

# Governmental A & A Update

Frank Crawford, CPA  
Crawford & Associates, P.C.  
[www.crawfordcpas.com](http://www.crawfordcpas.com)  
[frank@crawfordcpas.com](mailto:frank@crawfordcpas.com)  
[@fcrawfordcpa](https://twitter.com/fcrawfordcpa)

# GASB Accounting update

- ▶ “The GASB delays the effective dates of previously issued standards about as often as the Waffle House closes, which is never.”

Quote by Frank Crawford, February 26<sup>th</sup>, 2020 while boarding a cruise in South America pre-COVID-19, when asked via email if the GASB would ever delay the effective date of the fiduciary and leases standards

# My local Waffle House, April 13, 2020



# Cruise vacation update

- ▶ Left the US for an originally scheduled 10 day cruise from Buenos Aires, Argentina, around the tip of South America, to San Antonio, Chile
- ▶ Got to Chile, then the world shut down
- ▶ Sailed around in a circle for 4 days, then set sail for San Diego
- ▶ Arrived San Diego 11 days later, and boarded flights for home
- ▶ Once home, we were required to self-quarantine for an additional 14 days
- ▶ My 10 day vacation took 7 weeks total

# My life on the 31 day cruise



# Social distance exercise





# Accounting update

- ▶ “The GASB delays the effective dates of previously issued standards about as often as the Waffle House closes”

Quote by Frank Crawford, February 26<sup>th</sup>, 2020 while boarding a cruise in South America pre-COVID, when asked via email if the GASB would ever delay the effective date of the fiduciary and leases standards

# GASB 95 - Deferral of Effective Dates

- ▶ GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (Issued May 2020)
  
- ▶ The following standards are delayed for one year:
  - GASB Statements Nos. 83, 84, 88, 89, 90, 91, 92, 93
  - Implementation Guide Nos. 2017-3, 2018-1, 2019-1, 2019-2
  
- ▶ The following standards are delayed for 18 months:
  - GASB Statement No. 87
  - Implementation Guide No. 2019-3

Early application is permitted and encouraged to the extent specified in each originally issued standard

# Effective Dates: Sept 30

## Fiscal Year 2020

- Statement 83 – asset retirement obligations
- Statement 88 – debt disclosures
- IG 2018-1 – Update
- GASB 97 – 457 Plans (para 4 & 5)

## Fiscal Year 2021

- Statement 84 – fiduciary activities
- Statement 90 – majority equity interests
- Statement 93 – interbank offered rates (except LIBOR removal)
- IG 2019-1 – update
- IG 2019-2 – fiduciary activities

## Fiscal Year 2022

- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal
- GASB 97 – 457 Plans (para 6-9, and all remaining provisions)
- IG 2019-3 – leases

## Fiscal Year 2023

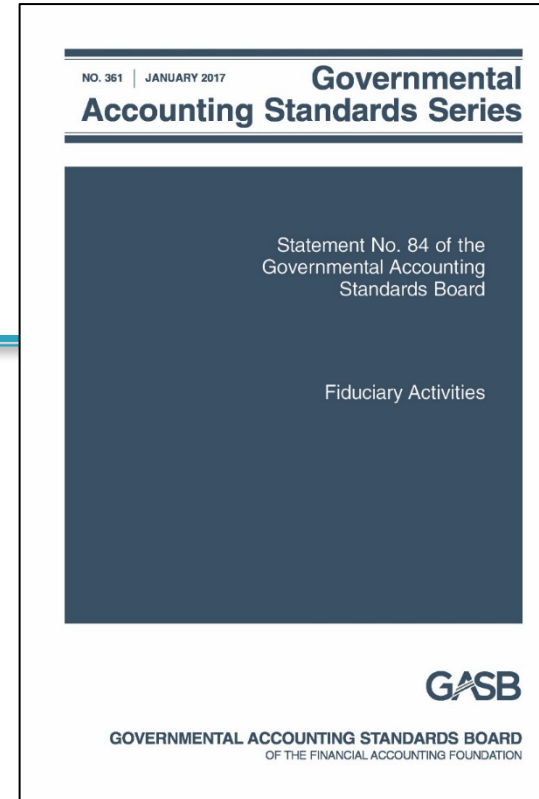
- Statement 91 – conduit debt
- Statement 94 – public-private partnerships (not part of Stmt No. 95 delay)
- Statement 96 – SBITA (not part of Stmt. No. 95 delay)

# GASB Emergency Toolbox

- GASB has identified a number of potential areas that they consider to be accounting, and therefore auditing, hotspots
  - <https://gasb.org/cs/Satellite?cid=1176174469582&pagename=GASB%2FPage%2FGASB%2FSectionPage>
  - The link above contains a list of several areas of the accounting codification that they feel may be of some impact on the financial statements of state and local governments
    - Some elements include
      - Subsequent events disclosures, financial guarantees, contingencies, fair value measurements, going concern issues, termination benefits, and a number of other issues

# Fiduciary Activities

## Statement No. 84



# Fiduciary Activities

## What?

The Board issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements

## Why?

Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; BTAs are uncertain about how to report fiduciary activities

## When?

Effective for periods beginning after December 15, 2018, because of COVID Impact and GASB 95

Earlier application is encouraged

# Four potential paths to reports assets in a fiduciary fund

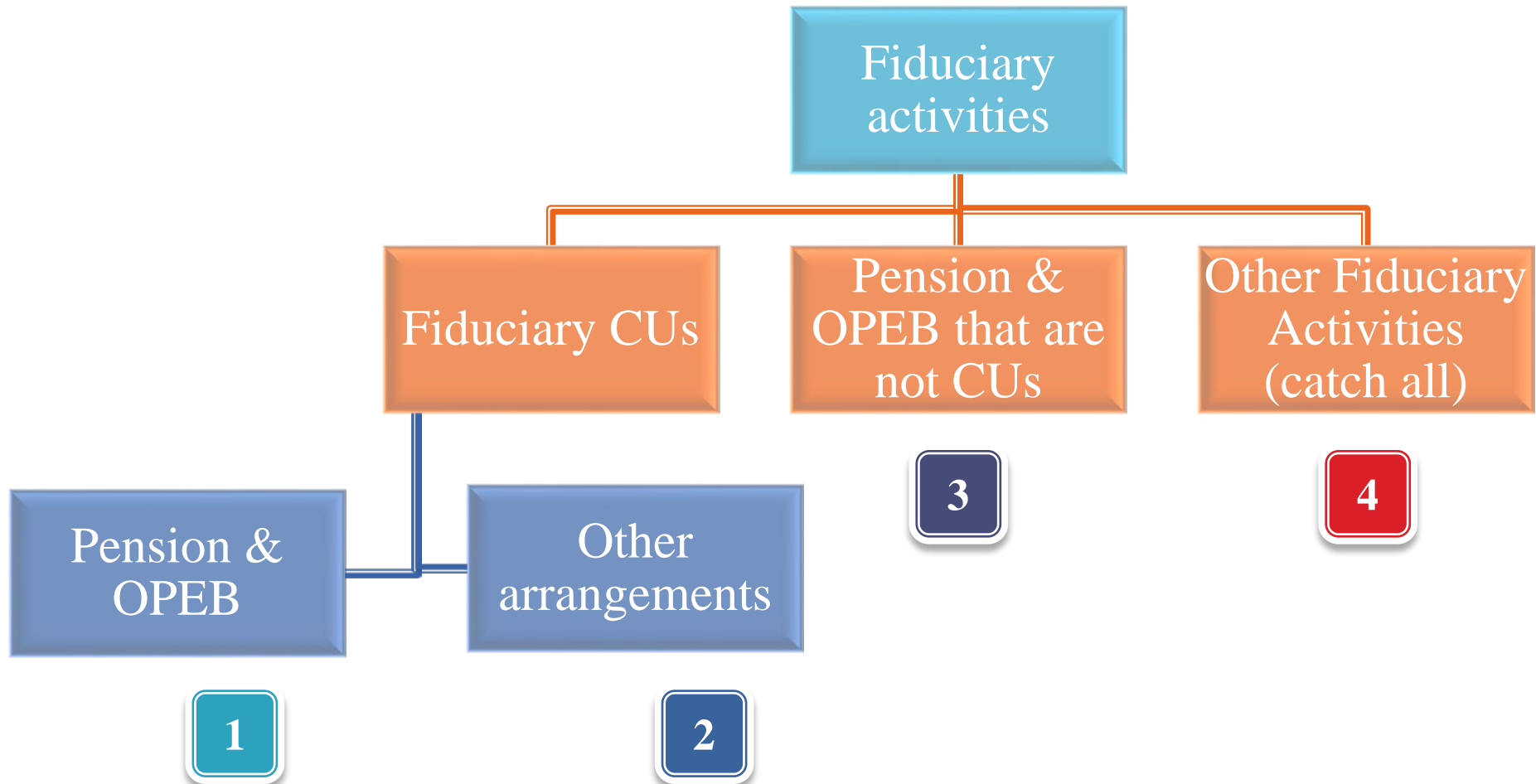
1. Is there a component unit present that are postemployment benefit arrangements? (Pensions / OPEB)

2. Is there are component unit present that may be a fiduciary activity, **but not a postemployment benefit arrangement?**

3. Are there postemployment benefit arrangements that are not component units (currently agency funds)?

4. Are there other potential fiduciary activities? (Investment trust funds, private purpose trusts, agency funds)?

# Fourth Paths - Visual



# What is Control?

- ▶ GASB 84 defines Controls as:
  - Government holds the assets
  - Government (or designee) has the ability to direct the use, exchange, or employment
    - Having a designee does not relinquish fiduciary responsibility from the government
- Appointing a designee / administrator / contractor doesn't matter.
- Restriction on assets does not matter.
- Footnote 5 – appointment of a designee to act on the govt's behalf does not alter a govt's ability to direct the use, exchange, or employment.

