

# **GASB Update**

## **Rutgers School of Business**

### **Annual Governmental Accounting and Auditing Update Conference**

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.

# Learning Objectives

- Obtain an understanding of the key provisions of recently issued GASB standards.
- Identify and address important accounting and financial reporting issues associated with fiduciary activities and leases.
- Gain insights into proposed changes associated projects on the GASB's technical agenda.

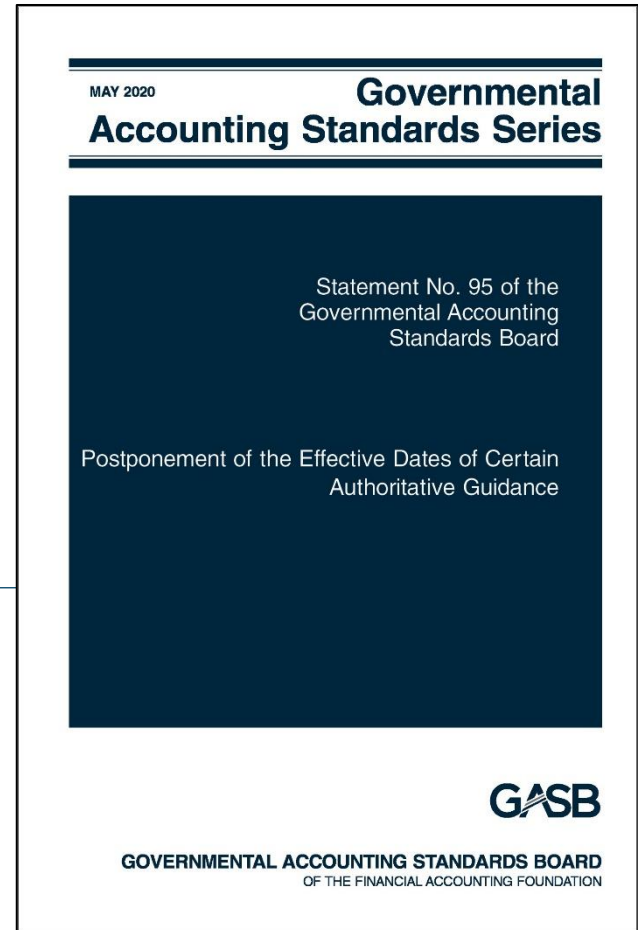
# How GASB Responded to the Crisis

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# Statement 95

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# Postponement of the Effective Dates of Certain Authoritative Guidance



# Postponed Provisions Include:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 87, *Leases*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*
- Implementation Guide No. 2019-3, *Leases*

# Effective Dates—June 30

## 2021

- Statement 84—Fiduciary Activities
- Statement 90—Majority Equity Interests
- Statement 93—Replacement of Interbank Offered Rate
- Implementation Guide 2019-1—Update
- Implementation Guide 2019-2—Fiduciary Activities

## 2022

- Statement 87—Leases
- Statement 89—Interest Cost Incurred before the End of a Construction Period
- Statement 92—Omnibus 2020 (multiple effective dates)
- Statement 97—CCUC and Section 457 Plans
- Implementation Guide 2019-3—Leases
- Implementation Guide 2020-1—Update

## 2023

- Statement 91—Conduit Debt
- Statement 94—Public Private Partnerships
- Statement 96—Subscription-Based IT Arrangements

# Polling Question 1

Why did the GASB postpone the effective dates of certain governmental accounting and financial reporting standards?

- a. Many preparers do not have access to records
- b. Many preparers are tired of implementing GASB standards.
- c. Many do not have the resources to implement standards
- d. A and C

**GASB Technical Bulletin No. 2020-1**

**Title:** Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases

**References:** GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*  
GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*  
GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*  
GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*  
GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*  
GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*  
GASB Implementation Guide No. 2015-1, Question 2.27.4

# Technical Bulletin 2020-1

## Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases



# Topics Addressed

- Whether resources received from the Coronavirus Relief Fund (CRF) are subject to eligibility requirements or to purpose restrictions and how they should be accounted for
- Whether CARES Act provisions that addresses a government's loss of revenue should be considered an eligibility requirement, for purposes of revenue recognition
- Whether amendments to the CARES Act after the statement of net position date but prior to the issuance of financial statements are the basis for recognition in financial statements for the period reported

# Topics Addressed (continued)

- How to account for forgivable loans under the Paycheck Protection Program
- Whether resources provided through certain programs to a business-type activity or enterprise fund are nonoperating revenues
- Whether outflows incurred in response to the coronavirus are extraordinary items or special items for financial reporting purposes

# Other Efforts

- Technical inquiries
  - CARES Act
- Website
  - Toolbox
  - Breaking news

# Polling Question 2

How has the pandemic affected the amount of time that you or your clients can devote to financial reporting activities?

- a. No affect
- b. 1 to 25 percent reduction
- c. 26 to 50 percent reduction
- d. 51 to 75 percent reduction
- e. 76 to 100 percent reduction

# Recent Events

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## Outside the Standards-Setting Arena

# Recent Events

- New Chair—Joel Black
- New Board Member—Dianne Ray
- Post-implementation review
  - Who conducts the review
  - Oversight

# Standards Under Review

- The GASB staff is currently conducting PIRs on six Statements
  - Statement 67—Pension Plan Reporting
  - Statement 68—Employer Reporting for Pensions
  - Statement 72—Fair Value Reporting
  - Statement 75—Employer Reporting for Other Postemployment Benefits
  - Statement 84—Fiduciary Activities
  - Statement 87—Leases

# Polling Question 3

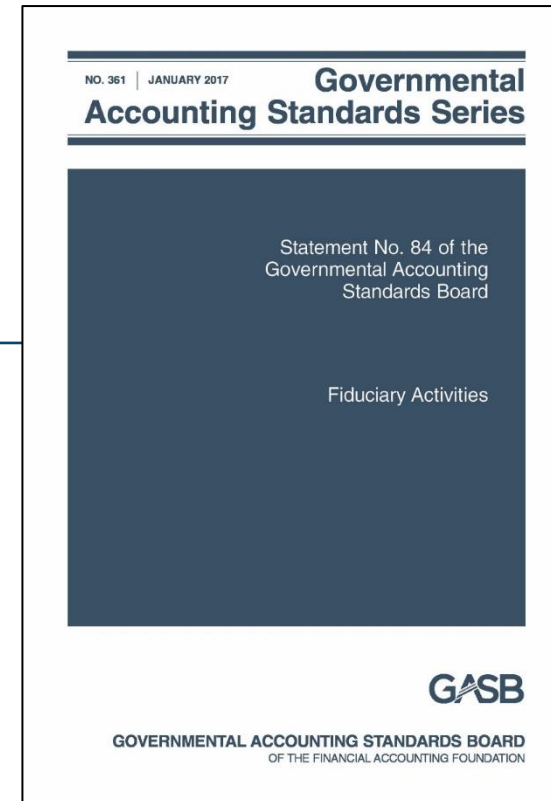
On July 1, 2020 who became the new chair of the GASB?

