

GASB Update

California Society of Municipal Finance Officers

The Implementation Guides Are Here

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

2020

- Statement 84—Fiduciary Activities
- Statement 90—Majority Equity Interests
- Implementation Guide 2019-1
- Implementation Guide 2019-2

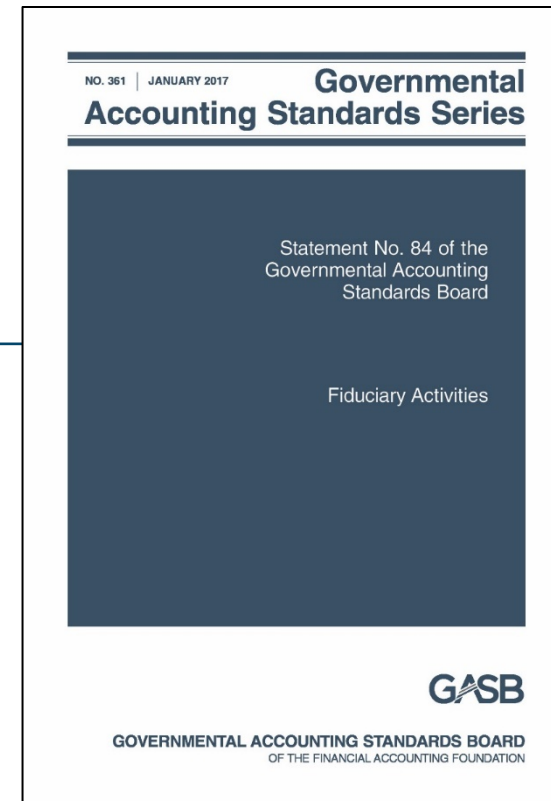
2021

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

2022

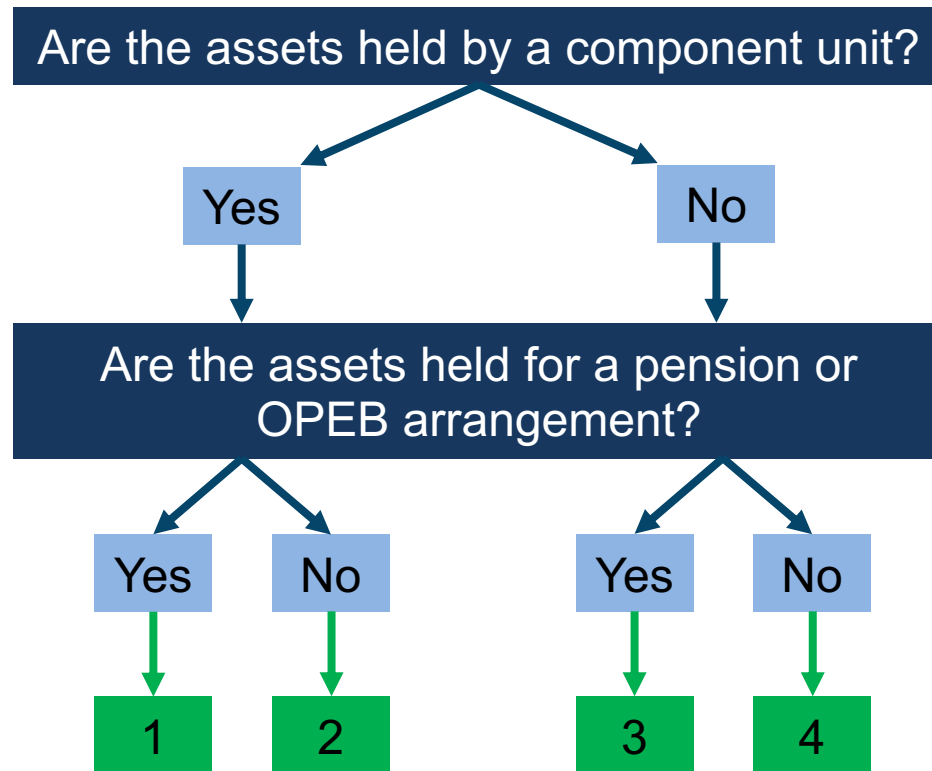
- Statement 91—Conduit Debt

Fiduciary Activities



When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