# Pension & OPEB - Evaluations

# Pension/OPEB

- ▶ Single Employer Defined Benefit Pension Plan
  - 5 member Board
    - 1 elected by active participants
    - 1 elected by retired participants
    - 3 appointed by City Council
  - Qualifying Trust – meeting 3 criteria
  - Employer contributions to the plan
  - No approval of the plan's budget or contribution requirements by the PG

*Fiduciary or not fiduciary?*

# Evaluation

- ▶ Single Employer – DB Plan

<i>Description (fund name/activity)</i>	
<b>Step 1</b>	<i>Answers</i>
Component Unit Criteria Met	
<i>OR</i>	
Govt. controls the assets	
<b>AND</b>	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
<b>Step 2</b>	
Trust which meets the criteria of a qualifying trust of Statements 67 & 74	
<i>OR</i>	
Assets (accumulated for pension/OPEB) from entities that are not part of the reporting entity and not administered through qualifying trust	
<b>Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)</b>	

# Evaluation

- ▶ Single Employer – DB Plan

<i>Description (fund name/activity)</i>	
<b>Step 1</b>	<b>Answers</b>
Component Unit Criteria Met	Yes
<i>OR</i>	
Govt. controls the assets	
<b>AND</b>	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
<b>Step 2</b>	
Trust which meets the criteria of a qualifying trust of Statements 67 & 74	Yes
<i>OR</i>	
Assets (accumulated for pension/OPEB) from entities that are not part of the reporting entity and not administered through qualifying trust	
<b>Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)</b>	Yes

# Pension/OPEB

- ▶ Cost-Sharing Employer Defined Benefit Pension Plan
  - State establishes a cost sharing DB pension plan for the benefit of all the local governments within the State
  - Assets in qualifying trust; held by the cost-sharing pension plan
  - Plan has an independent board, not appointed by the local govt employer
  - Board alone has authority to establish budget, and determine contribution requirements.

*Fiduciary or not fiduciary, from the local governments perspective?*

# Evaluation

- ▶ Cost-Sharing Multi Employer – DB Plan

<i>Description (fund name/activity)</i>	
<b>Step 1</b>	<i>Answers</i>
Component Unit Criteria Met	
<i>OR</i>	
Govt. controls the assets	
<b>AND</b>	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
<b>Step 2</b>	
Trust which meets the criteria of a qualifying trust of Statements 67 & 74	
<i>OR</i>	
Assets (accumulated for pension/OPEB) from entities that are not part of the reporting entity and not administered through qualifying trust	
<b>Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)</b>	

# Evaluation

- ▶ Cost-Sharing Multi Employer – DB Plan

<i>Description (fund name/activity)</i>	
<b>Step 1</b>	<b>Answers</b>
Component Unit Criteria Met	No
<i>OR</i>	
Govt. controls the assets  Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	No
<b>Step 2</b>	
Trust which meets the criteria of a qualifying trust of Statements 67 & 74	
<i>OR</i>	
Assets (accumulated for pension/OPEB) from entities that are not part of the reporting entity and not administered through qualifying trust	
<b>Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)</b>	No

# All Other Activities

Fiduciary if all three of the following are met:

- ▶ The government **controls** the assets
- ▶ Those assets are *not* derived either:
  - Solely from the government's own-source revenues
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have administrative or direct financial involvement
- ▶ One of the criteria on the next slide is met

# All other Activities(cont.)

- ▶ Criteria for Control of the assets, and
- ▶ Assets not derived from own source revenue or govt mandated or voluntary nonexchange:

1

- Administered through a trust or equivalent, government not beneficiary
- Dedicated to provide benefits to recipients per the benefit terms
- Legally protected from the government's creditors

2

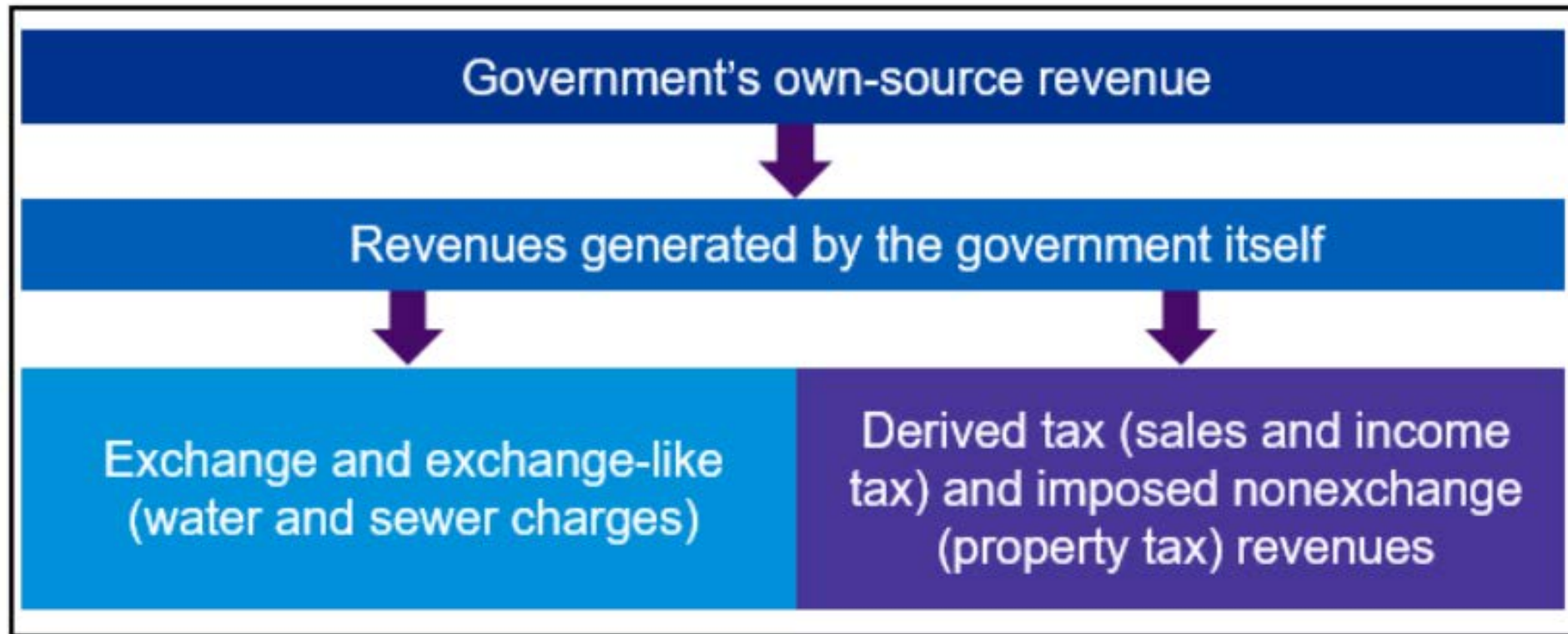
- Benefit of individuals and government does not have administrative or direct financial involvement with the assets
- Not derived from provision of goods and services to those individuals

3

- Benefit of organizations or other governments not part of reporting entity
- Not derived from provision of goods and services to those organizations or other governments

# Own-Source Revenue

- ▶ Assets associated with activity not derived:
  - ▶ solely from the government's own-source revenue, or
  - ▶ from government-mandated or voluntary nonexchange transactions



# Implementation Guide Q and A

- ▶ 4.16. Q—The chess club of a public high school is established in accordance with the school’s operating policies and is not legally separate from the high school. The club members organize and conduct fundraising activities to pay for the club’s annual tournament and other club activities during the school year. The proceeds from the 7 fundraising activities are held in a separate bank account in the school’s name. In determining whether those resources controlled by the school are a fiduciary activity, are the assets held for the benefit of individuals as addressed in paragraph 11c(2) of Statement 84 (and thus require evaluation of whether the school has administrative involvement or direct financial involvement), or do they benefit an organization as addressed in paragraph 11c(3) of Statement 84 (and thus require evaluation of whether the club is part of the primary government)?

# Individual Vs Organization

- ▶ Key consideration as one requires consideration of Administrative Involvement
  - Individual – Have to consider
  - Organization – No consideration
- ▶ 2019-2 IG 4.16 – Chess Club Answer:
  - Assets are for the benefit of an organization if the benefits accrue to the organization as an institution....the chess club is not legally separate...it is not itself an institution. As a result, the provisions in paragraph 11c(2) should be applied.

# What is Administrative Involvement vs. Direct Financial Involvement?

## *Administrative Involvement Could Be:*

- Monitoring compliance - (Sub-recipient relationship).
- Determining eligible expenditures (Sub-recipient relationship).
- Having the ability to exercise discretion in how assets are allocated.

## *Direct Financial Involvement Could Be:*

- Providing matching resources for the activities. (ex. grant match)
- When liable for disallowed costs (or the sub-recipient through the pass-through-entity).

# Administrative Involvement – 2020 IG

- ▶ Q—A school district holds the resources raised by the ski club. There is a school board policy that states that the resources raised by the ski club can be spent only on an annual ski club trip. The policy does not establish the specific types of ski trip disbursements that are acceptable for payment. A school district staff member is required to monitor compliance with the requirements of the activity. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

# Administrative Involvement – 2020 IG

- ▶ A—Yes, the school district has administrative involvement. The school district's role is substantive because the school district has established specific guidelines in an approved policy that defines the purposes for which the club's resources can be spent. In addition, the school district has administrative involvement because a school district staff member is monitoring compliance with the requirements of the activity.

**Everything Else – Don't procrastinate,  
evaluate!**

# Municipal Court Fees assessed by the State

- ▶ A local Municipal court collects state fees associated with certain local citations, ex. State Law Enforcement fees
- ▶ Fees are determined by the State
- ▶ The local Municipal court collects the state's fees and is required to remit the monthly amount collected in the subsequent month to the appropriate state agency.

