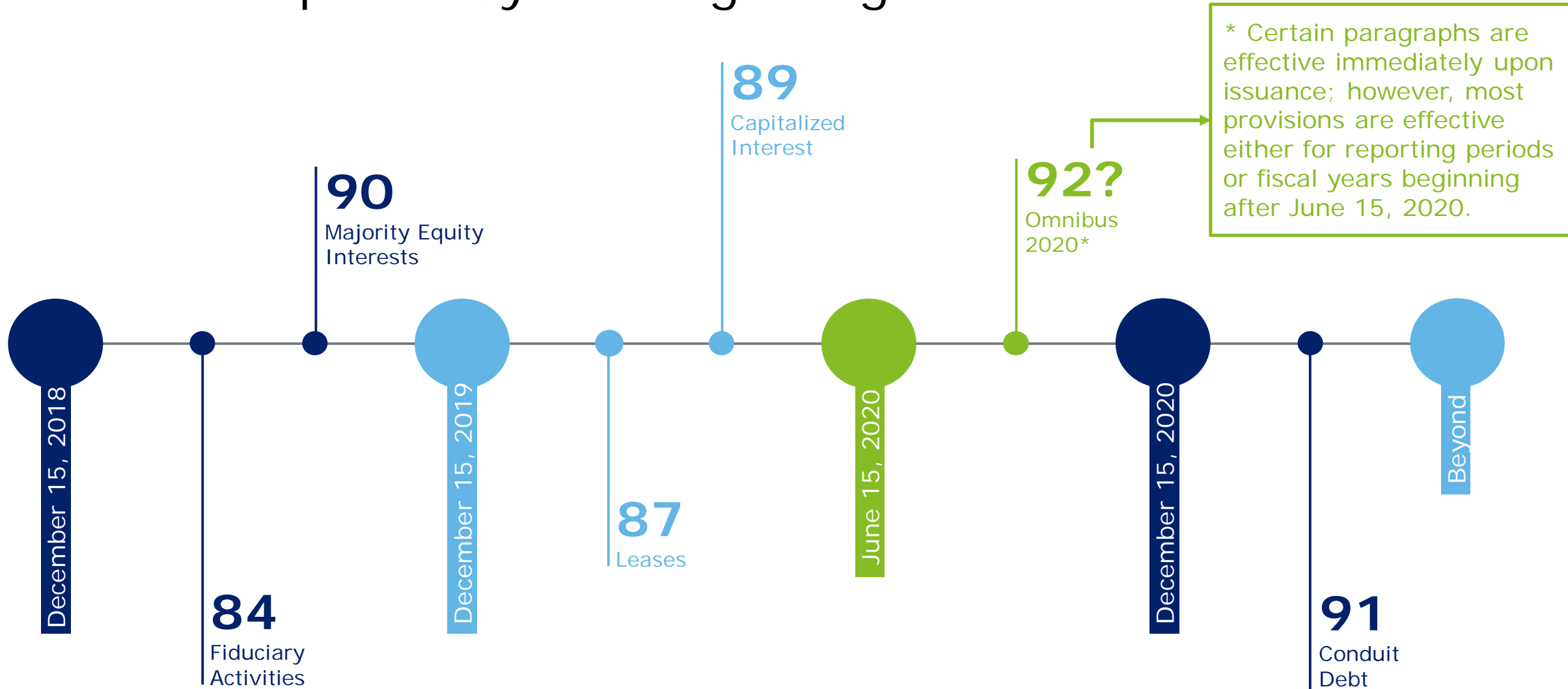


Current and Upcoming GASB Statements

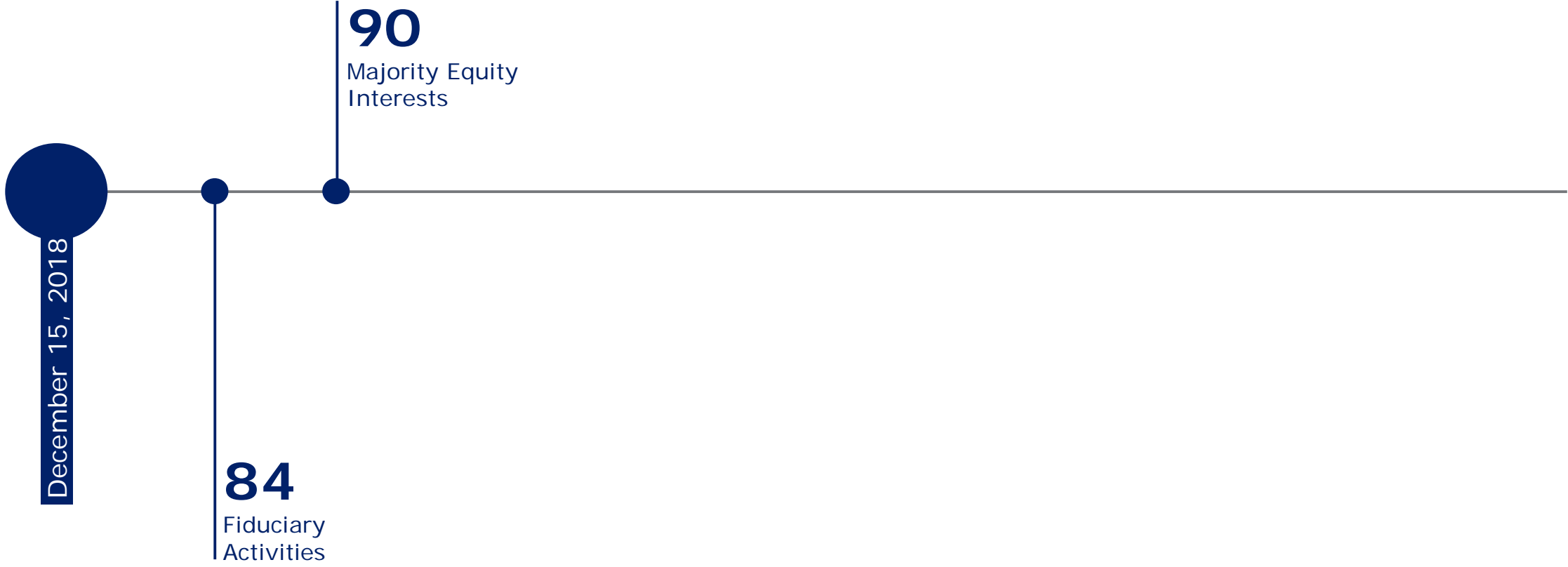
2020 TASSCUBO Winter Conference

January 27, 2020

Effective for periods/years beginning after...



Effective for periods/years beginning after...



Statement No. 84

Fiduciary Activities

Objectives

Clarify ambiguity in existing standards about whether a fiduciary activity should be included in the government's financial statements

Enhance comparability of fiduciary activity and improve the use of fiduciary activity information for assessing the accountability of governments as fiduciaries



Introducing the New Fiduciary Funds

What Type of Fiduciary Fund Should Be Used?

Pension (and other employee benefit) trust funds	Investment trust funds	Private-purpose trust funds	Custodial funds
<ul style="list-style-type: none"> • Pension/OPEB plans administered through Statement 68/75 trusts • Other pension/OPEB plans in trusts that meet all criteria of Statement 68/75 trusts except protection from creditors of plan members 	<ul style="list-style-type: none"> • External portion of investment pools held in a qualifying trust • Individual investment accounts that are in trusts legally protected from government's creditors 	<p>All other activities in a trust legally protected from government's creditors</p>	<ul style="list-style-type: none"> • All fiduciary activities not required to be in other fund types • NOTE: External portion of investment pools <u>not</u> held in a qualifying trust should be a separate column within custodial funds