- a. Jim Antonio
- b. Joel Black
- c. Brian Caputo
- d. David Vaudt



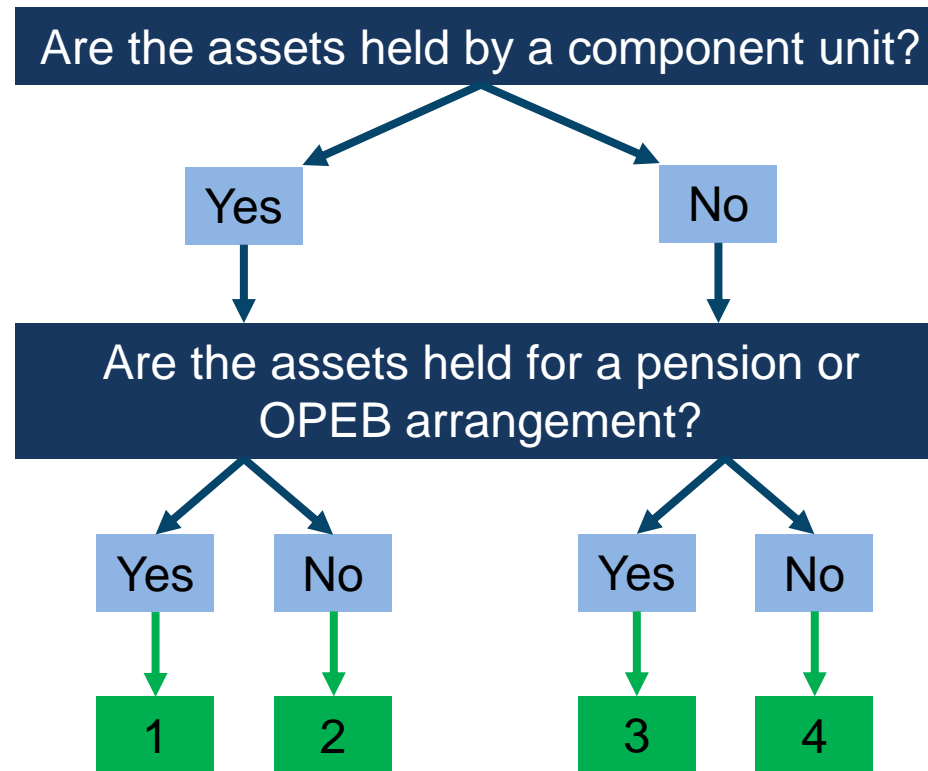
# Statement 84

# Fiduciary Activities

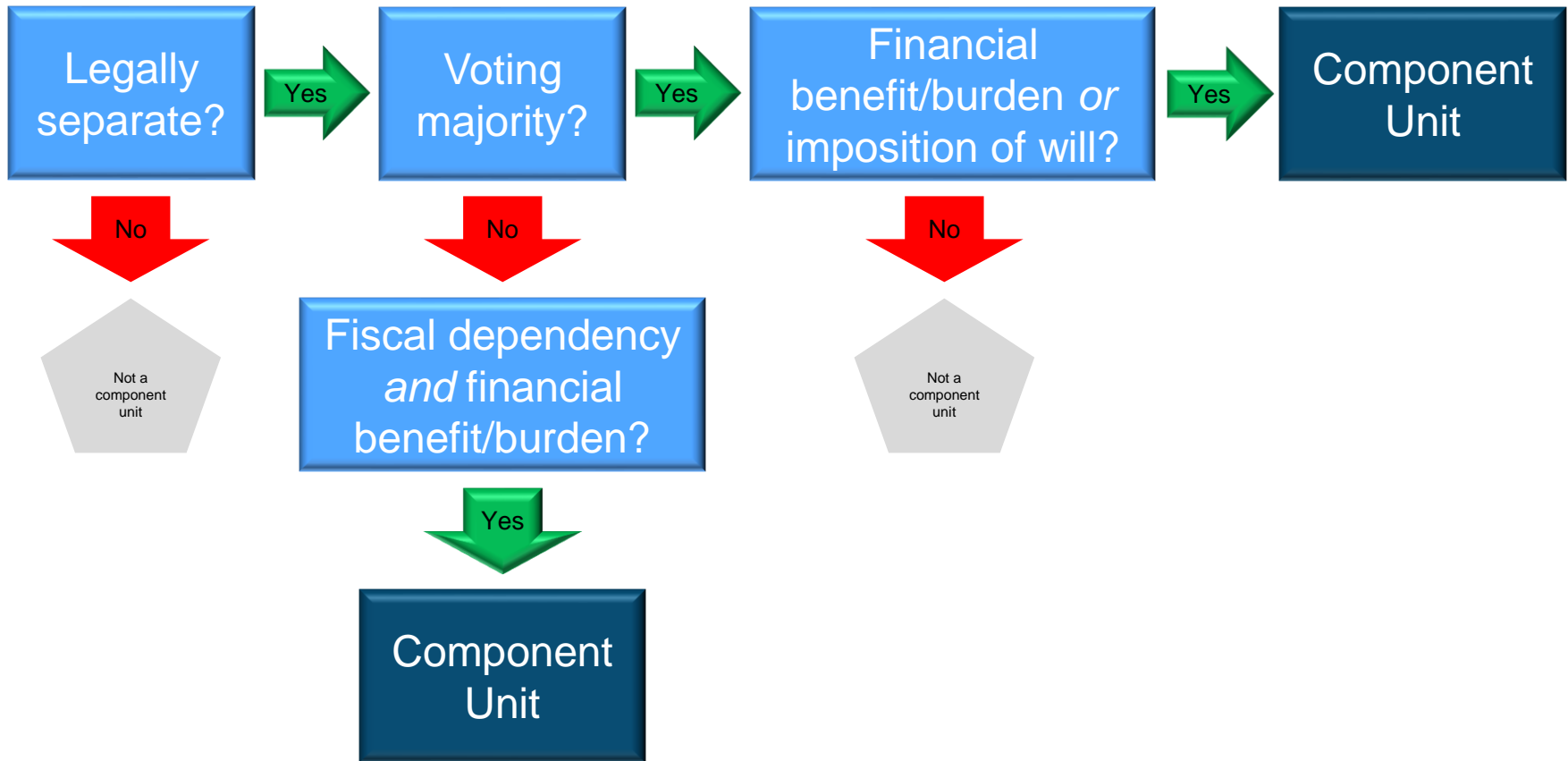


# When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



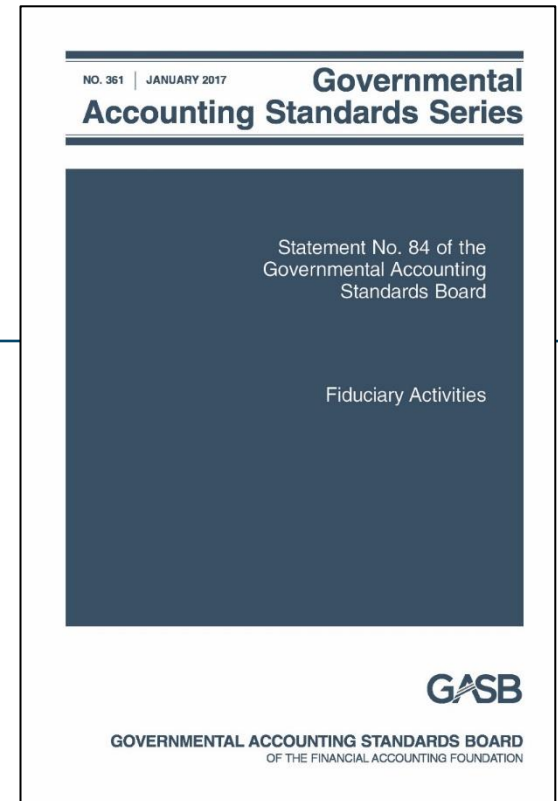
# When Is There a Component Unit?



# Statement 97

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## Certain Component Unit Criteria and Section 457 Plans



# Component Unit Resolution

- Brings “the primary government is performing the duties that a governing board would” guidance into Category A literature
- Excludes defined contribution pension and defined contribution OPEB plans administered through trusts that meet the criteria and other employee benefit plans that otherwise would be defined contribution pension plans but to which only employees contribute from the provision—immediately