# Evaluation

- ▶ Court Fees assessed by the State

<b>Step 1</b>	<b>Answer</b>
Component Unit Criteria Met	
<i>OR</i>	
Govt controls the assets	
<b>AND</b>	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	
<b>Step 2</b>	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
<i>OR</i>	
For the benefit of individuals & govt <b>does not</b> have <i>administrative involvement or direct financial involvement</i>	
<b>AND</b>	
Assets not derived from the governments provisions of goods & services to those individuals	
<i>OR</i>	
For the benefit of organizations or other govts that are not part of financial reporting entity	
<b>AND</b>	
Assets not derived from the governments provisions of goods & services to those individuals	
<b>Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)</b>	

# Evaluation

- ▶ Court Fees assessed by the State

<i>Step 1</i>	<i>Answer</i>
Component Unit Criteria Met	<b>N</b>
<i>OR</i>	
Govt controls the assets	
<b>AND</b>	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	<b>Y</b>
<i>Step 2</i>	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
<i>OR</i>	
For the benefit of individuals & govt <b>does not</b> have <i>administrative involvement or direct financial involvement</i>	
<b>AND</b>	
Assets not derived from the governments provisions of goods & services to those individuals	
<i>OR</i>	
For the benefit of organizations or other govts that are not part of financial reporting entity	
<b>AND</b>	
Assets not derived from the governments provisions of goods & services to those individuals	
<b>Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)</b>	

# Evaluation

- ▶ Court Fees assessed by the State

<b>Step 1</b>	<b>Answer</b>
Component Unit Criteria Met	
<i>OR</i>	
Govt controls the assets	
<b>AND</b>	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	<b>Y</b>
<b>Step 2</b>	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
<i>OR</i>	
For the benefit of individuals & govt <b>does not</b> have <i>administrative involvement or direct financial involvement</i>	
<b>AND</b>	
Assets not derived from the governments provisions of goods & services to those individuals	
<i>OR</i>	
For the benefit of organizations or other govts that are not part of financial reporting entity	
<b>AND</b>	
Assets not derived from the governments provisions of goods & services to those individuals	<b>Y</b>
<b>Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)</b>	

# Evaluation

- ▶ Court Fees assessed by the State

<i>Step 1</i>	<i>Answer</i>
Component Unit Criteria Met	
<i>OR</i>	
Govt controls the assets	
<i>AND</i>	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	<b>Y</b>
<i>Step 2</i>	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	
<i>OR</i>	
For the benfit of individuals & govt <b>does not</b> have <i>administrative involvement or direct financial involvement</i>	
<i>AND</i>	
Assets not derived from the governments provisions of goods & services to those individuals	
<i>OR</i>	
For the benfit of organizations or other govts that are not part of financial reporting entity	
<i>AND</i>	
Assets not derived from the governments provisions of goods & services to those individuals	<b>Y</b>
	<b>Y</b>
<b>Conclusion (if you have a yes answer in step 1 and step 2 the activiy is fiduciary</b>	<b>Y</b>

# Its Fiduciary Now What?

# Fiduciary Fund Types

- ▶ Pension/OPEB trust funds – we know these!!
- ▶ Investment trust funds - report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust that meets the criteria in paragraph 11c(1).
- ▶ Private-purpose trust funds - report all fiduciary activities that (a) are not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust that meets the criteria in paragraph 11c(1).
- ▶ Custodial funds - report fiduciary activities that are not required to be reported in the other three trust funds.

# Fiduciary Fund Types - Custodial

- ▶ Custodial funds
  - Report fiduciary activities not held in trust
  - Report external portion of investment pool not held in trust in separate 'external investment pool fund' column under custodial funds
  
- ▶ Exception: Assets normally expected to be held 3 months or less by a business-type activity
  - May report asset and corresponding liability instead of a separate custodial fund
  - Additions/deductions reported as operating cash inflows/outflows in statement of cash flows

# Statement of Change in Net Position - Custodial Funds

- Required to report for Custodial Funds:
  - Agency funds did not report this statement in the past.
- If resources held for three months or less
  - Option to report single aggregated totals for
    - Additions
    - Deductions
  - Example – County collects and remits property taxes to other taxing bodies
    - Addition – *Property taxes collected for other governments*
    - Deduction – *Property taxes remitted to other governments*

**Government ABC**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 20X2**  
**(in thousands)**

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 184,351	\$ 840,693	\$ 104,747	\$ 58,196
Receivables:				
Employee	2,123	—	—	—
Employer	83,004	—	—	—
Taxes for other governments	—	—	—	206,937
Interest and dividends	175,402	12,166	—	—
Sale of investments	30,879	—	—	—
Total receivables	<u>291,408</u>	<u>12,166</u>	<u>—</u>	<u>206,937</u>
Investments at fair value:				
Short-term investments	2,268,960	241,645	61,591	—
Bonds, notes, mortgages, and preferred stock	14,115,391	804,576	187,650	—
Common stock	20,342,440	—	520,196	—
Real estate	3,408,145	—	—	—
International investments	1,723,951	—	—	—
Mutual funds	72,315	178,046	—	—
Pooled investment funds	23,128	—	—	—
Total investments	<u>41,954,330</u>	<u>1,224,267</u>	<u>769,437</u>	<u>—</u>
Securities lending collateral	1,746,544	—	—	—
Other assets	13,519	181	81,157	361
Total assets	<u>44,190,152</u>	<u>2,077,307</u>	<u>955,341</u>	<u>265,494</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	130,846	1,361	61,447	1,451
Due to local governments	—	—	—	164,201
Obligations under securities lending	1,346,544	—	—	—
Other long-term liabilities	1,617	—	7,870	—
Total liabilities	<u>1,479,007</u>	<u>1,361</u>	<u>69,317</u>	<u>165,652</u>
<b>NET POSITION</b>				
Restricted for:				
Pensions	29,897,802	—	—	—
Postemployment benefits other than pensions	12,813,343	—	—	—
Pool participants	—	2,075,946	—	—
Individuals, organizations, and other governments	—	—	885,024	99,842
Total net position	<u>\$ 42,711,145</u>	<u>\$ 2,075,946</u>	<u>\$ 885,024</u>	<u>\$ 99,842</u>

▶ *Similar except  
for Custodial  
Funds*

**Government ABC**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**for the Year Ended June 30, 20X2**  
**(in thousands)**

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
<b>ADDITIONS</b>				
Contributions:				
Members	\$ 297,846	\$ —	\$ —	\$ —
Employers	1,259,384	—	—	—
Other plans	148,792	—	—	—
Gifts and bequests	—	—	197,258	—
Total contributions	<u>1,706,022</u>	<u>—</u>	<u>197,258</u>	<u>—</u>
Investment earnings:				
Net increase in fair value of investments	1,852,408	64,663	33,702	—
Interest, dividends, and other	1,416,448	58,465	30,378	—
Securities lending income	76,075	—	—	—
Total investment earnings	<u>3,344,931</u>	<u>123,128</u>	<u>64,080</u>	<u>—</u>
Less investment costs:				
Investment activity costs	32,281	50,236	63	—
Securities lending costs	73,642	—	—	—
Net investment earnings	<u>3,239,008</u>	<u>72,892</u>	<u>64,017</u>	<u>—</u>
Capital share and individual account transactions:				
Shares sold	—	2,817,210	—	—
Reinvested distributions	—	72,892	—	—
Shares redeemed	—	(2,776,843)	—	—
Net capital share and individual account transactions	<u>—</u>	<u>113,259</u>	<u>—</u>	<u>—</u>
Sales tax collections for other governments	—	—	—	1,811,120
Miscellaneous	1,130	—	—	1,468
Total additions	<u>4,946,160</u>	<u>186,151</u>	<u>261,275</u>	<u>1,812,588</u>
<b>DEDUCTIONS</b>				
Benefits paid to participants or beneficiaries	1,963,047	—	—	—
Medical, dental, and life insurance for retirees	536,027	—	—	—
Refunds and transfers to other systems	170,514	—	—	—
Administrative expense	19,920	—	43	293
Beneficiary payments to individuals	—	—	211,179	—
Payments of sales tax to other governments	—	—	—	1,811,120
Distributions to shareholders	—	72,892	—	—
Total deductions	<u>2,689,508</u>	<u>72,892</u>	<u>211,222</u>	<u>1,811,413</u>
Net increase (decrease) in fiduciary net position	2,256,652	113,259	50,053	1,175
Net position—beginning	40,454,493	1,962,687	835,971	98,667
Net position—ending	<u>\$ 40,454,493</u>	<u>\$ 1,962,687</u>	<u>\$ 835,971</u>	<u>\$ 99,842</u>

▶ *Similar  
except for  
Custodial  
Funds*

# Liability Recognition

- ▶ 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 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 asset.

Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus

# How to implement??

Someone has to be in charge to gather information – completeness is key

- May take many *periods*
- May involve legal team and treasurer / CFO
- May involve software changes

Compare each activity against

- GASB-84
- Governmental Fund Provisions in Other Standards
- Enterprise / Proprietary Fund Provisions in Other Standards
- Component Unit Standards

Information could be in

- Laws / regulations (especially student activity funds)
- Contracts
- Trust agreements / similar
- Gather information on revenue sources / uses

DOCUMENT IT – consistent forms a good idea

# How to implement??

## Could result in

- Reclassification to governmental / enterprise funds
- Reclassification from one fiduciary type to another
- Adjustments
- Redrafting of policies / procedures for fund creation, accounting and reporting
- Systems updating

**DOCUMENT DECISIONS / CHANGES** – consistent forms a good idea

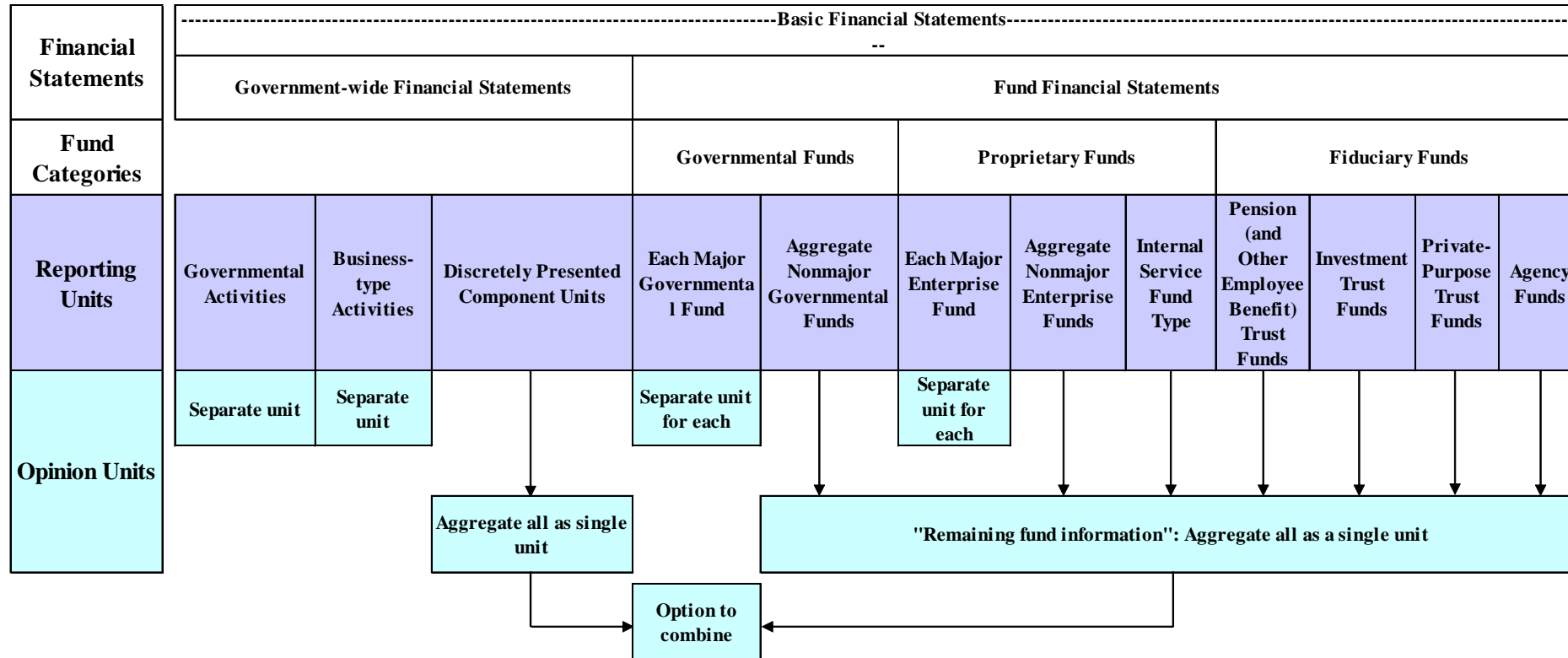
*Implementation Guide issued 2019-2*

# Materiality - Accountant

- ▶ Add IG question regarding materiality from GASB IG 2015-1 Question 7.4.1
- ▶ Q—In preparing financial statements, how should those financial statements be viewed for determining materiality?
  - Quantitative and Qualitative significance
  - Components of remaining fund info consider professional judgement considering relevant qualitative factors and relationship of fund reporting units to other info in the financial statements
    - quantitative materiality determination for each fiduciary fund type could be made based on the significance of those funds to all fiduciary funds of the reporting government, or it could be based on the significance of those funds to all funds of the government