Presentation of Fiduciary Fund Financials



Requires both a statement of fiduciary net position and statement of changes in fiduciary net position

- Disaggregate additions by sources and deductions by type (except if held for less than three months)

Defines when a fiduciary fund should recognize a liability

- Defined benefit pension (and other employee benefit) trust funds apply Statements 67 and 74 – liabilities recognized when benefits are due and payable in accordance with benefit terms
- Other fiduciary funds – when event occurs that compels disbursement of fiduciary resources (when demand is made or when no further beneficiary action, approval, or condition is required to release the assets)

Fiduciary Funds—Statement of Fiduciary Net Position

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ASSETS				
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	291,400	12,166	—	206,937
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	41,954,330	1,224,267	769,437	—
Securities lending collateral	1,746,544	—	—	—
Other assets	13,519	181	81,157	361
Total assets	44,190,152	2,077,307	955,341	265,494
LIABILITIES				
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	1,479,007	1,361	69,317	165,652
NET POSITION				
Restricted for:				
Pensions	29,897,802	—	—	—
Postemployment benefits other than pensions	12,813,343	—	—	—
Pool participants	—	2,075,946	—	—
Individuals, organizations, and other governments	—	—	886,024	99,842
Total net position	\$ 42,711,145	\$ 2,075,946	\$ 886,024	\$ 99,842