- Exclude those plans from financial burden modification introduced in Statement 84 (employer contributions)—immediately

# 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

# 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

# Polling Question 4

When does a government have control of fiduciary assets?

- a. When it has administrative involvement
- b. When it has the ability to direct the use of the assets
- c. When it cannot direct the employment of the assets
- d. All the above



# Leases

## Statement 87

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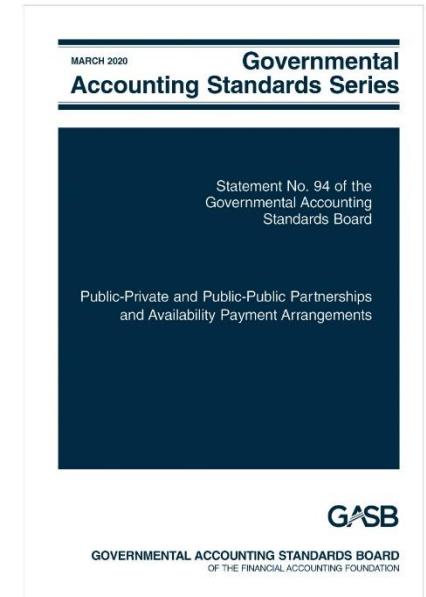
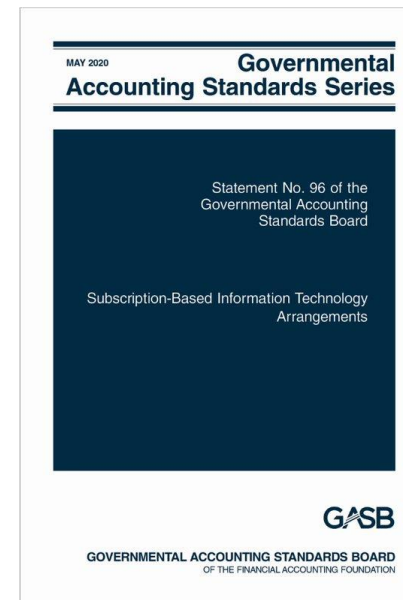
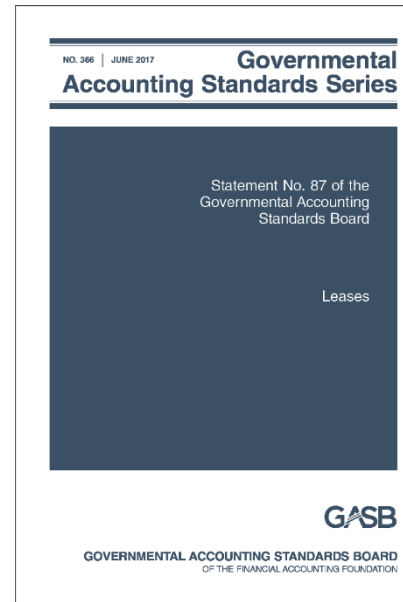
# Public-Private and Public-Public Partnerships and Availability Payment Arrangements

## Statement 94

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# Subscription-Based Information Technology Arrangements