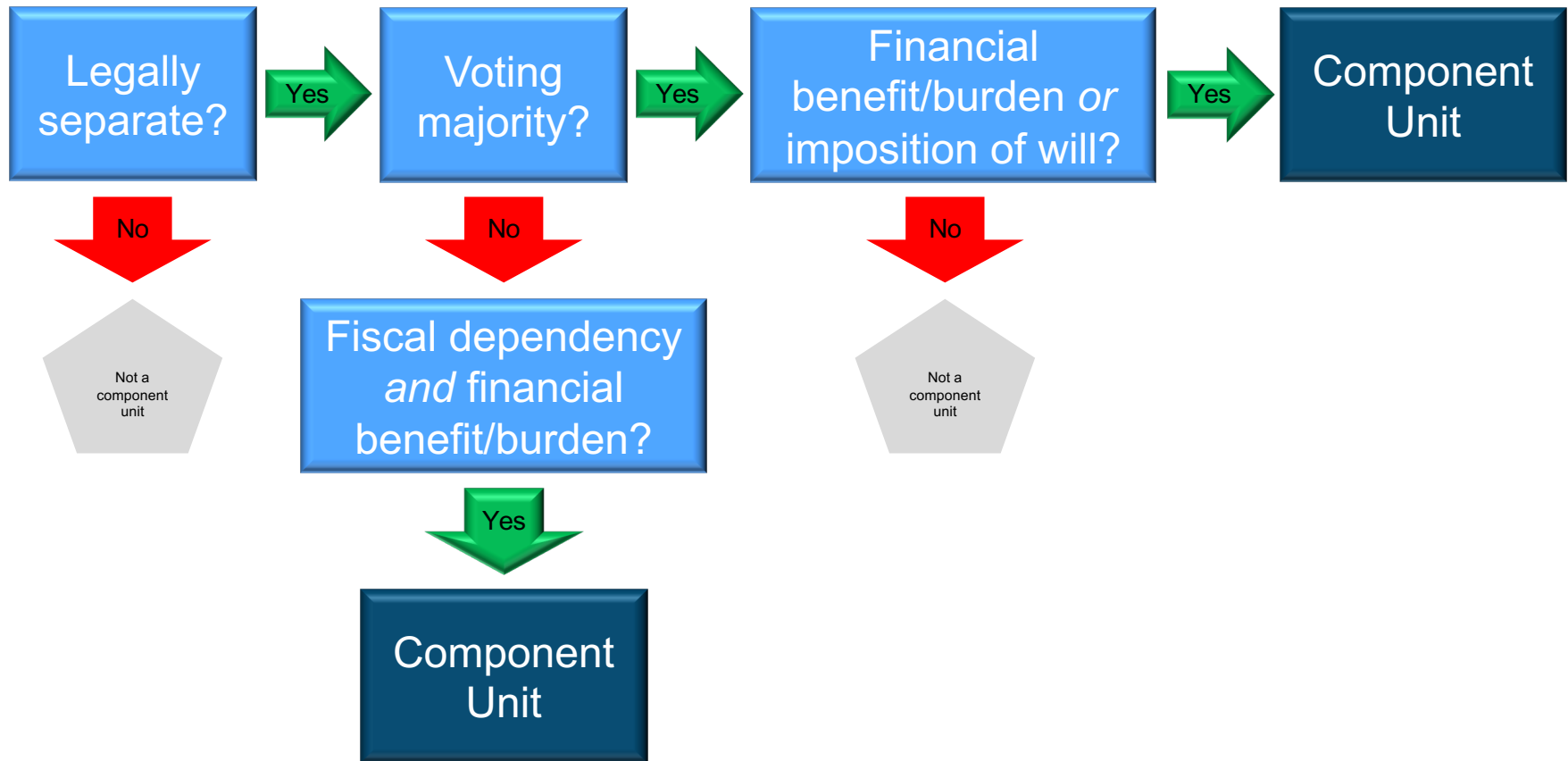
Identifying Fiduciary Activities Q&As

■ Fiduciary Component Units

- Intended to clarify other Implications of Statement 14, as amended
 - Financial accountability applicability (Q4.4-Q4.6)
 - No board equivalent to appointment of a majority of board if government performs the duties that the Board normally would (Q4.5)
 - Implication of being legally obligated or otherwise assuming the obligation to make contributions to a pension or OPEB plan (Q4.7)



When Is There a Component Unit?



Other Component Units Are Fiduciary if...