Use of new fund name – “Custodial”

Custodial funds can have net position

Fiduciary Funds—Statement of Changes

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS				
Contributions:				
Members	\$ 297,846	\$ —	\$ —	\$ —
Employers	1,259,384	—	—	—
Other plans	148,792	—	—	—
Gifts and bequests	—	—	197,258	—
Total contributions	1,706,022	—	197,258	—
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	3,344,931	123,128	64,080	—
Less investment costs:				
Investment activity costs	32,281	50,236	63	—
Securities lending costs	73,642	—	—	—
Net investment earnings	3,239,008	72,892	64,017	—
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	—	113,259	—	—
Sales tax collections for other governments	—	—	—	1,811,120
Miscellaneous	1,130	—	—	1,468
Total additions	4,946,160	186,151	261,275	1,812,588
DEDUCTIONS				
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	2,689,508	72,892	211,222	1,811,413
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	\$ 40,454,493	\$ 1,962,687	\$ 835,971	\$ 99,842

Custodial funds have a statement of changes

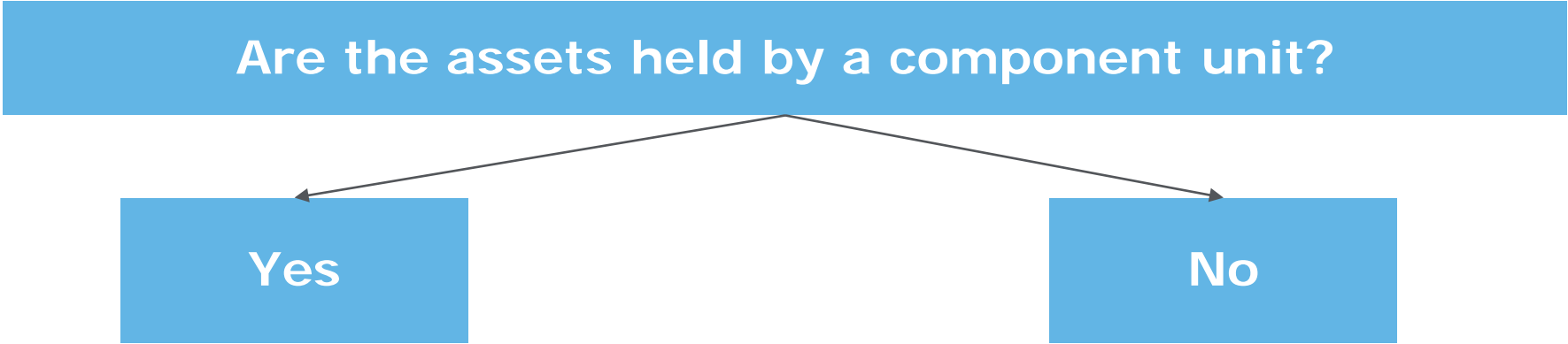
Additions are broken out by type with investment earnings activity specifically broken down

Single additions line allowed for resources that are expected to be liquidated in 3 months or less

Deductions are broken out by type including administrative expenses

Paths to Proper Presentation

Paths to Determining If an Activity is Fiduciary



Wait, what's a component unit?