## Statement 96



# Effective Dates

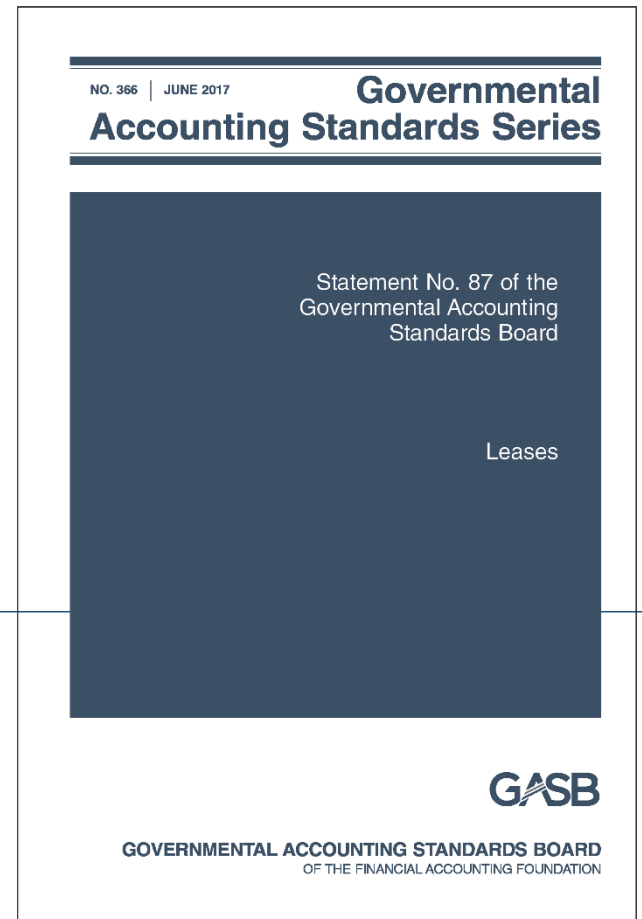
Pronouncement	Beginning After
Statement 87	June 15, 2021*
Statement 94	June 15, 2022**
Statement 96	June 15, 2022*
Implementation Guide 2019-3	June 15, 2021*
Implementation Guide 2020-1 (Statement 87 questions)	December 15, 2021*

\* Fiscal years beginning after this date, and all reporting periods thereafter

\*\* Reporting periods beginning after this date

# Statement 87

## Leases



# Implementation Suggestions

## Debt limits and bond covenants

- All leases lasting more than a year will be reported by lessees as long-term liabilities
- Review state and local laws and agreements to determine whether that could impact compliance with debt limitations and bond covenants

## Lease policies and procedures

- May need to consider changing policies and procedures for tracking and reporting leases, both as lessee and lessor
- May need better communication between departments that enter into leases and central accounting staff
- Need procedures that identify when lease agreements have been initiated and when existing leases are modified (such as changes in lease term or estimated payment amounts)
- Should review capital asset policies, such as the capitalization thresholds, especially in light of the need to report intangible right-to-use assets

# Lease—Three Pitfalls

- Definition of a lease
- Lease term
- Liability measurement

# Statement 87 Scope and Approach

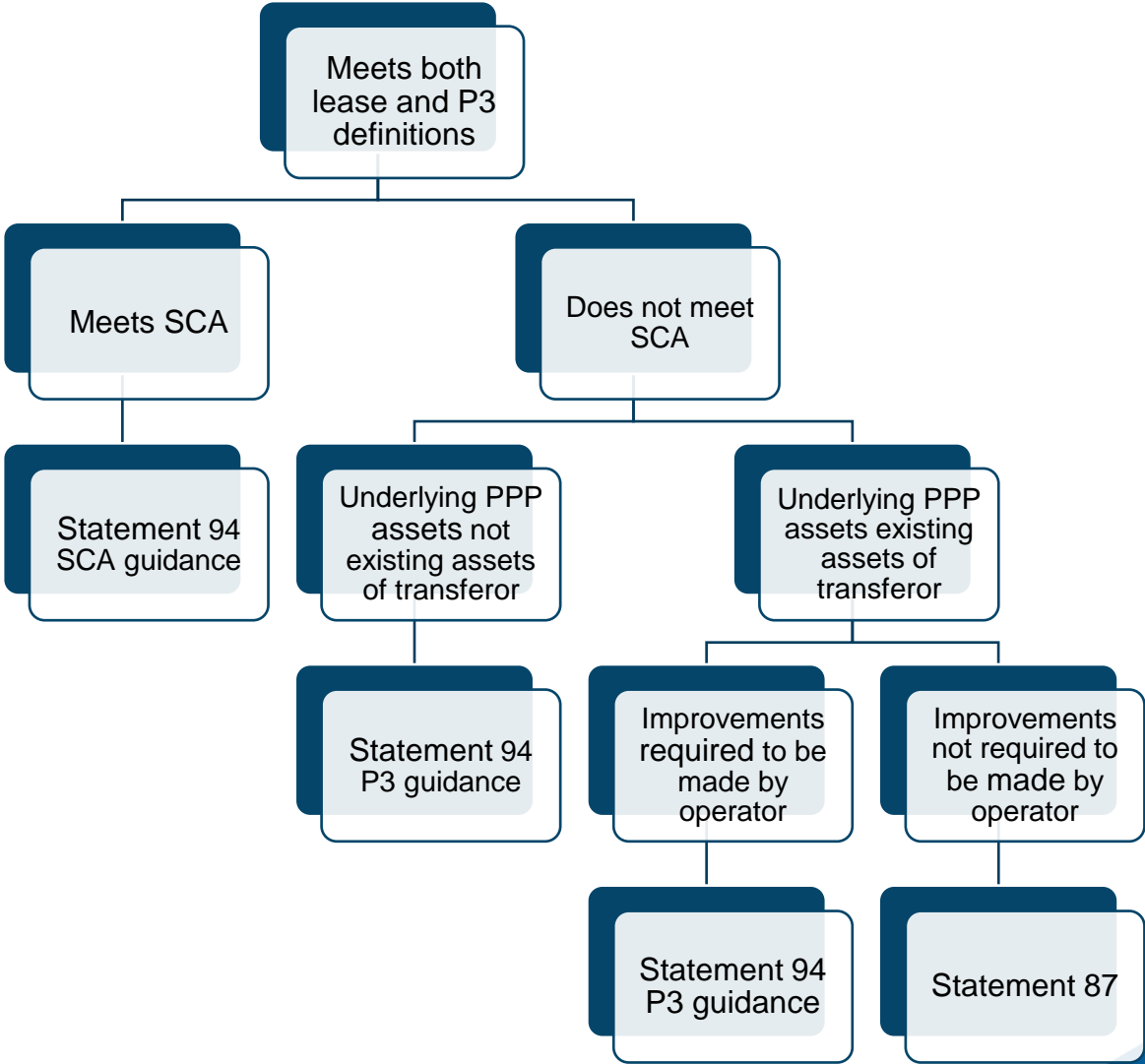
- Statement 87 applies to any contract that meets the definition of a lease:

“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.”