They have one or more of the following characteristics:

2



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

or

or

Identifying Fiduciary Activities Q&As

- Assets Are For the Benefit of Individuals
 - Intended to clarify whether a government has administrative involvement or direct financial involvement with the assets
 - Actual scenarios are analogized to the examples from Statement 24:
 - Monitors compliance with the requirements of the activity (established by the government or resource provider)
 - Determines eligible expenditures (established by the government or resource provider)
 - Has ability to exercise discretion over how the assets are allocated
 - Provides matching resources for the activities
- COMES DOWN TO WHO ESTABLISHES THE SPECIFIC GUIDELINES ON HOW THE RESOURCES CAN BE SPENT

Identifying Fiduciary Activities Q&As

- Assets Are For the Benefit of Individuals
 - Intended to clarify when a government has administrative involvement or direct financial involvement with the assets
 - Inmate accounts-contraband purchases (Q4.24)
 - University scholarships (Q4.25)



Identifying Fiduciary Activities Q&As

- Assets Are For the Benefit of Organizations or Other Governments
 - Intended to clarify when assets are being held for the benefit of an individual or an other organization
 - Funds received from a foundation (Q4.27)
 - Funds raised that restricted for a not-for-profit (Q4.28)
 - Non-trust agreements to provide accounting and treasury services (including investing) to a not-for-profit organization (Q4.29-Q4.30)



What Are Own-Source Revenues?

- Revenues that are generated by a government itself
 - Exchange and exchange-like revenues (water and sewer charges and investment income)
 - Nonexchange revenues
 - Derived tax revenues (sales and income taxes)
 - Imposed nonexchange revenues (property taxes)



Identifying Fiduciary Activities Q&As

■ Own-Source Revenues

- Intended to clarify whether specific revenue sources would be considered own-source as described in paragraph 13 of Statement 84
 - Revenue-sharing agreements (Q4.35)
 - Prepaid college tuition plans (Q4.37)
 - Fees received for collection services (Q4.38)



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

Control

- 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

Reporting Fiduciary Activities—Fiduciary Funds

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
 - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- *Custodial funds* would report fiduciary activities for which there is no trust agreement or equivalent arrangement.



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.

Reporting Fiduciary Activities in Fiduciary Funds Q&As

- Statement of Fiduciary Net Position
 - Intended to clarify the “liability to a beneficiary” requirement—when a government is compelled to disburse the resources (Q4.47)



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

Reporting Fiduciary Activities in Fiduciary Funds Q&As

- Business-Type Activity Exception
 - Intended to clarify the exception provided in paragraph 19 of Statement 84 to business-type activities that are normally expected to hold assets, upon receipt, for three months or less (Q4.45-Q4.46)



Other Reporting Requirements

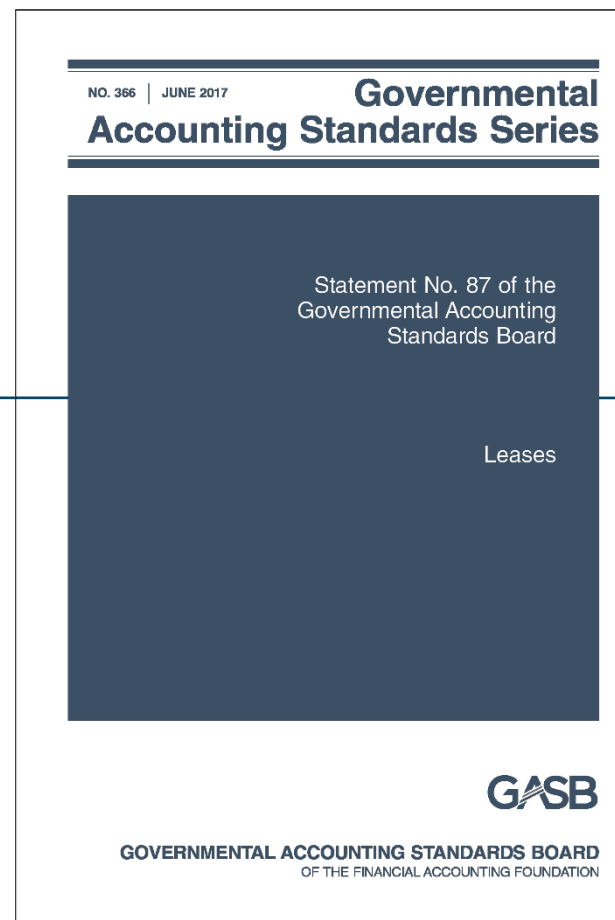
- Additions would be presented disaggregated by source and, if applicable, separately display investment earnings, investment costs, and net investment earnings
- Deductions would be presented disaggregated by type and, if applicable, separately display administrative costs
 - Disaggregated additions 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

Reporting Fiduciary Activities in Fiduciary Funds Q&As

- Statement of Changes in Fiduciary Net Position
 - Intended to clarify the disaggregation exception when resources are expected to be held for 3 months or less for one activity and for multiple activities (Q4.48-Q4.50)



Leases



Leases—Implementation Suggestions


- Determine if bond covenants or debt limit provisions need to be modified
- 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
- 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

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

What Is a Lease?