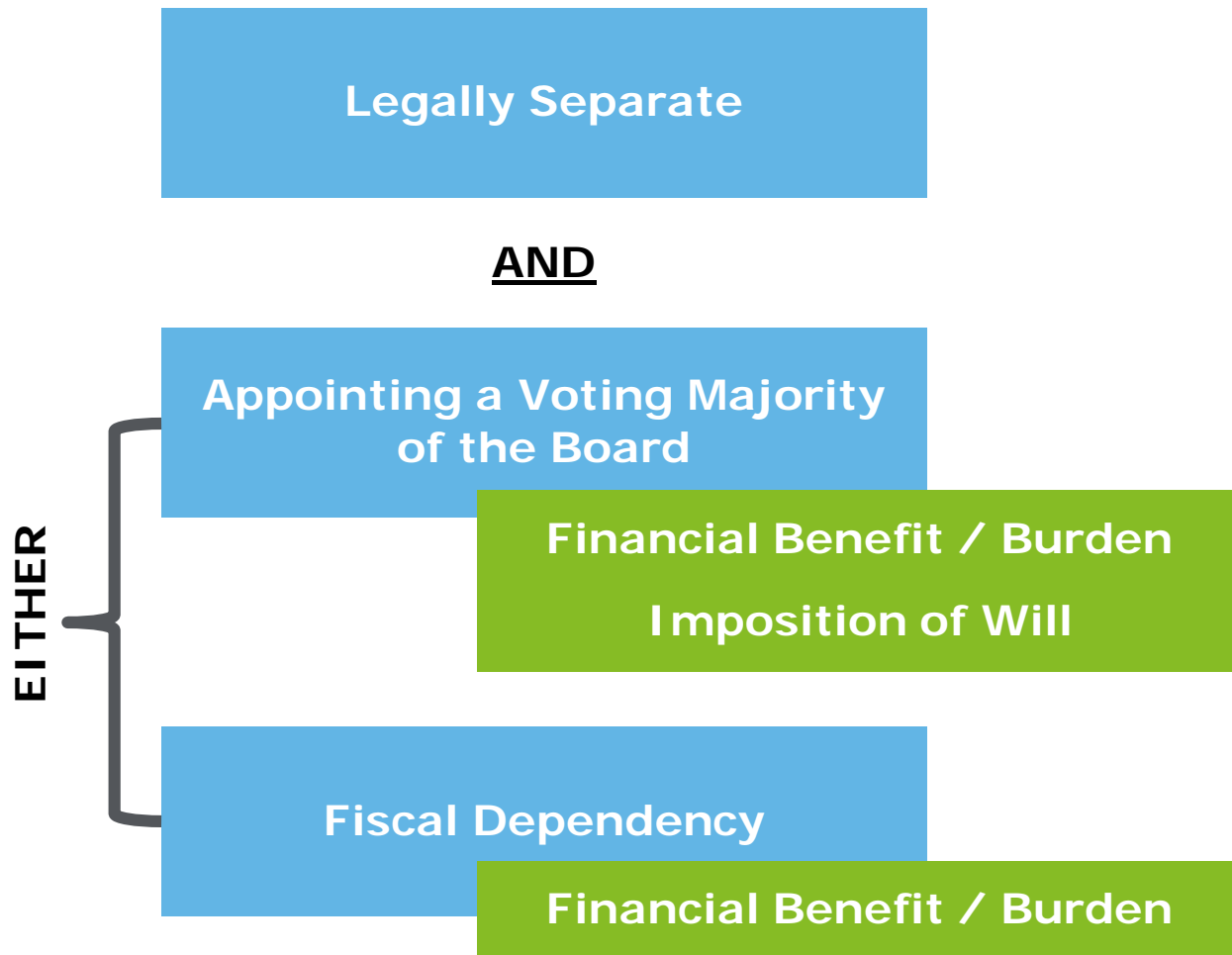
Does this mean I have to do more component unit analyses?

What does legally separate mean again?

Fiduciary activities can be considered component units?