# Definition of a Lease—Control

- Control requires both of the following:
  - Right to obtain the present service capacity from use of the underlying asset, and
  - 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

# Relationship between Leases and P3





# Relationship between Leases and SBITAs

- All SBITAs meet definition of lease
- Depends on what the underlying asset is:
  - Tangible capital assets alone – Statement 87
  - IT software alone – Statement 96
  - IT software in combination with tangible capital assets:
    - Software component is insignificant compared to cost of underlying tangible capital asset – Statement 87
    - Otherwise – Statement 96
- Also excluded from Statement 96:
  - Governments acting as SBITA vendors
  - Contracts that meet the definition of a P3 in Statement 94
  - Perpetual software licenses

# Lease Term

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



2021.....2027.....2031

- 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

# LESSEE—Initial Measurement

- 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

# Lessor—Discount Rate

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?

A—If the lease contract contains a stated interest rate, the stated rate generally is the rate the lessor charges the lessee. If there is no stated rate (or if the stated rate is not the rate the lessor charges the lessee) and the implicit rate cannot be determined, the lessor may presume (unless there is persuasive evidence to the contrary) that it is recovering its cost associated with interest cost and use the lessor's own incremental borrowing rate as the discount rate.

# Contracts with Multiple Components

## Statement 87

- Generally, account for lease and non-lease components as separate contracts and multiple underlying assets as separate lease components in certain circumstances (paragraphs 64 and 65)
- Allocate contract price to different components (paragraph 66)

## Implementation Guide 2019-3

- 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)

# Triple Net Leases

Q—A government leases office space and is one of several tenants in the building. In addition to fixed payments, the government is required to make payments for its pro rata share of the lessor's taxes and insurance. The additional monthly payment amounts are stated in the lease based on the lessor's estimate of taxes and insurance at the beginning of the year. Annually, the lessor provides a reimbursement or requests an additional payment from the government to account for the difference between the actual and estimated pro rata share of taxes and insurance. Should the additional monthly payments be included in the measurement of the lease liability?

A—No. Payments for a share of the lessor's taxes and insurance are considered nonlease components of the contract. Because the payments are for taxes and insurance, not for the right to use the office space, the payments are not considered lease payments under paragraph 21 of Statement 87 and should be accounted for separately.

# Polling Question 5

Ten-year lease, reasonably certain it will not be cancelled in year 5 and it will not be extended in year 10. What is the term?

- a. Five years
- b. Ten years
- c. Fifteen years
- d. None of the above



# P3s—Transferor Reporting

For all P3s, recognize:

- 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 P3 term

If underlying P3 asset is a new asset or an existing asset that has been improved...

- ...and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation
- ...and the P3 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

# Accounting for Activities Associated with a SBITA

## Preliminary project stage

- Outlays should be expensed as incurred

## Initial implementation stage

- In general, outlays should be capitalized
- However, if no subscription asset is recognized (such as for a short-term SBITA), outlays should be expensed as incurred

## Operation & additional implementation stage

- Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria

# Practice Issue Projects

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# Practice Issue Projects

## Timetable

Compensated Absences	Exposure Draft—February 2021
Omnibus	Exposure Draft—July 2021
Prior Period Adjustments, Accounting Changes, and Error Corrections	Exposure Draft—May 2021
Risks and Uncertainties Disclosures	Exposure Draft—November 2021

# Big Three

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Financial Reporting Model

Revenue and Expense Recognition

Disclosure Framework

# Financial Reporting Model

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Exposure Draft—June 2020

# Exposure Draft: Financial Reporting Model Improvements

- Governmental funds
  - Short-term financial resources measurement focus and accrual basis of accounting
  - Presentation
- Management's discussion and analysis
- Unusual or infrequent items
- Proprietary fund presentation
- Budgetary comparison reporting
- Effective date
- Due process planned



# Recognition in Governmental Funds

- Short-term financial resources measurement focus and accrual basis of accounting
- Elements from *short-term* transactions or other events recognized as the underlying transaction or other event *occurs*
- Elements from *long-term* transactions and other events recognized when *payments are due*
- Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash





# Recognition in Governmental Funds

## Short-Term Transactions

- Period from inception to conclusion is one year or less

## Long-Term Transactions

- Period from inception to conclusion is more than one year

**Inception** generally is when a party to the transaction takes an action that results in the initial recognition of an asset or liability

**Conclusion** generally is when the final payment of cash or other financial assets is due according to the terms of the binding arrangement (or estimated payments)

# Tentative decisions: Management's discussion and analysis

Users of MD&A “have different levels of knowledge and sophistication about governmental accounting and finance,” “may not have a detailed knowledge of accounting principles” (as in Concepts Statement 1, paragraph 63)

Move budgetary analysis and discussion of infrastructure assets (if applicable) to the relevant parts of RSI

Add clarification and structure to the requirement for brief discussion of the basic financial statements, including their relationships and significant differences

Emphasize the level of thoroughness required for the analysis of year-to-year changes and the need to avoid unnecessary duplication

Amend the requirements for currently known facts, decisions, or conditions with examples, such as economic trends; subsequent year's budget; actions government has taken on postemployment benefits, capital improvement plans, and long-term debt; actions other parties have taken that affect the government

# Governmental Funds—Presentation

- Current and noncurrent format of resource flows statement
- Current includes all flows other than those that are noncurrent
- Noncurrent resource flows: those related to purchase and disposal of capital assets and issuance and repayment of long-term debt



# Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

## Operating

- Activities other than nonoperating activities

## Nonoperating

- Subsidies received and provided
- Revenues and expenses of financing
- Resources from the disposal of capital assets and inventory
- Investment income and expenses

