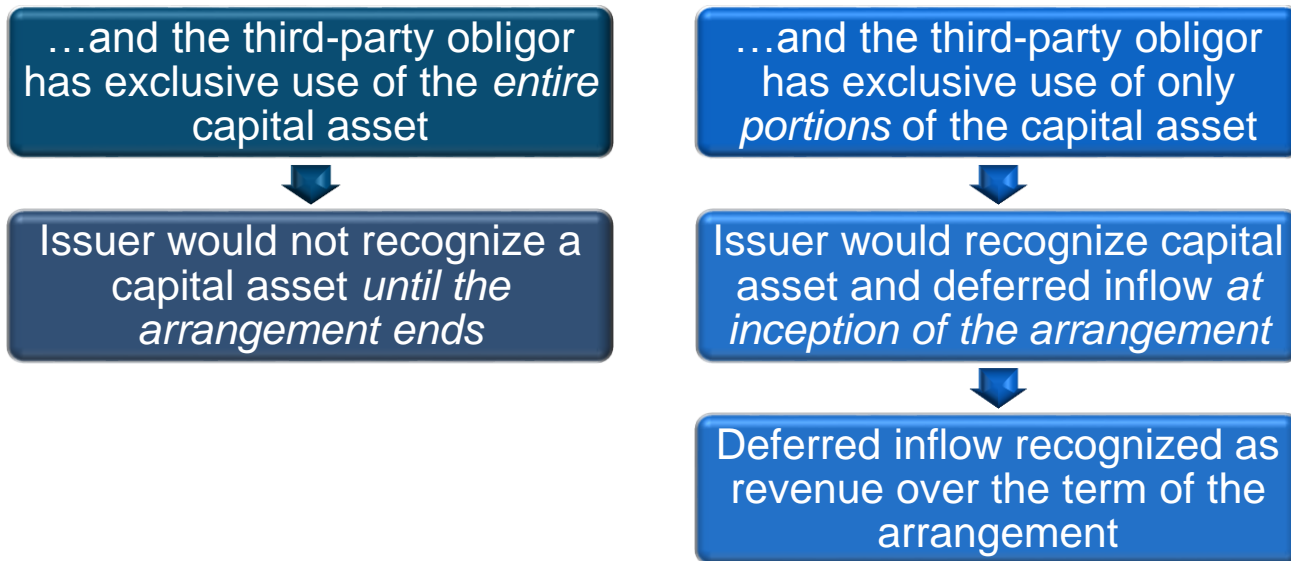
Do *not* report those arrangements as leases

Do not recognize a liability for the related conduit debt obligations

Do not recognize a receivable for the payments related to those arrangements

# Proposal: Arrangements and Capital Assets (continued)

- If title passes to third-party obligor at the end of the arrangement, issuer would *not* report a capital asset either during the term of the arrangement or at the end of the arrangement.
- If title never passes to the third-party obligor:



# Proposal: Arrangements and Capital Assets (continued)

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



# Proposal: Disclosures

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

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

If the issuer  
recognizes a related  
liability

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

# Project Timeline

Added to Current Technical Agenda	August 2017
Exposure Draft Approved	July 2018
Comment Deadline	November 2, 2018
Final Statement Expected	May 2019

# *Other Projects*

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# Other Projects

## Timetable

Subscription-Based IT Arrangements	Exposure Draft—May 2019
Public-Private Partnerships	Exposure Draft—June 2019
Deferred Compensation Plans	Exposure Draft—June 2019
Omnibus	Exposure Draft—June 2019
Secured Overnight Financing Rate	Exposure Draft—August 2019
Implementation Guide Update	Final—April 2019
Implementation Guide—Fiduciary	Final—June 2019
Implementation Guide—Lease	Exposure Draft—February 2019