# Materiality - Auditor

## Overview of Reporting Units and Opinion Units FOR DISCUSSION PURPOSES ONLY



**Audit Materiality is based on the opinion unit**

# TQA – 6950.23-.24

- ▶ A BTA has not previously reported any fiduciary activities ...In accordance with guidance in the AICPA Audit and Accounting Guide *State and Local* ...considered only one opinion unit for the BTA in previous audits..GASB Statement No. 84, the BTA determines that it has an activity that meets the criteria to be reported as a fiduciary fund in its financial statements. However, the BTA elects not to present the only identified fiduciary fund in the financial statements because it considers it to be immaterial based on the guidance in *GASB Implementation Guide 2015-1*, Q7.4.1, as amended.
- ▶ How should the auditor assess the appropriateness of the government's omission of the fiduciary fund?

# TQA – 6950.23-.24

- ▶ ...first assess management's assertion that the omission of the fiduciary fund is appropriate (that is, the fiduciary fund is both quantitatively and qualitatively immaterial based on relevant GAAP). Based on the guidance in GASB Implementation Guide 2015-1, Q7.4.1, as amended, the government can assess quantitative materiality of the fiduciary fund type based on the significance of those funds to all funds of the government. In all cases, qualitative materiality aspects should be appropriately considered. If the auditor agrees with management's assessment of materiality (quantitative and qualitative) relevant to the omission, the auditor does not need to perform any further audit procedures related to this omitted fund.

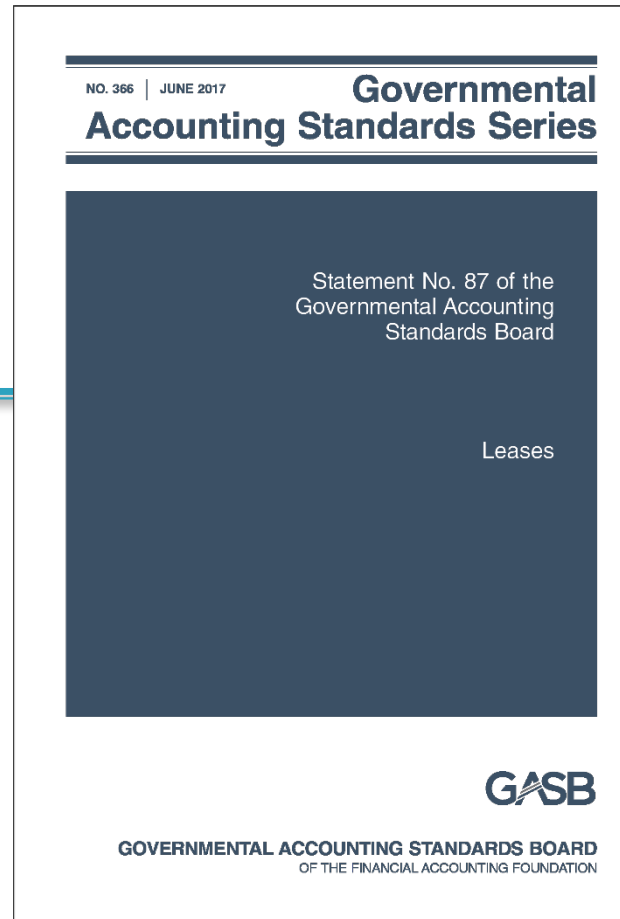
# Implementation

- ▶ List of Potential Fiduciary Activities
  - Current activities reported as fiduciary
  - Component Units
  - Current activities reported in BTA/Governmental funds
  - Bank Accounts
  - Activities/Fees Collected/Remitted to Other Entities
  - Non-reported activities
    - Resources potentially controlled by Government

# Leases

---

## Statement No. 87



# Leases

## What?

The Board issued Statement 87 to improve lease accounting and financial reporting

## Why?

Existing standards in effect for decades without review in light of GASB's conceptual framework; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers

## When?

Effective for periods beginning after December 15, 2019, COVID Impact

Earlier application is encouraged

# Transition

- ▶ Based on a June 30 year-end



- ▶ Implementation – use facts and circumstances that existed at the beginning of the earliest period presented
- ▶ No hindsight 20/20 – do not have to use the commencement date of the lease.

## Definition of a Lease

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

## IG 2019-3 – 4.1

- ▶ Q—A government obtains the right to use land, which has a market rent of \$100,000 per year, for \$1 per year. Should the government apply the requirements in Statement 87 to that transaction?

A—**No**. The definition of a lease in paragraph 4 of Statement 87 specifies that the Statement should be applied only to exchange or exchange-like transactions. Paragraph 1 of Statement No. 33, ...classifies all transactions of state and local governments into two categories: (a) exchange and exchange-like and (b) nonexchange. *The government's right to use land for \$1 does not meet the description of an exchange or exchange-like transaction because each party does not receive or give up essentially equal value or not quite equal value.*

### Don't forget Exchange-like transactions

One in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition.

# Definition of a lease - Control

- ▶ 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
- ▶ 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

## IG 2019-3 – 4.2

- ▶ Q—A government enters into a multiyear agreement for the right to use a facility. The government has exclusive use of the facility three days a week. Other parties use the facility on the other days. To meet the definition of a lease, is the government required to have uninterrupted control of the right to use the facility? Control applied to the right-to-use lease asset (a capital asset) “specified in the contract”

A—**No**. In determining whether a contract conveys control of the right to use an underlying asset, a government should assess whether it has (a) the right to obtain the present service capacity from use of the underlying asset and (b) the right to determine the nature and manner of use of the underlying asset “as specified in the contract” (paragraph 5 of Statement 87). ***If the contract specifies that the government has control of those rights during three days of each week, the control criterion is met.*** The provision in the lease definition that the contract be for a period of time does not require uninterrupted control of the right to use the facility.

Control &  
Uninterrupted Use

# Leases

- Nonfinancial assets
  - Assets that are not “financial assets”, as defined by GASB 72, *Fair Value*
  - Common Examples: land, buildings, vehicles, and equipment
    - Unless determined to be Investments/Financial

# Leases scope exclusions

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

Implementation: While many software/IT related agreements may be excluded from Statement No. 87; they may be included with SBITA.

“Inventory” those as well!!

# Leases

- ▶ No classification of leases into operating/capital or other categories
- ▶ Underlying assumption that leases are financings
- ▶ Exceptions (lessors and lessees)
  - Short-term leases
  - Leases that transfer ownership and do not contain termination options
- ▶ Exceptions for lessors
  - Leases of assets that are investments
  - Certain regulated leases (e.g., airport-airline agreements)

## IG 2019-3 – 4.21 Transfer Ownership

- ▶ Q—A vendor installs equipment in a government’s building to increase energy efficiency. The government will own the equipment at the end of the agreement, and the contract does not contain a termination option. For financial reporting purposes, should this transaction be reported as a lease or a financed purchase?

A—This transaction should be *reported as a financed purchase*. If *title to the equipment transfers to the lessee* by the end of the contract, the *transaction is not accounted for as a lease* for financial reporting purposes. Rather, the transaction is a financed purchase, as discussed in paragraph 19 of Statement 87.

# Lease Term

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



- Plus 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

## IG 2019-3 – 4.13 Holdover Period

- ▶ Q—A lease contract has a noncancellable period of five years and specifies that at the end of the five years, both the lessor and lessee have the right to cancel the lease or may continue the lease, using the same terms on a month-to-month basis. Is the month-to-month holdover period included in the initial assessment of the lease term?

A—**No**. During the holdover period, the lessee has not contracted for a noncancellable right to use an underlying asset, and the lessor is not required to continue providing the asset. That is, the **holdover period is cancellable** by either party and, therefore, is excluded from the lease term, as defined in paragraph 12 of Statement 87.

## IG 2019-3 – 4.15 Cancellation penalties

- ▶ Q—A lease contract allows either party to unilaterally terminate the lease at any time but also provides for cancellation penalties. The cancellation penalties are so great that it is reasonably certain that neither party will terminate the lease. Should the cancellable periods be excluded from the lease term?

A—**Yes**. Paragraph 12 of Statement 87 requires that periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party be excluded from the lease term as cancellable periods. ***The presence of cancellation penalties does not affect that conclusion.*** Even if, as in this example, both parties are reasonably certain that the lease will not be terminated, the ***cancellable periods should be excluded*** from the lease term.

# Contracts with Multiple Components

- ▶ Separate contracts into lease and nonlease components or multiple lease components
- ▶ Allocate consideration to multiple underlying assets if:
  - Service components of contract,
  - Differing lease terms, or
  - Are in differing major asset classes for disclosure
- ▶ Allocation process:

Identify individual components, are they reasonable?

Maximize observable information

Estimate using professional judgment

If not practicable to determine best estimate, may account for components as single lease unit

Consider Contract Combinations when reviewing Multiple Components

# Lease Term - Example

5 year lease with lessee-*only* option to cancel at 4 years

Lessee Options		Lessor Options		Term
<u>Terminate</u>	<u>Extend</u>	<u>Terminate</u>	<u>Extend</u>	
Uncertain	N/A	N/A	N/A	5 years
Reasonable Certain	N/A	N/A	N/A	4years

# Lease Term - Example

5 year lease with lessee option to extend to 6 and lessor option to cancel at 4.