# Budgetary Comparison Information

- Presented in required supplementary information
  - Consistent with conceptual framework on methods of communication
- Required variance presentations
  - Final budget and actual amounts
  - Original and final budget



# Proposed Effective Date

- Based on total annual revenues in first fiscal year beginning after June 15, 2022
- \$75 million or more: apply in fiscal years beginning after June 15, 2024
- Less than \$75 million: apply in fiscal years beginning after June 15, 2025



# Revenue and Expense Recognition

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Preliminary Views—June 2020

# What is a Revenue and Expense Recognition Model?

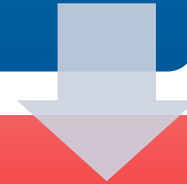
## ***Categorization***

Identify the *type* of transaction



## ***Recognition***

Determine *what* element should be reported and *when*

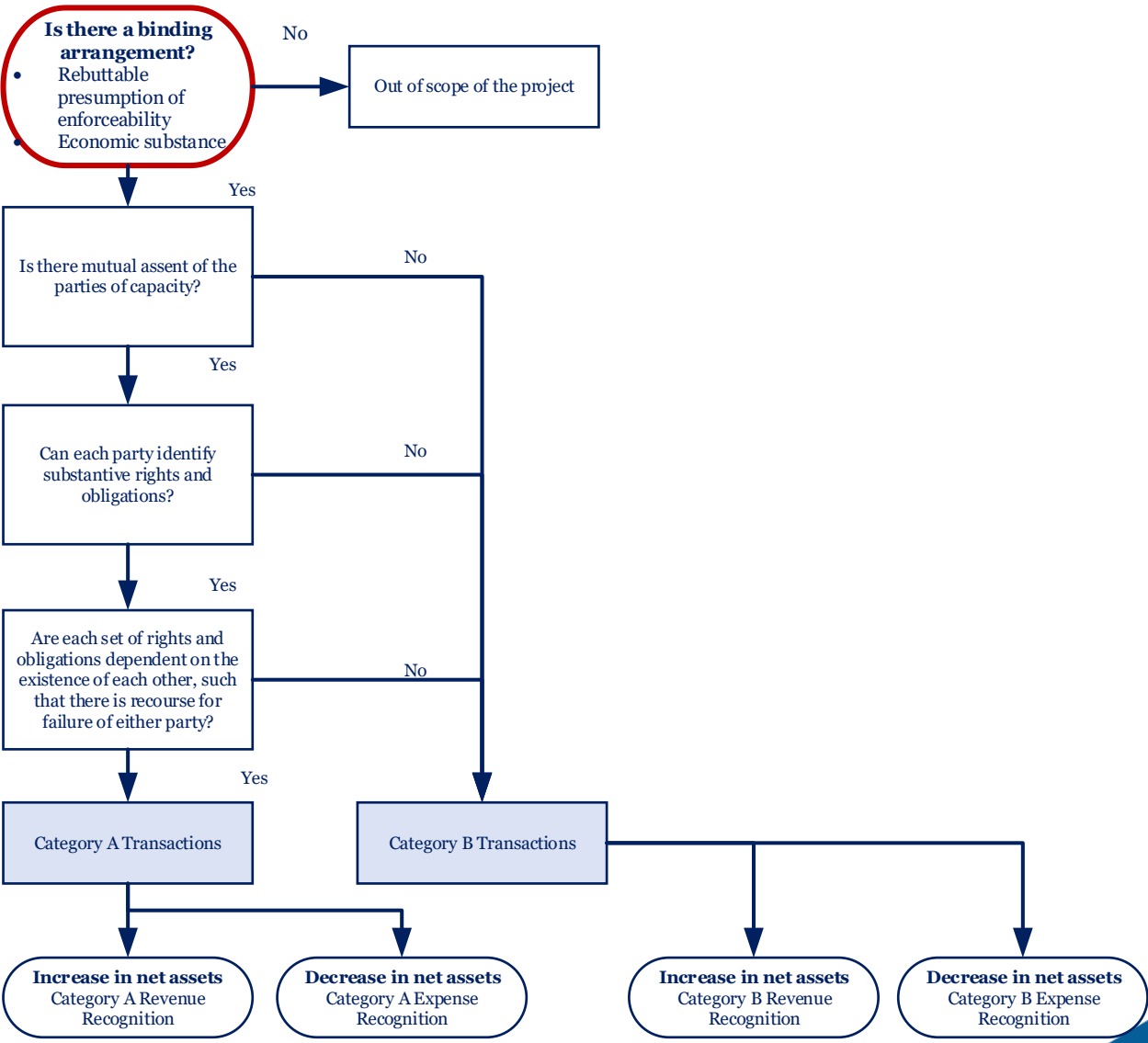


## ***Measurement***

Determining the *amount* to report



# Categorization Component

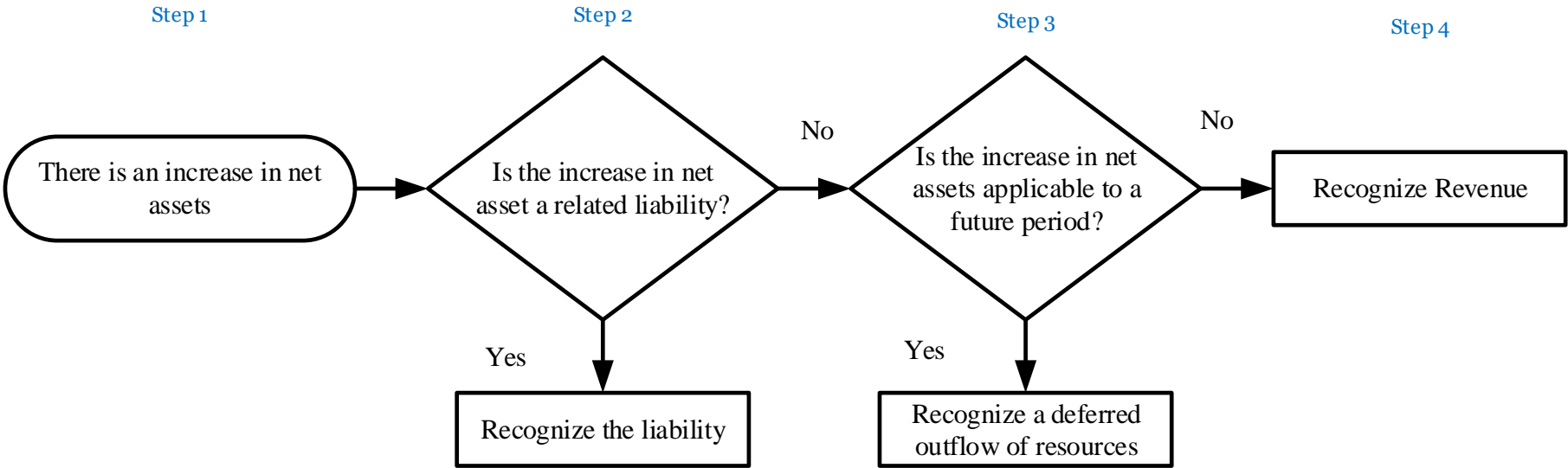


# Model Outcomes\*

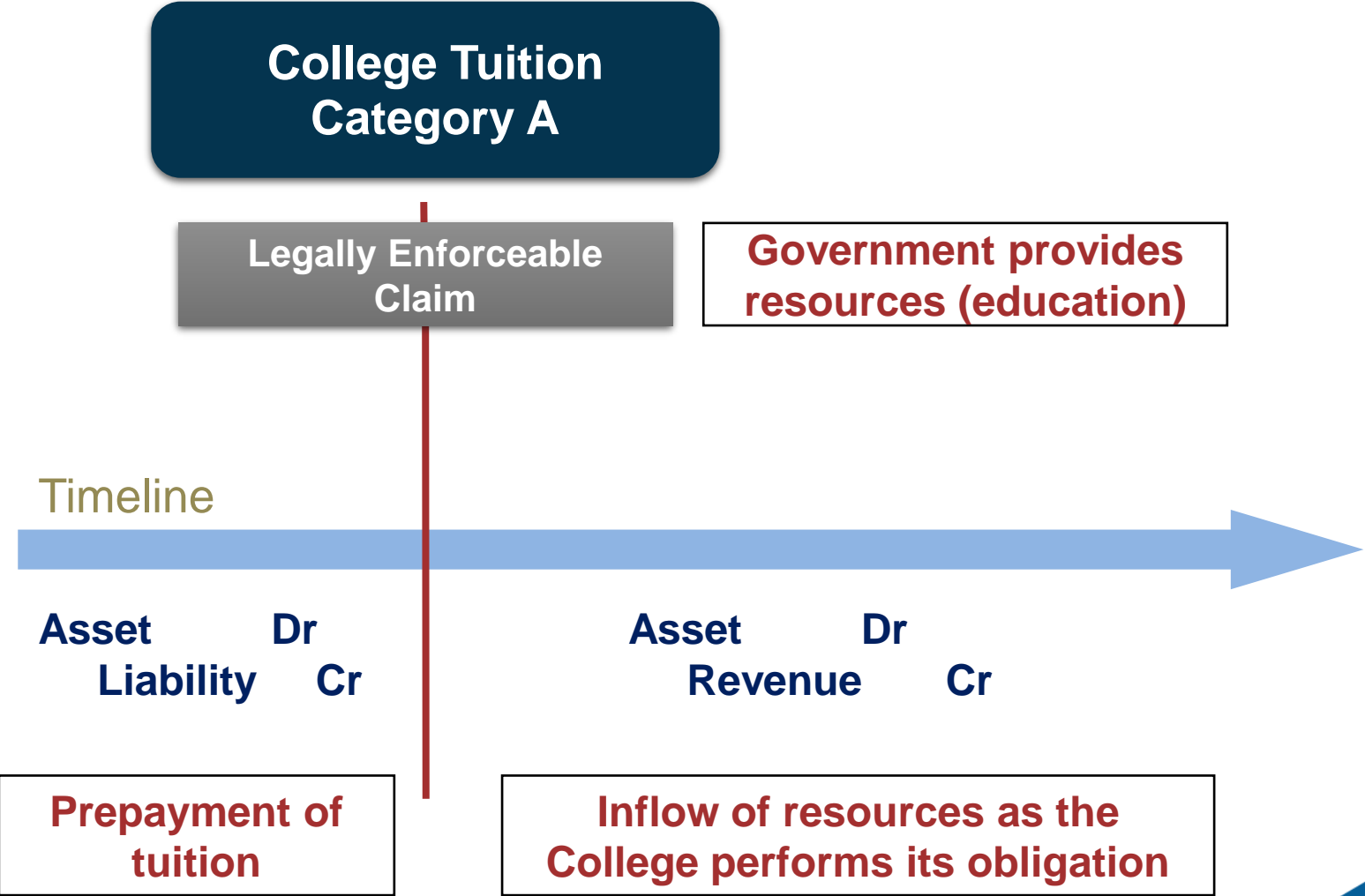
Category A	Category B
Fees for service (water, electric, garbage)	Taxes (property tax, income tax, sales tax)
Eligibility-based grants	Punitive fees
Research grants and revolving loans	Special assessments
Medicaid fees for services	Donations
Tuition fees	Regulatory fees (drivers licenses, building permits, marriage licenses, professional licenses)
Most expenses	Purpose-restricted grants
	Capital fees (developer fees, PFCs)
	Medicaid supplementary payments

\* Transactions highlighted in blue would have different outcomes than under current literature