Implementation Guide 2019-3 guidance:

- What if there's exclusive use for only three days a week?

Uninterrupted control not required to be a lease
(Q4.2 involves use of facility three days a week)

- Do easements meet the definition?

Yes, if all parts of definition met
(Q4.5 explains perpetual or nonexchange will not)

What Is Control of the Right to Use?

Statement 87 guidance:

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 (para. 5)

Implementation Guide 2019-3 guidance:

- What if rancher is required to allow access and use by others?

Does not convey control, not a lease (Q4.4)

- What about rights of substitution of essentially identical asset?

Does not affect evaluation of control (Q4.9)

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)



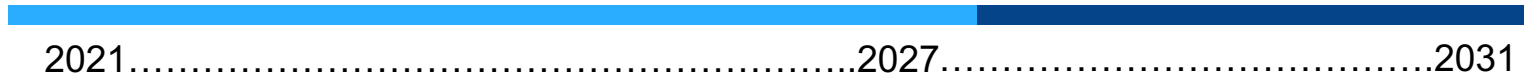
Assets financed with outstanding conduit debt, unless both the asset and the debt are reported by the lessor



Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

Lease Term

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



- Plus or minus 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

What Is the Lease Term?

Implementation Guide 2019-3 guidance:

- Underlying asset being constructed?

Lease term begins when access is gained (Q4.12)

- Month-to-month holdover period?

Not included in lease term (Q4.13)

- Both parties have right to cancel but reasonably certain neither will?

Cancellation period not included in lease term, regardless of probability (Q4.15)

- Only lessee has right to cancel but reasonably certain it will not?

Cancellation period included in lease term (Q4.16)



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">• 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	<ul style="list-style-type: none">• Recognize lease payments as revenue based on the payment provisions of the contract• Do not recognize receivables or deferred inflows

What Is a Short-term Lease?

Statement 87 guidance:

A lease 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 (para. 16)

Implementation Guide 2019-3 guidance:

- Six-month noncancellable plus 12 month option not reasonably certain of being exercised?

Not a short-term lease but lease term would be six months (Q4.18)

- Maximum possible term when only lessee has option to cancel?

Include all optional periods (Q4.19)

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	<ul style="list-style-type: none"> • 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

Lessee's Lease Liability

Statement 87 guidance:

Measure the lease liability at the present value of payments expected to be made during the lease term (para. 21)

Implementation Guide 2019-3 guidance:

- Can a capitalization threshold be used?

Yes, but consider significance of both asset and liability, individually and in aggregate (Q4.23)

- See question 4.26 for measurement of variable payments indexed to CPI
- All payments variable based on usage but reasonably certain of usage?

Do not include in lease liability (Q4.28)

Lessee's Lease Asset

Statement 87 guidance:

Measure the lease asset as sum of lease liability, payments made before commencement less incentives, and certain initial direct costs (para. 30)

Amortize the lease asset over the shorter of lease term or useful life of underlying asset, unless reasonably certain of exercising purchase option (para. 31 and 32)

Implementation Guide 2019-3 guidance:

- Payments made during construction period (before lease term)?

Report prepayments until lease term begins, then reclassify (Q4.32)

- See questions 4.34 and 4.35 for treatment when purchase option exercised

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"> • 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

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

Contracts with Multiple Components



Allocate contract price to different components (para. 66)

Implementation Guide 2019-3 guidance:

- One component meets scope exclusions and one does not?

Separate and account for them individually. (Q4.59)

- Separate utilities and janitorial costs of building lease?

Yes, if practicable to do so. (Q4.60)

Other Topics Covered by Statement 87

Disclosures

Contract combinations

Lease modifications & terminations

Lease incentives

Subleases

Sale-leasebacks

Lease-leasebacks

Illustrations in Implementation Guide 2019-3

- Lessee reporting of an equipment lease
- Lessee reporting of a building lease with a lease incentive
- Variable payments that depend on an index or rate



Conduit Debt

MAY 2019

Governmental Accounting Standards Series

Statement No. 91 of the
Governmental Accounting
Standards Board

Conduit Debt Obligations



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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.

Limited, Additional and 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.

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

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

Questions



Website information: www.gasb.org