Lessee Options		Lessor Options		Term
<u>Terminate</u>	<u>Extend</u>	<u>Terminate</u>	<u>Extend</u>	
N/A	Uncertain	Uncertain	N/A	5 years
N/A	Uncertain	Reasonably Certain	N/A	4 years
N/A	Reasonably Certain	Uncertain	N/A	6 years
N/A	Reasonably Certain	Reasonably Certain	N/A	4 years

# Lease Term - Example

5 year lease with lessee and lessor options to cancel at 4

Lessee Options		Lessor Options		Term
<u>Terminate</u>	<u>Extend</u>	<u>Terminate</u>	<u>Extend</u>	
Uncertain	N/A	Uncertain	N/A	4 years
Uncertain	N/A	Reasonably Certain	N/A	4 years
Reasonably Certain	N/A	Uncertain	N/A	4 years
Reasonably Certain	N/A	Reasonably Certain	N/A	4 years

- Cancelable after 4<sup>th</sup> year because both lessee and lessor can cancel

# Lease Term – Reassessment

- ▶ Reassess the lease term only if one or more of the following occurs:
  - Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would *not* exercise that option
  - Lessee or lessor elects to *not* exercise an option even though previously determined that the lessee or lessor would exercise that option
  - An event specified in the contract that requires an extension or termination of the lease takes place

# Short-term lease exception

- ▶ A *short-term* lease is one 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
- ▶ Practicality exception for short-term leases
  - For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the noncancelable period including any notice period

## IG 2019-3 – 4.18 Short-Term Leases

- ▶ Q—A government enters into a lease with a 6-month noncancellable period and an option to extend for another 12 months after the noncancellable period. The government is not reasonably certain that it will exercise the option to extend and, therefore, assesses the lease term as six months. Is this agreement a short-term lease under Statement 87?

A—**No**. Paragraph 16 of Statement 87 states that a short-term lease “has a ***maximum possible term*** under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.” Therefore, the lessee should report a lease liability and a lease asset; however, the lease term would be only six months.

# Short-term lease exception

## ▶ Accounting:

- Lessee: lease payments recognized as expenses/expenditures based on the payment provisions of the contract
- Lessor: lease payments recognized as revenue based on the payment provisions of the contract

## ▶ Disclosures:

- None

# Leases Overview—Initial Reporting

	Assets	Liability	Deferred Inflow
<b>LESSEE</b>	Intangible 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 including same items as lessee liability)</li> <li>• Continue to report leased asset</li> </ul>	NA	Equal to lease receivable plus any cash received up front that relates to a future period

# Leases Overview—Subsequent Reporting

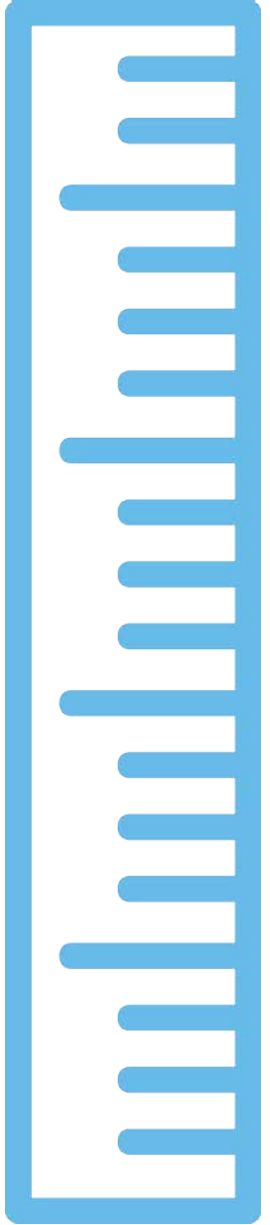
	Assets	Liability	Deferred Inflow
<b>LESSEE</b>	Amortize the intangible asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
<b>LESSOR</b>	<ul style="list-style-type: none"> <li>• Depreciate leased asset (unless indefinite life or required to be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

# Lessee – Initial Measurement

- ▶ Initial measurement of a lease liability includes:
  - Fixed payments over lease term
  - Variable payments based on an index / rate in effect at that date (ex. CPI)
  - Variable payments that are in-substance fixed
  - Residual value guarantees that are *reasonable certain* of being required
  - Termination penalties if based on the determination of the lease term, the termination option is *reasonable certain* of being exercised
  - Purchase options *reasonably certain* of being exercised
  - Any other *reasonably certain* payments

# LESSEE – Recognition & Measurement

- ▶ Recognize a lease liability and intangible lease asset
- ▶ In governmental funds, report capital outlay and other financing source

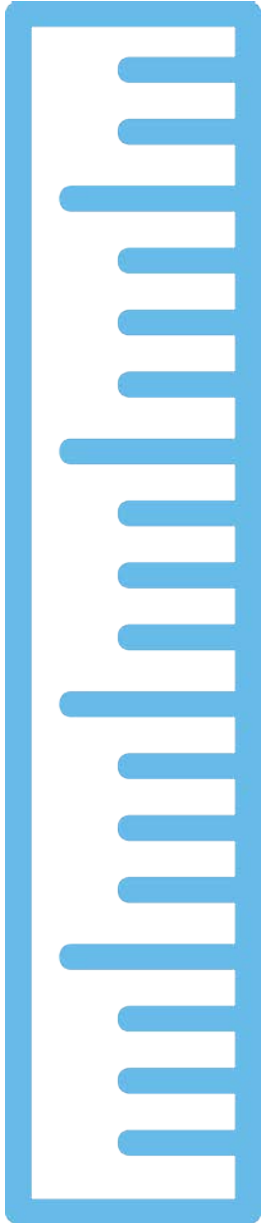


# LESSEE – Lease Liability

- ▶ 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),
    - Use 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

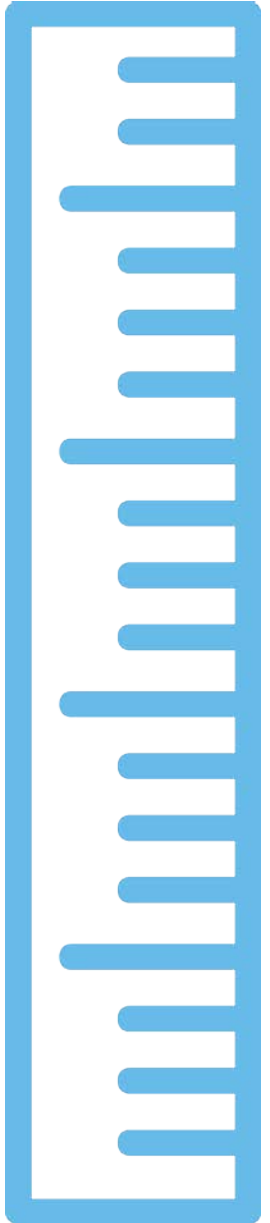
# LESSEE – Lease Liability

- ▶ Initial measurement of a lease liability includes:
  - Lease liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset
- ▶ Discount the lease liability payments using the rate the lessor charges the lessee
  - Interest rate may be implicit in the lease
  - if that rate cannot be readily determined, the lessee's incremental borrowing rate



# LESSEE – Lease Liability

- ▶ Remeasure **lease liability** when certain changes occur (if expected to significantly affect liability measurement)
- ▶ If **lease liability** remeasured
  - Adjust liability for change in variable payments index/rate
  - Update discount rate when certain other judgments change
- ▶ Adjustments to the **lease liability** generally should adjust the lease asset by the same amount
  - Exception if adjustment is greater than carrying value of asset, difference is recognized in the flows statement



# LESSEE – Lease Right-to-Use-Asset

- ▶ Initially measure **lease asset** as the sum of:
  - a. Initial lease liability
  - b. Any prepayments (amounts paid for the lease prior to measuring the lease liability)
    - Less any incentives *received* from the lessor
  - c. Initial direct costs that are necessary ancillary charges to place the leased asset into use
    - Other initial direct costs (e.g., insurance, legal, administrative) should be expensed

# LESSEE – Lease Right-to-Use-Asset

## Lease Asset Subsequent Recognition and Measurement

- ▶ **Lease asset** amortized (e.g., amortization expense) using a systematic and rational manner over the shorter of the useful life of the underlying asset or the lease term
  - Lease asset amortization *may* be combined with depreciation expense for other capital assets
  - If the lease has a purchase option which is reasonably certain of being exercised, amortize over the useful life of the underlying asset as if the lessee owns the underlying asset, using the lessee's depreciation policy, unless non-depreciable.



# LESSEE – Lease Right-to-Use-Asset

## Lease Asset Subsequent Recognition and Measurement

- ▶ Lease asset generally adjusted by the same amount as lease liability.
  - If this change reduces the carrying value of the lease asset to zero, any remaining amount is a gain
- ▶ If the underlying asset becomes impaired, apply capital asset impairment guidance of Statement 42 to the right-to-use lease asset

# LESSEE—disclosures

- a. A general description of leasing arrangements, including:
  - 1. Basis, terms, and conditions, on which variable lease payments are determined
  - 2. Existence, terms, and conditions of residual value guarantees provided by the lessee
- b. Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets
- c. Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets
- d. Variable lease payments recognized during the period but not previously included in the lease liability

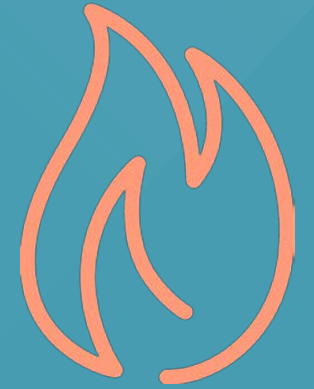
# LESSEE—disclosures

- e. Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)
- f. A maturity analysis of all future lease payments
  - Payments for each of the first five years
  - Payments in five-year increments thereafter
  - Show principal and interest separately
- g. Lease commitments, other than short-term leases, for which the lease term has not yet begun
- h. Components of any net impairment loss (gross impairment loss less change in lease liability)