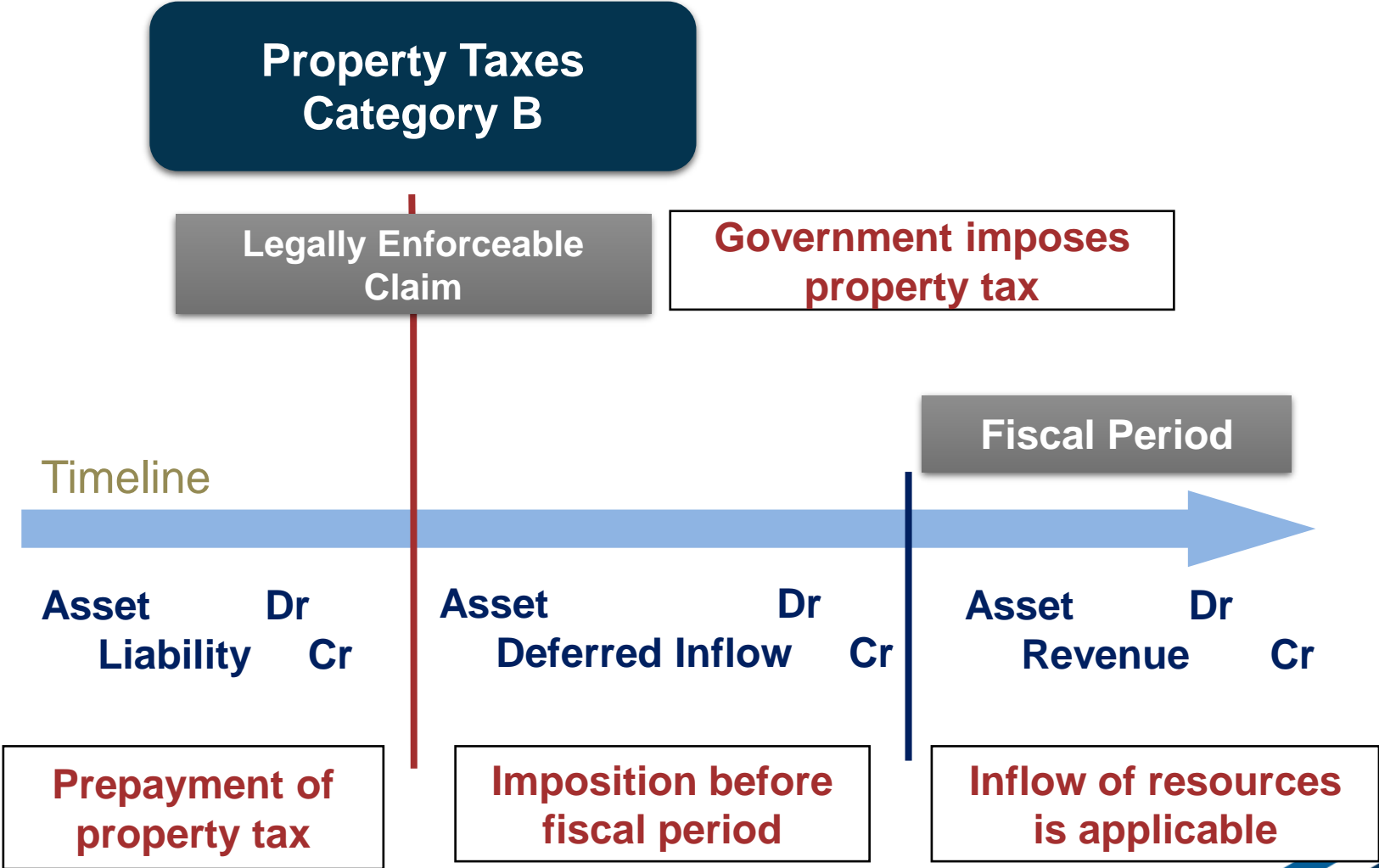
# Recognition Principles—Revenue



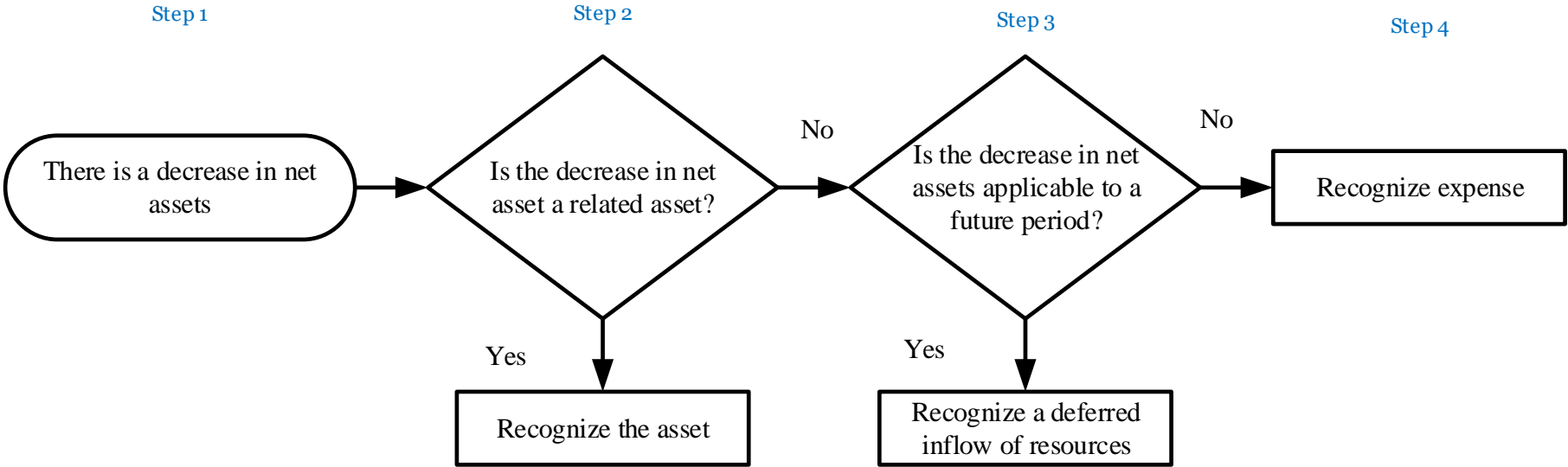
# Category A Revenue Recognition Example



# Category B Revenue Recognition Example



# Recognition Principles—Expense



# Measurement

- Principle—Measure the liquid flow of resources
- Transaction amount—Exposure Draft
  - Allocation
  - Variable consideration
  - Financing components
  - Nonmonetary consideration

# Conceptual Framework— Disclosure Framework

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Exposure Draft



# Proposed Concepts

The purpose of note disclosures is to provide information that explains, describes, or supplements the financial statements and is **essential** to users in making economic, social, and political decisions and assessing accountability.

# What Is Essential?

Information that has one of the following characteristics is essential:

- Characteristic A: Evidence that the information, regardless of its source, *currently* is being utilized in users' analyses for decision making or assessing accountability.
- Characteristic B: Evidence that if the information becomes available, users would modify their analyses for decision making or assessing accountability to incorporate that information.

# Thank you!

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