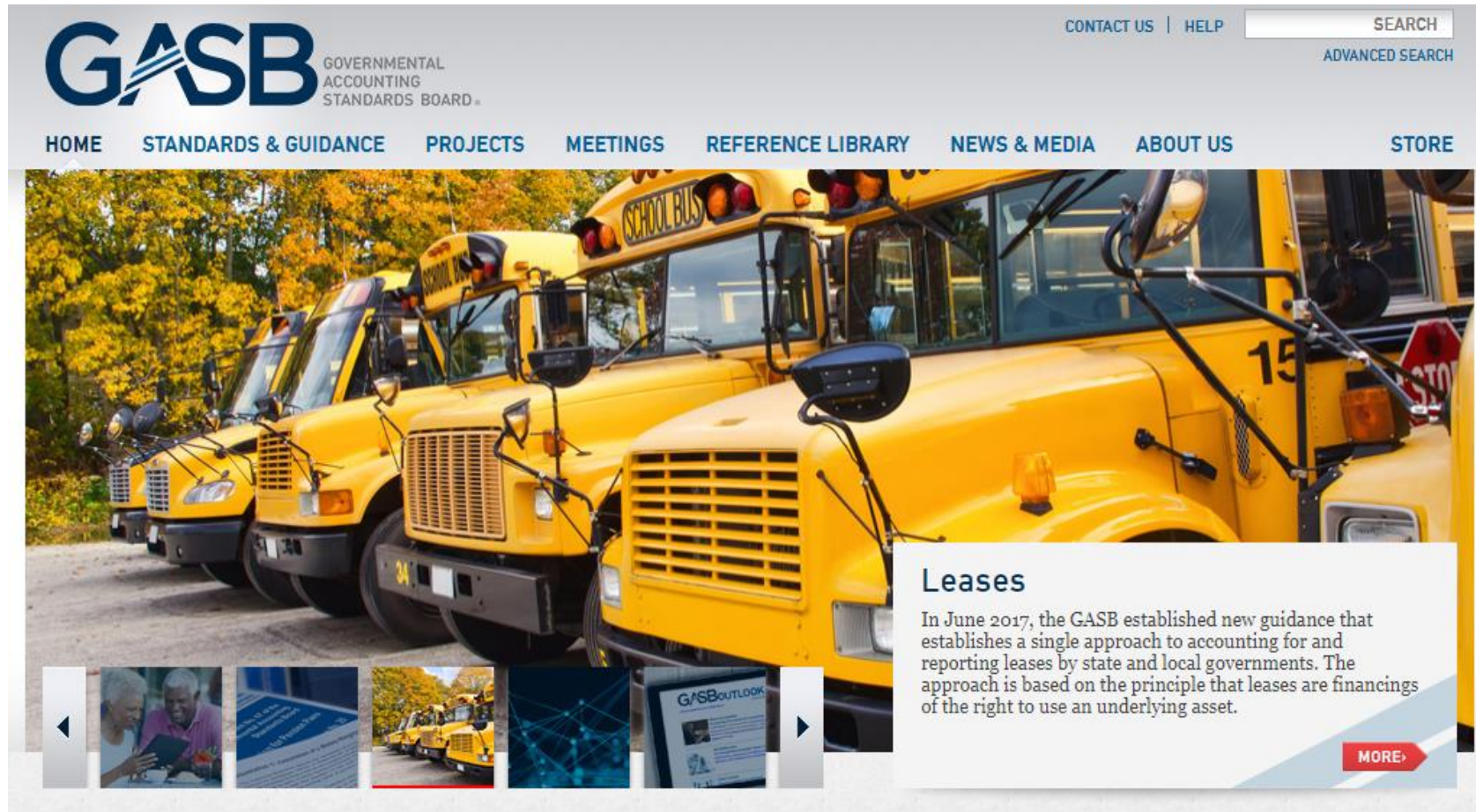
# Questions

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Website information: [www.gasb.org](http://www.gasb.org)

# www.gasb.org



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## Leases

In June 2017, the GASB established new guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The approach is based on the principle that leases are financings of the right to use an underlying asset.

[MORE](#)

The banner image shows a line of yellow school buses parked outdoors. Below the main banner is a row of six small thumbnail images: an elderly couple, a document, a school bus, a network diagram, a GASB Outlook magazine, and a navigation arrow.

# Website Resources