# LESSEE – Pumper Truck Example (cont.)

## Assumptions for Lease Liability calculation:

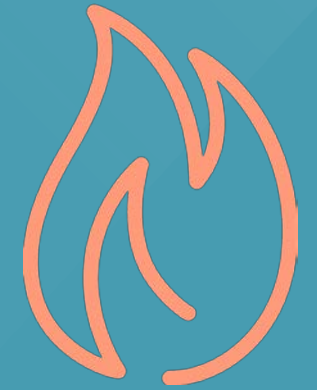
- ▶ The Pumper Truck is delivered on January 1, 2021, date of 1st payment.
- ▶ Payment schedule 5 years, assuming a 6% interest rate.
- ▶ Purchase price, not certain of being exercised (exclude)
- ▶ Present value of \$2,000 monthly payments for 5 years (60 months):
  - Rate = (6% per year / 12 months to get rate per month)
  - Nper (number of payments) = 60
  - Pmt (monthly payment) = 2,000
  - FV (future value) = 0
  - Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period



# LESSEE – Pumper Truck Example (cont.)

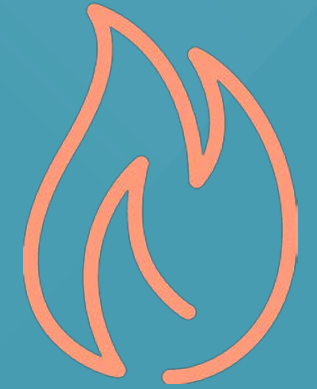
## Assumptions for Lease Liability calculation:

- ▶ The Pumper Truck is delivered on January 1, 2021, date of 1st payment.
- ▶ Payment schedule 5 years, assuming a 6% interest rate.
- ▶ Purchase price, not certain of being exercised (exclude)
- ▶ Present value of \$2,000 monthly payments for 5 years (60 months):
  - Rate = (6% per year / 12 months to get rate per month)
  - Nper (number of payments) = 60
  - Pmt (monthly payment) = 2,000
  - FV (future value) = 0
  - Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period



**Present  
Value =  
103,968**

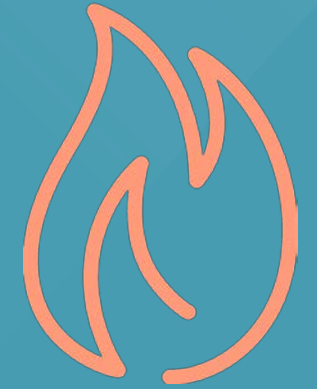
# LESSEE – Pumper Truck Example (cont.)



Annualized Payment Schedule			
	Principal	Interest	Total Payment
<b>2021</b>	18,808	5,192	24,000
<b>2022</b>	19,419	4,581	24,000
<b>2023</b>	20,616	3,384	24,000
<b>2024</b>	21,888	2,112	24,000
<b>2025</b>	<u>23,237</u>	<u>761</u>	<u>24,000</u>
	<b>103,968</b>	<b>16,032</b>	<b>120,000</b>

Year 1	Amortization	20,794
Year 2	Amortization	20,794
Year 3	Amortization	20,794
Year 4	Amortization	20,794
Year 5	Amortization	<u>20,792</u>
		<b>103,968</b>

# LESSEE – Pumper Truck Example (cont.)

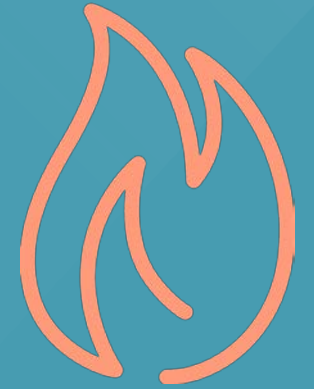


<b>Governmental Fund - Initial Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Capital outlay	103,968	
Other financing sources - lease proceeds		103,968
<i>To record capital expenditure and related proceeds from lease of vehicles</i>		

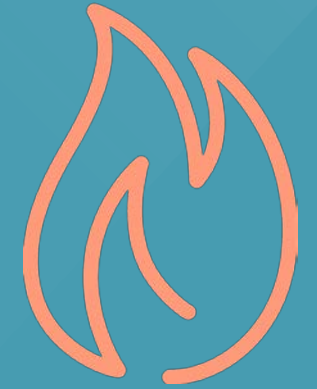
<b>Entity-wide - Initial Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Other financing sources - lease proceeds	103,968	
Lease liability – due within one year		18,808
Lease liability – due beyond one year		85,160
Intangible lease asset - vehicles	103,968	
Capital outlay		103,968
<i>To record intangible asset and related liability from lease of vehicles</i>		

# LESSEE – Pumper Truck Example (cont.)

<u>Enterprise funds - Initial Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Intangible lease asset - vehicles	103,968	
Lease liability – due within one year		18,808
Lease liability – due beyond one year		85,160



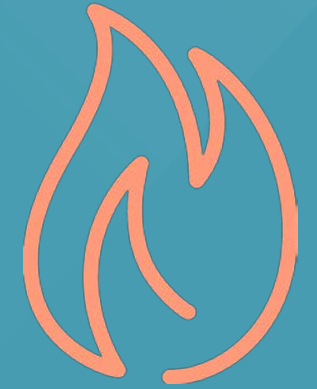
# LESSEE – Pumper Truck Example (cont.)



<b>Governmental Fund - Year 1 Journal Entry</b>	<b>Debit</b>	<b>Credit</b>
Interest expense	5,192	
Lease principal payment expenditure	18,808	
Cash		24,000
<i>To record 12 monthly lease payments for first year</i>		

<b>Entity-wide - Year 1 Journal Entries</b>	<b>Debit</b>	<b>Credit</b>
Lease liability – due within on year	18,808	
Lease principal payment expenditure		18,808
Amortization expense	20,794	
Accumulated amortization		20,794
<i>To eliminate fund level activity for first year</i>		

# LESSEE – Pumper Truck Example (cont.)



<u>Enterprise funds - Year 1 Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Lease liability – due within one year	18,808	
Interest expense	5,192	
Cash		24,000
<i>To record 12 monthly lease payments for first year</i>		
Amortization expense	20,794	
Accumulated amortization		20,794
<i>To record annual amortization expense</i>		

# LESSOR

## Recognition & Measurement

# LESSOR - Recognition & Measurement

- ▶ Recognize a lease receivable and deferred inflow of resources
- ▶ Do not derecognize the underlying asset and do not recognize a residual asset
  - Depreciate underlying asset as normal, unless required to be returned in its original or enhanced condition or has an indefinite useful life
- ▶ In governmental funds, report lease receivable and deferred inflow of resources
  - Recognize deferred inflow of resources as revenue when “available”



# LESSOR – Lease Receivable

- ▶ Initial measurement of a lease receivable includes:
  - + Fixed payments
  - + Variable payments that depend on an index or rate (such as CPI)
    - Use the rate as of beginning of lease
  - + Variable payments that are fixed in substance
    - Exclude variable lease payments that are dependent on a lessee's performance or usage of an underlying asset
  - + Residual value guarantees that are fixed in substance
  - Less provision for uncollectible amounts

# LESSOR – Lease Receivable

- ▶ Discount the lease receivable using the rate the lessor charges the lessee
  - Interest rate may be implicit in the lease
- ▶ Initially excludes the following
  - Residual value guarantees that are not fixed in substance should be recognized as a receivable when:
    - a. Payment is required, and
    - b. Amount can be reasonably estimated
  - Purchase option payments or termination penalties
    - Recognized when exercised



# LESSOR – Deferred Inflow of Resources

- ▶ Initial Measurement
  - + Receivable amount, plus
  - + Any cash received up front that relates to future periods (e.g., final month's rent)
- ▶ Recognition:
  - Recognize revenue over the lease term on a systematic and rational manner over the lease term



# LESSOR – Subsequent Recognition & Measurement

- ▶ Recognize amortization of the discount on the lease receivable (interest revenue) to produce a constant periodic rate of return on the receivable
- ▶ Lease payments allocated first to accrued interest receivable and then to the lease receivable
- ▶ Remeasure the lease receivable and update the discount rate when one or more of the following occur and are expected to *significantly* affect the receivable amount:

There is a change in lease term

There is a change in the rate the lessor charges the lessee

A contingency is resolved making variable payments fixed

# LESSOR – Subsequent Recognition & Measurement

- ▶ If remeasured:
  - also remeasure for changes in an index/rate used to determine variable lease payments
- ▶ If the discount rate is updated:
  - the receivable should be adjusted using the revised rate
- ▶ The deferred inflow of resources generally adjusted by the same amount as the lease receivable
  
- ▶ Underlying Asset –
  - Do not derecognize
  - Continue to depreciate during the lease term
  - If asset is to be returned at original condition or enhanced, then do not depreciate during lease term

# Lessor – Governmental Funds

- Accounting in governmental funds (lessor)
  - Inception: debit lease receivable; credit deferred inflow
  - Lease payments received: debit cash; credit lease receivable
  - Systematically over lease term: debit deferred inflow; credit revenue

# LESSOR - exceptions

Two main transactions do not apply the general lessor recognition and measurement guidance (but still required to provide certain disclosures)

- Leases of tangible assets that are investments
  - No lease receivable reported for leased investment assets because investments are reported at fair value
- Certain regulated leases (e.g., airport-airline agreements)
  - Airport-airline agreements have features that don't operate like financings

# LESSOR - disclosures

Lease activities may be grouped for disclosure purposes

- a. A general description of leasing arrangements
  - The basis, terms, and conditions on which variable lease payments not included in the lease receivable are determined
- b. The total amount of inflows recognized in the reporting period related to leases, if not displayed on face of financials

## LESSOR - disclosures

- c. The lease inflows related to variable lease payments and other payments not previously included in the lease receivable
  - Include inflows related to residual value guarantees and termination penalties
- d. If lease payments secure lessor's debt:
  - The existence, terms, and conditions of options by the lessee to terminate a lease or abate lease payments

Similar disclosures required for certain regulated leases (airport-airline agreements)

# LESSOR - disclosures

- ▶ If government's *principal ongoing operations* consist of leasing to other entities,
  - Disclose maturity analysis of all future lease payments included in lease receivable
    - Payments for each of the first five years
    - Payments in five-year increments thereafter
    - Show principal and interest separately

# Lease Modifications

## For LESSORS

- ▶ Remeasure the lease receivable on the effective date of modification
  - Assess the need for an updated discount rate
- ▶ Adjust the deferred inflow of resources by the difference between the modified receivable and the receivable immediately before the modification
  - However, to the extent any change relates to payments for the current period, recognize in current period flows statement (for example, revenue)
- ▶ If change results from refunding related debt and passing savings on to the lessee, see remeasurement guidance in paragraph 76

# Lease Terminations

## For LESSORS

- ▶ For partial/full lease terminations (other than sales), lessors reduce/remove the lease receivable and related deferred inflow of resources
- ▶ Recognize the difference as a gain or loss
- ▶ If the lessor sells the underlying asset, derecognize underlying asset
  - Include in the calculation of any gain or loss

# Considerations for Implementation

# Materiality Considerations

- ▶ Asset value and liability value
  - What if the underlying assets do not meet the government's capitalization threshold?
- ▶ IG question on this 7.9.8 – directing governments to capitalize the **collective** amount if material in total
- ▶ IG 2019-3 question 4.23 – applications of a similar threshold as capital assets to the lease liability

# Identifying the Rate Charged

- ▶ From the lessee perspective
  - GASB 62 par 173-187
  
- ▶ From the lessor perspective
  - Proposed IG Question



# Identifying the Rate Charged

- ▶ 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?



