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
Statement 95

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. 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
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

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:

1. Are the assets held by a component unit?
   - Yes
   - No

2. Are the assets held for a pension or OPEB arrangement?
   - Yes
   - No

3. Yes
   - 1
   - 3
   - 4

4. No
   - 2
   - 3
When Is There a Component Unit?

- Legally separate?
  - Yes
  - No
- Legally separate or voting majority?
  - Yes
  - No
- Financial benefit/burden or imposition of will?
  - Yes
  - No
- Fiscal dependency and financial benefit/burden?
  - Yes
  - No
- Component Unit
  - Not a component unit
Statement 97

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:

- **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
  - 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

Copyright 2020 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.
All Other Activities Are Fiduciary if…

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

Public-Private and Public-Public Partnerships and Availability Payment Arrangements
Statement 94

Subscription-Based Information Technology Arrangements
Statement 96
# Effective Dates

<table>
<thead>
<tr>
<th>Pronouncement</th>
<th>Beginning After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement 87</td>
<td>June 15, 2021*</td>
</tr>
<tr>
<td>Statement 94</td>
<td>June 15, 2022**</td>
</tr>
<tr>
<td>Statement 96</td>
<td>June 15, 2022*</td>
</tr>
<tr>
<td>Implementation Guide 2019-3</td>
<td>June 15, 2021*</td>
</tr>
<tr>
<td>Implementation Guide 2020-1 (Statement 87 questions)</td>
<td>December 15, 2021*</td>
</tr>
</tbody>
</table>

* 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

Meets both lease and P3 definitions

- Meets SCA
  - Statement 94 SCA guidance
- Does not meet SCA
  - Underlying PPP assets not existing assets of transferor
    - Statement 94 P3 guidance
  - Underlying PPP assets existing assets of transferor
    - Improvements required to be made by operator
      - Statement 94 P3 guidance
    - Improvements not required to be made by operator
      - Statement 87
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
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
# Practice Issue Projects

## Timetable

<table>
<thead>
<tr>
<th>Issue</th>
<th>Exposure Draft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensated Absences</td>
<td>February 2021</td>
</tr>
<tr>
<td>Omnibus</td>
<td>July 2021</td>
</tr>
<tr>
<td>Prior Period Adjustments, Accounting Changes, and Error Corrections</td>
<td>May 2021</td>
</tr>
<tr>
<td>Risks and Uncertainties Disclosures</td>
<td>November 2021</td>
</tr>
</tbody>
</table>
Big Three

Financial Reporting Model

Revenue and Expense Recognition

Disclosure Framework
Financial Reporting Model

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
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

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

Is there a binding arrangement?
- Rebuttable presumption of enforceability
- Economic substance

Yes → Out of scope of the project

No →

Is there mutual assent of the parties of capacity?

Yes →

Can each party identify substantive rights and obligations?

No →

Yes →

Are each set of rights and obligations dependent on the existence of each other, such that there is recourse for failure of either party?

No →

Yes →

Category A Transactions

Decrease in net assets
Category A Expense Recognition

Increase in net assets
Category A Revenue Recognition

Category B Transactions

Decrease in net assets
Category B Expense Recognition

Increase in net assets
Category B Revenue Recognition

Copyright 2018 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.
## Model Outcomes*

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

* Transactions highlighted in blue would have different outcomes than under current literature
Recognition Principles—Revenue

Step 1: There is an increase in net assets

Step 2: Is the increase in net asset a related liability?
   - Yes: Recognize the liability
   - No: Proceed to Step 3

Step 3: Is the increase in net assets applicable to a future period?
   - Yes: Recognize a deferred outflow of resources
   - No: Recognize Revenue
Category A Revenue Recognition Example

College Tuition Category A

Legally Enforceable Claim

Government provides resources (education)

Timeline

Asset Dr Liability Cr

Prepayment of tuition

Asset Dr Revenue Cr

Inflow of resources as the College performs its obligation
Category B Revenue Recognition Example

Property Taxes
Category B

Legally Enforceable Claim

Government imposes property tax

Timeline

Fiscal Period

Asset Dr Cr
Liability

Prepayment of property tax

Asset Dr Cr
Deferred Inflow

Imposition before fiscal period

Asset Dr Cr
Revenue

Inflow of resources is applicable

Copyright 2020 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.
Recognition Principles—Expense

Step 1: There is a decrease in net assets

Step 2: Is the decrease in net asset a related asset?
- Yes: Recognize the asset
- No: Step 3

Step 3: Is the decrease in net assets applicable to a future period?
- Yes: Recognize a deferred inflow of resources
- No: Step 4

Step 4: Recognize expense
Measurement

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

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!

Website information:  www.gasb.org