# Identifying the Rate Charged



***A—If the lease contract contains a stated interest rate, the lessor should use that rate. In the absence of a stated rate, the lessor should determine if the rate implicit in the lease can be estimated. Paragraph 47 of Statement 87 provides that lessors may apply the guidance for imputation of interest in paragraphs 173–187 of Statement 62. Paragraph 183 of Statement 62 indicates that the prevailing rates for similar instruments of issuers with similar credit ratings normally will help determine an appropriate interest rate. Lessors may use professional judgment to determine their best estimate for the interest rate, maximizing the use of observable information; for example, using the lessee’s estimated incremental borrowing rate or published market rates for similar instruments. If it is not practicable for the lessor to estimate the discount rate through those methods, the lessor’s own incremental borrowing rate may be used.***

# Effective Date & Transition



- ▶ Effective for periods beginning after December 15, 2019
  - Earlier application encouraged
- ▶ Transition
  - Apply retroactively
    - Restate if practicable, cumulative effect if not
  - Leases recognized and measured *using the facts and circumstances that exist at the beginning of the period of implementation* (hindsight)
  - Lessors should not restate the assets underlying their existing sales-type or direct financing leases
    - Any residual assets for those leases would become the carrying values of the underlying assets

# Implementation Ideas



- ▶ Start reviewing existing leases as soon as possible
- ▶ Implement internal controls to identify leases and lease modifications
  - ▶ Update accounting systems for new information needs
  - ▶ Read GASB 87 & Leases Implementation Guide

# Implementation Ideas



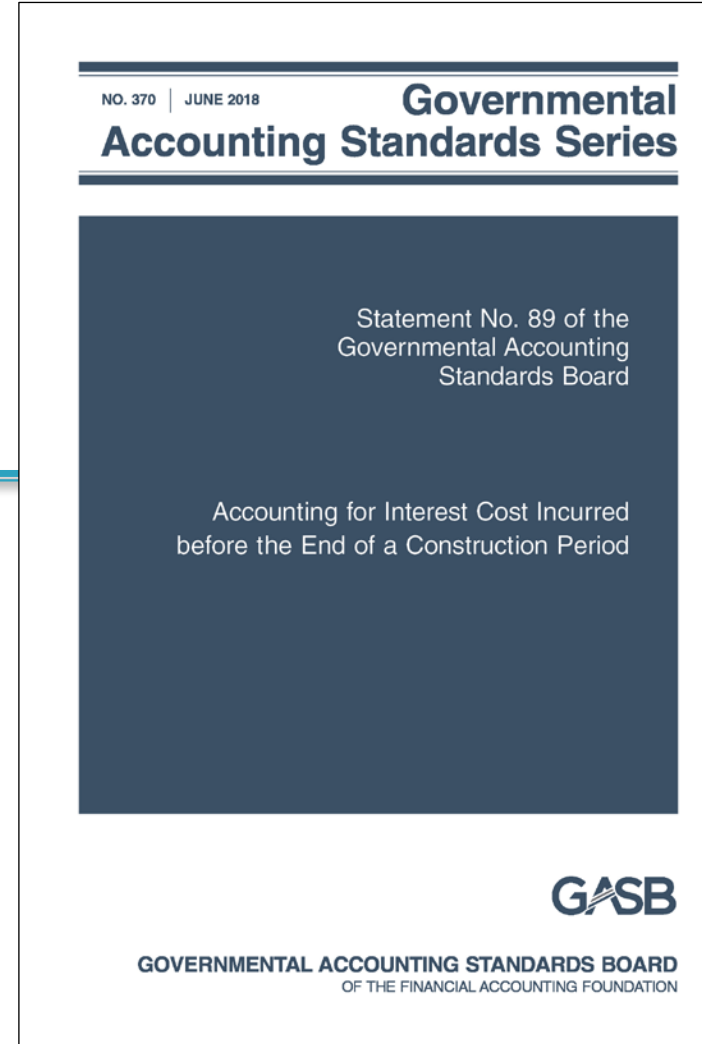
- ▶ Consider impact on capitalization policy
- ▶ Consider effects of reporting lease liabilities on...
  - Debt limitations
  - Bond covenants
  - Grant agreements

# Other Accounting and Reporting Provisions

- ▶ Lease Incentives
- ▶ Subleases
- ▶ Sale-Leasebacks
- ▶ Lease-Leasebacks
- ▶ Intra—Entity Leases
- ▶ Leases Between Related Parties

# Accounting for Interest Cost Incurred before the End of a Construction Period

Statement No. 89



# Interest Cost

## What?

The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting

## Why?

Accounting guidance has been based on FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of GASB's Concepts Statements

## When?

Effective for periods beginning after December 15, 2019

Earlier application is encouraged

# Recognizing Interest Cost

Financial statements prepared using the economic resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.

Financial statements prepared using the current financial resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.

Prospective application at transition

# Conduit Debt Obligations

## Statement No. 91

MAY 2019

### Governmental Accounting Standards Series

Statement No. 91 of the  
Governmental Accounting  
Standards Board

Conduit Debt Obligations

**GASB**

GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
OF THE FINANCIAL ACCOUNTING FOUNDATION

# Conduit Debt

## What?

The Board improved the existing standards related to conduit debt obligations by providing a single reporting method for government issuers

## Why?

Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, improvements were needed to eliminate diversity in practice

## When?

Effective for periods beginning after December 15, 2020

Earlier application is encouraged

# 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 & 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

# 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.

- Capital asset is built or acquired with proceeds of the conduit debt obligation.
- Issuer retains title to the capital asset from the beginning of the arrangement.
- Payments from the third-party obligor are to cover debt service payments.
- Payment schedule of the arrangement coincides with the debt service repayment schedule.

\*Often characterized as “leases”

# 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

If the arrangement meets the definition of a service concession arrangement, follow Statement 60

# 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

# Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

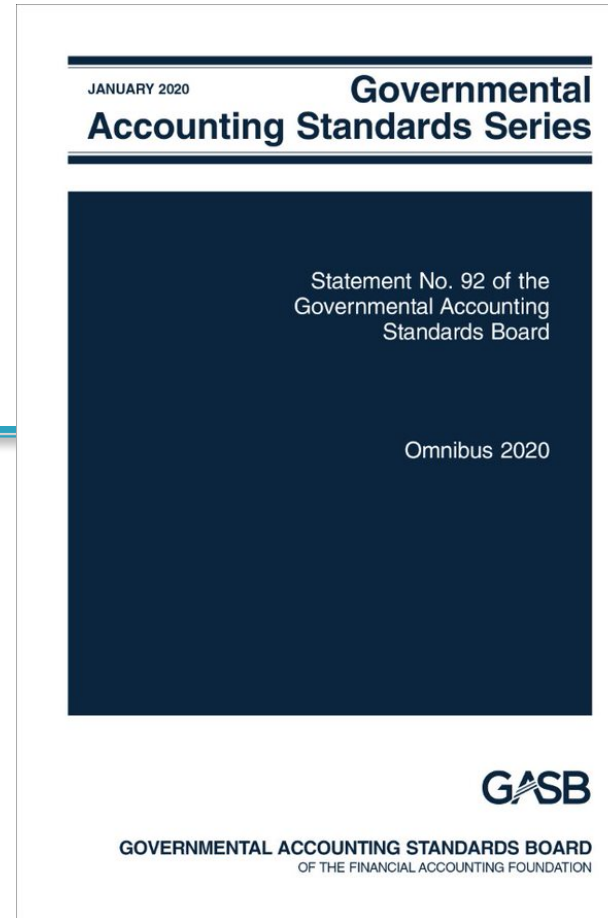
- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

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

# Omnibus 2020

## Statement No. 92



# Omnibus 2020

## What?

The Board has amended existing standards covering multiple topics

## Why?

Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

## When?

Effective dates vary by topic

Earlier application is encouraged and permitted by topic

# Provisions of Statement 92

## Leases

- Effective date of Statement 87 and Implementation Guide 2019-3 is changed to “fiscal years beginning after December 15, 2019, and all reporting periods thereafter”

## Government combinations and disposals of operations

- Provides an exception to the use of acquisition value in the measurement of an acquired asset retirement obligation

## Derivative instruments

- Amends NCGA and GASB pronouncements to standardize the terminology used to refer to derivative instruments

# Provisions of Statement 92 (continued)

## Application of Statement 84 to Postemployment Benefit Arrangements

- Limit the requirements of paragraphs 22 and 25 to defined benefit pension and OPEB plans
- Supersedes guidance in Statements 73 and 74 regarding recognition of a liability to employers and NECEs for the excess of assets over liabilities for benefits payments and administrative expenses in custodial funds in circumstances in which assets are accumulated for the pensions and OPEB of other employers and NECEs

## Applicability of Statements 73 and 74

- Amend Statements 73 and 74 to replace references to *control* of assets in those same circumstances, to avoid limiting the application of the associated requirements of those Statements

## Fair value measurements

- Amends paragraph 81 of Statement 72 to adjust the example of nonrecurring fair value measurements

# Provisions of Statement 92 (continued)

## Intra-entity transfers of assets

- Amends paragraph 15 of Statement 48 to clarify that amounts associated with the transfer of capital or financial assets from an employer or NECE to a defined benefit pension or OPEB plan within the same financial reporting entity should be reported as contributions to the plan, in accordance with Statements 68 and 75
- Clarifies that the provisions of paragraph 15 apply to all transfers of assets within a financial reporting entity

## Reinsurance recoveries

- Amends paragraph 37 of Statement 10 to clarify that amounts that are recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment expenses may be reported as reductions of expenses but are not required to be.

# Effective Dates for Statement 92

Requirements related to:	Effective Date
<ol style="list-style-type: none"><li>1. Leases</li><li>2. Reinsurance recoveries</li><li>3. Derivative instruments</li></ol>	Upon issuance
<ol style="list-style-type: none"><li>4. Intra-entity transfers of assets</li><li>5. Applicability of Statements 73 and 74</li></ol>	Fiscal years beginning after June 15, 2020
<ol style="list-style-type: none"><li>6. Application of Statement 84 to postemployment benefit arrangements</li><li>7. Fair value measurements</li></ol>	Reporting periods beginning after June 15, 2020
<ol style="list-style-type: none"><li>8. Government combinations and disposals of operations</li></ol>	For government acquisitions occurring in reporting periods beginning after June 15, 2020

# **Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans**

---

GASB 97

# Fiduciary Component Units and Deferred Compensation Plans – Statement No. 97

## What?

The GASB has proposed changes to the criteria for including certain employee benefit plans as component units and improvements to Statement 32 on IRC Section 457 plans

## Why?

Some 457 plan characteristics have changed due, in part, to changes in the IRC; questions have been raised about whether certain employee benefit plans should be included as component units

## When?

Par 6-9 - Effective for fiscal years beginning after June 15, 2021

Rest – periods beginning after June 15, 2021

# Relevant Guidance on Fiduciary Component Units

Paragraph 7 of Statement 84 amended Statement 14 to indicate that a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to a pension plan or OPEB plan

Implementation Guide 2019-2 provided guidance that in the absence of a governing board, a government performing the duties of a governing board for a defined contribution (DC) plan that is administered through a trust that meets the criteria in Statement 67 is effectively the same as appointment of a voting majority

# Relevant Guidance on Fiduciary Component Units (continued)

The implication of that existing and considered guidance is that many governments would be required to report DC plans and other employee benefit plans as component units in their fiduciary fund financial statements

The Board directed the staff to conduct additional outreach on the structure of those types of arrangements and user needs for information about them

Based on the outreach, the Board decided to expand the project and issue a new proposal including guidance on component units

# Component Unit Criteria

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the appointment of a voting majority of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) would apply only to defined benefit plans

The effective date for the relevant Q&As in Implementation Guide 2019-2 – 4.3, 4.5, and 4.6 – were delayed until completion of this project

# 457 Plans

All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan

All requirements relevant to pensions should be applied by employers to benefits provided through Section 457 plans that meet the definition of a pension plan

Investments would be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator would be eliminated)

# Going Concern Disclosures: Reexamination of Statement 56

---

# Going Concern Disclosures

## What?

The GASB is reviewing existing standards related to going concern considerations, which were incorporated into GASB literature mostly as-is from the AICPA literature in Statement 56

## Why?

As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; AICPA and others have asked the GASB to examine the issue

## When?

The Board added the pre-agenda research in April 2015

# Topics to Be Considered

Are the current going concern indicators presented in note disclosures appropriate for state and local governments, in light of the fact that, even under severe financial stress, few governments cease to operate even when encountering such indicators?

What other criteria might better achieve the objective of disclosing severe financial stress uncertainties with respect to governments?

What information do financial statement users need with respect to the disclosure of severe financial stress uncertainties?

# Auditing Update

- “Inside every great auditor is a really good accountant, since it is very difficult to audit something if you don’t understand how it is supposed to be accounted for”  
Quote from unnamed governmental auditing instructor, when asked why auditors should spend a lot of time understanding accounting principles

# Various auditing issues

- Grant revenue/expense
- Tax abatements
- Risk assessments and linkage
- Inventory
- 2018 Yellow Book implementation

# Grant revenue/expense

- Grant revenue

- Entire accounting treatment is found in GASB 33

- Voluntary non-exchange transactions

- Requires revenue recognition upon all eligibility and timing requirements being met, which is typically when the grant expense/expenditure that gives rise to the grant revenue in the first place occurs, but can also occur just upon the receipt of the grant revenue in advance of any expense/expenditure occurring, if no eligibility and/or timing requirements exist
- Spending the money on eligible expenses/expenditures is not considered an eligibility requirement
- So grants received in advance will go straight into revenue in most cases, unless there is some other eligibility requirement or a timing requirement
- Exception: For modified accrual, the revenue must be earned, available and measureable
- Available means we receive it in cash within 60 days of year end, or whatever other period of availability that a government chooses

# Grant revenue/expense, cont.

- Top financial statement auditing assertions related to grant revenue
  - Completeness, cutoff and classification
    - Have we identified all the grant revenue by looking at places where grant revenue might be recorded, perhaps inappropriately, such as a credit to expense, a payable in a fiduciary fund, or in a miscellaneous revenue category
  - Accuracy
    - Are the revenues recorded at the correct amounts, including the appropriate accruals and deferrals?
    - Don't forget the existence, valuation and allocation of receivables at year end

# Grant revenue/expense

- Grant expense/expenditures
  - Outside of the compliance provisions, most grant expenditures are treated indifferently from other types of expenditures, assertion-wise
  - Top financial statement auditing assertions
    - Completeness, cutoff and classification
      - Is the grant expense where and when it is supposed to be, including possible accruals
      - Do the possible accruals of additional grant related expenses/expenditures affect capital assets recorded amounts
    - Accuracy
      - Are the expenses/expenditures recorded at the correct amounts, including the appropriate accruals?
      - Don't forget the existence, valuation and allocation of payables at year end

# Tax abatements

- Top financial statement auditing assertions
  - Occurrence and Completeness of note disclosures
    - Are all of the required disclosures included
    - Beware of including any types of statutorily protected information within the note disclosures
  - Rights and obligations
    - Are these our abatements or those of some other government
  - Accuracy and valuation
    - Do we have the correct amounts in the disclosure

# Risk assessments and linkage

- How should you define significant audit areas
  - We generally first break along the lines of the assertions
    - Define significant transaction classes (think revenues, expenses/expenditures, and events)
      - Further split revenue between exchange transactions and non-exchange, then split payroll, capital outlay, debt service and other expense/then define risks
      - Then apply materiality in light of the risks
    - Define significant account balances (think balance sheet and statement of net position)
      - Further split between assets, liabilities, deferred outflows, deferred inflows and net position/fund balance, then define risks
      - Then apply materiality in light of the risks
    - Define significant note disclosures
      - Further split out between SSAP notes, Details of Transactions and Balances notes, and event notes, then define risks and apply materiality in light of the risks

# Inventory

- Accounting driven by two methodologies, IF the amount of inventory on-hand at year end is considered significant/material (if not, then don't worry about it)
  - Purchase method vs consumption method
    - Purchase method
      - The amount of inventory on-hand at year is counted, valued and recorded at year-end, and an offsetting component of non-spendable fund balance is recognized
      - The difference between beginning and ending inventory is used as an adjustment to the expenditures of the purchase of such inventory items
      - By the way, this method is ONLY allowed for governmental funds, such as general funds, special revenue funds and capital project funds
      - If the purchase method is used in the governmental funds, and the consumption method would have produced a different (material) result, then the difference would appear as a reconciling item on the reconciliation of governmental funds to governmental activities (the operating reconciliation, as there would be no difference, in theory, on the balance sheet/statement of net position side)

# Inventory, cont.

- Purchase vs Consumption method, cont.
  - Consumption method
    - Inventory is reported as a balance sheet/statement of net position asset as it is purchased, and is reduced and expensed when it is consumed by the various user departments
    - The required approach for any activities using full accrual and the economic resource measurement focus (proprietary, fiduciary and government-wide)
  - Common examples of recorded inventory are electrical and other public utilities materials and supplies, fuel, asphalt, salt, and other consumable supplies; and to a lesser extent, food service supplies in schools
  - The key question deals with just how material these year end balances are collectively

# Inventory, cont.

- Top financial statement auditing assertions
  - Existence and completeness
    - Identifying all possible individually insignificant inventory elements that collectively might make an inventory balance material
      - Consumable goods with a relatively short shelf life, such as office supplies, science lab supplies, paper, computer supplies, building and maintenance supplies, salt, asphalt, fuel
      - Item expected to be used within a short time, such as food service supplies, cafeteria supplies, and commodities
      - Tangible personal property that is durable, but doesn't meet the entity's capitalization threshold, such as transformers, water/sewer lines and pipe, individual computer parts, textbooks, calculators, etc..
  - Valuation and allocation
    - Driven by which methodology chosen

# 2018 Yellow Book implementation issues

- **Six-Month Grace Period for Completing CPE exception for COVID**
  - Exception provided: For 2-year CPE periods that end February 29, 2020, through December 31, 2020, auditors who have not completed the 80 hour or the 24-hour CPE requirements for the 2-year period may have up to 6 months immediately following the 2-year period to make up the deficiency. Any CPE hours completed toward a deficiency in one period may be documented in the CPE records and may not be counted toward the requirements for the next period. Auditors who have not satisfied the CPE requirements after the grace period may not participate in GAGAS engagements until those requirements are satisfied. This modifies existing 2018 GAGAS paragraph 4.44, which allows audit organizations to grant a 2-month grace period.

# 2018 Yellow Book implementation issues, cont.

- Waiver of 20-Hour Annual CPE Requirement
  - Exception provided: Auditors are not required to complete at least 20 hours of CPE for a 1-year CPE period that ends February 29, 2020, through December 31, 2020.
  - This is an exception from 2018 GAGAS paragraph 4.17, which requires auditors to complete at least 20 hours of CPE in each year of the 2-year period.

# 2018 Yellow Book implementation issues, cont.

- Carry Over of CPE
  - Exception provided: From the audit organization's 2-year period in effect on February 29, 2020, auditors may carry over up to 40 hours of CPE, in excess of the 80-hour requirement, to the next CPE measurement period. For 2-year CPE measurement periods ending after December 31, 2020, only CPE hours earned through December 31, 2020 may be carried over. Auditors may not carry over excess CPE earned in prior 2-year CPE periods.

# 2018 Yellow Book implementation issues, cont.

- Clarification of Existing GAGAS CPE Exemption
  - For auditors who are not able meet the GAGAS CPE requirements in 2018 GAGAS paragraphs 4.16 and 4.17, 2018 GAGAS paragraph 4.29 provides the following:
    - The audit organization, at its discretion, may grant exemptions from a portion of the CPE requirement in the event of extended absences or other extenuating circumstances if situations such as the following prevent auditors from fulfilling those requirements and conducting engagements:
      - a. ill health, b. maternity or paternity leave, c. extended family leave, d. sabbaticals, e. leave without pay absences, f. foreign residency, g. military service, and h. disasters.
      - The audit organization may not grant exceptions for reasons such as workload, budget, or travel constraints.

# Questions??