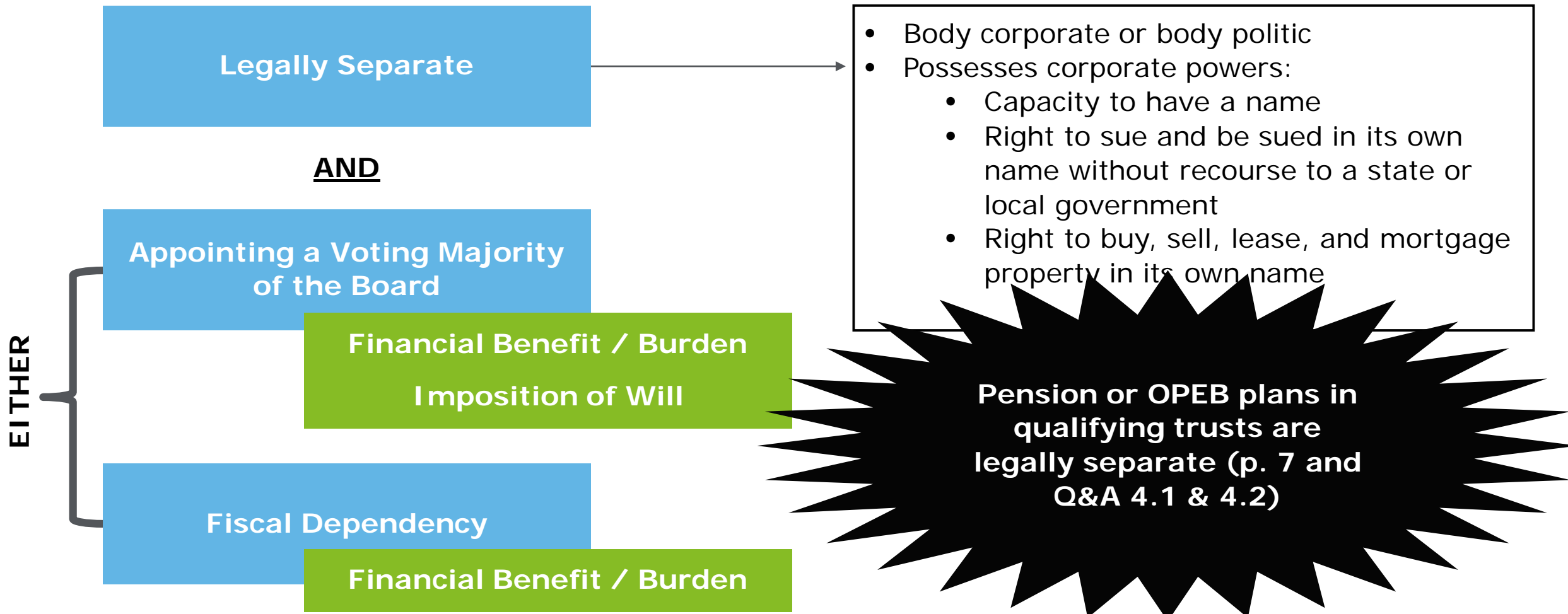
Refresher on Component Units

To be a component unit, you must consider the following factors:



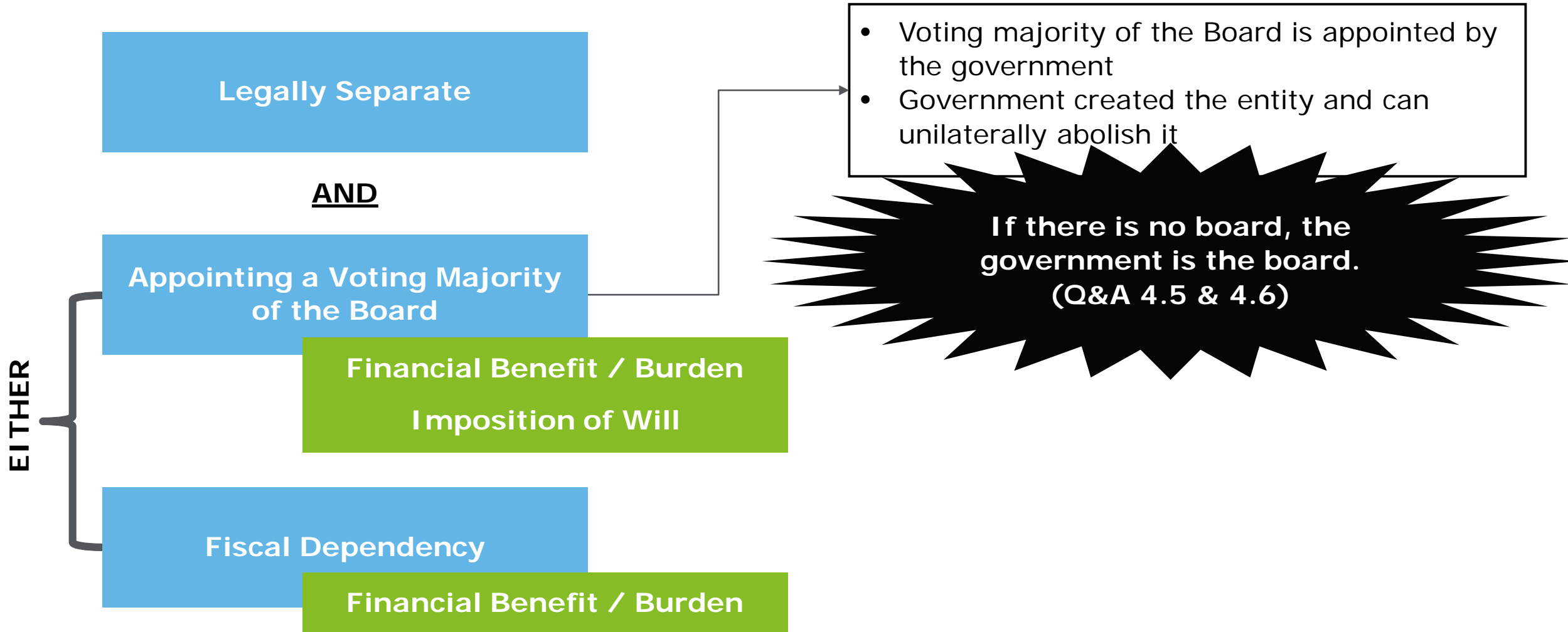
Refresher on Component Units

To be a component unit, you must consider the following factors:



Refresher on Component Units

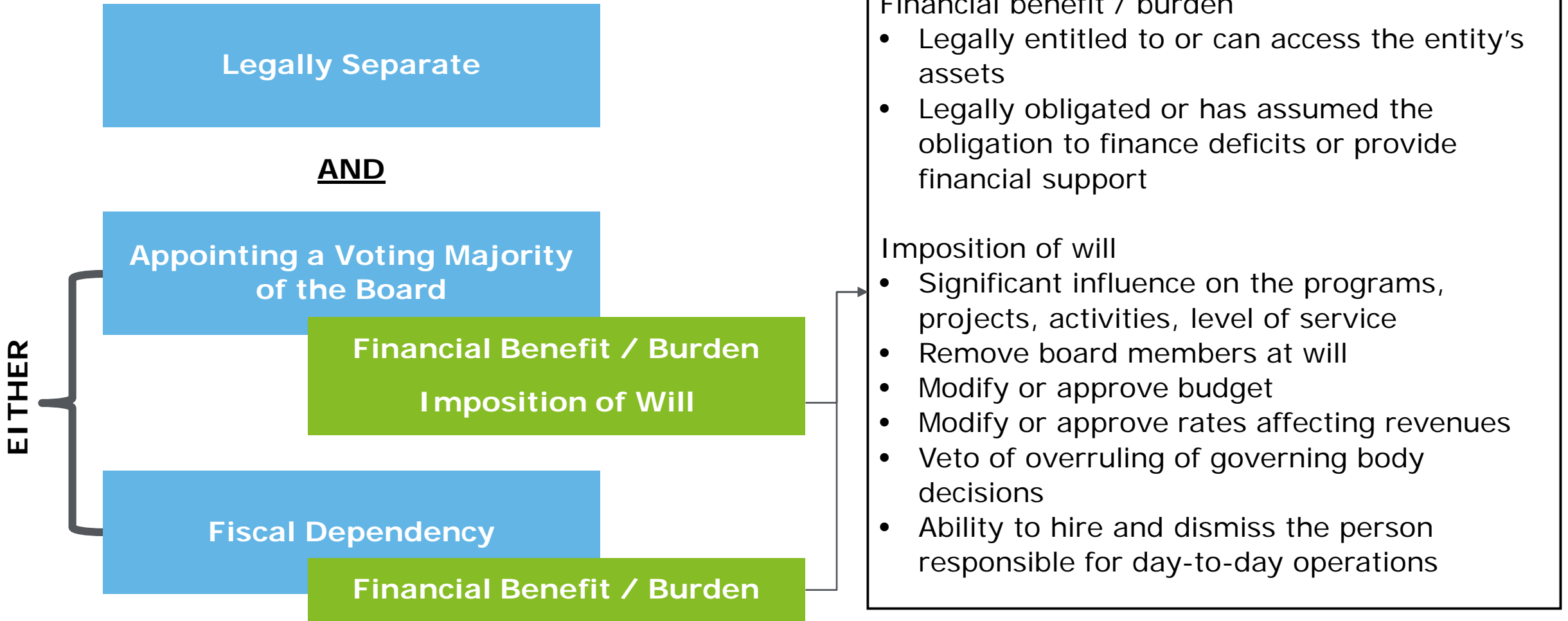
To be a component unit, you must consider the following factors:



Refresher on Component Units

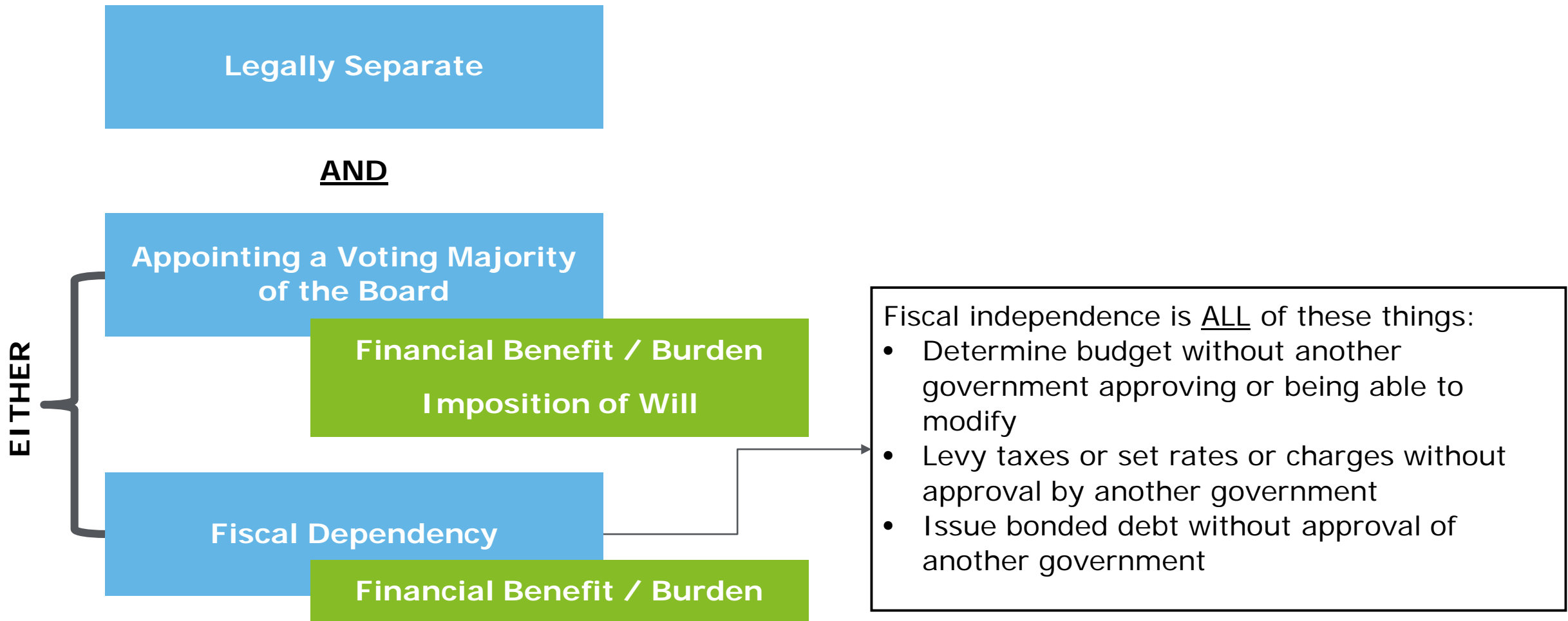
Contributions to the plan are generally considered a financial burden (p. 7 and Q&A 4.7)

To be a component unit, you must consider the following factors:

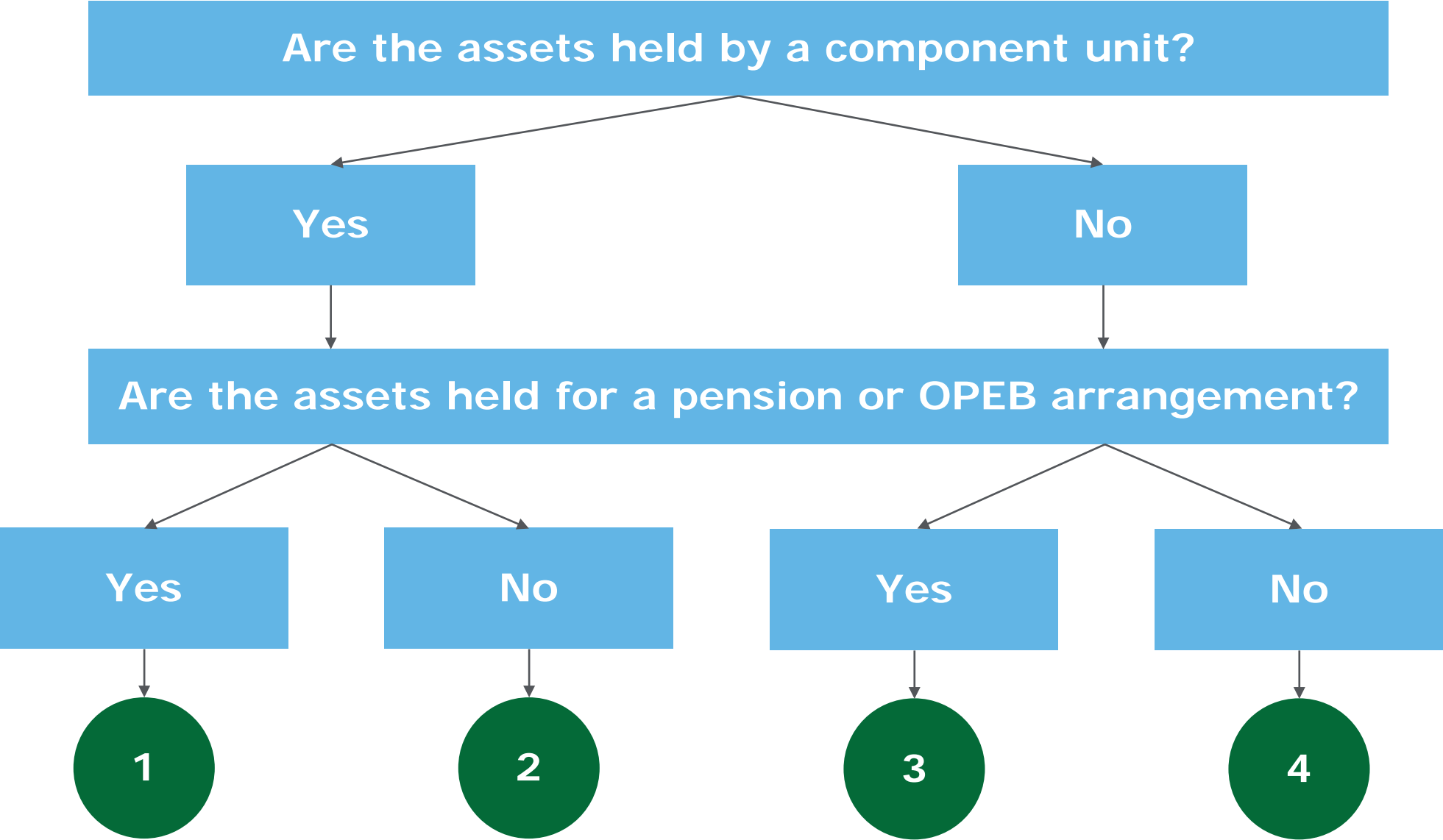


Refresher on Component Units

To be a component unit, you must consider the following factors:



Paths to Determining If an Activity is Fiduciary



Path 1

Component unit pension or OPEB arrangements

If they meet the component unit criteria, the following will be reported as fiduciary activities:

Pension plans administered through a trust that meets GASB's criteria

Assets from entities not part of the reporting entity accumulated for pensions

OPEB plans administered through a trust that meets GASB's criteria

Assets from entities not part of the reporting entity accumulated for OPEB

Path 1 (continued)

1

Component unit pension or OPEB arrangements

Key considerations for Path 1:

- A pension or OPEB arrangement administered through a trust that meets GASB's criteria is legally separate (Q&As 4.1 and 4.2)
- If a legally separate pension or OPEB arrangement has no board, the government is considered the board for purposes of evaluating if it is a component unit (Q&As 4.5 and 4.6)
- GASB's current exposure draft for deferred compensation (IRS Section 457) plans may change whether these qualify as pension arrangements

GASB's Trust Criteria

- 1) **Dedicated** to providing pensions to plan members
- 2) Contributions from employer are **irrevocable**
- 3) Plan assets are **protected** from creditors of employers and plan administrator (defined benefit also protected from creditors of plan members)

Relevant Component Unit Criteria

- 1) Majority board appointment and either (1) financial benefit/burden or (2) ability to impose will

OR

- 2) Fiscal dependency and financial benefit burden

Path 3

Pension or OPEB arrangements that are *not* component units

The following will be reported as fiduciary activities...

Pension plans administered through a trust that meets GASB's criteria	Assets from entities not part of the reporting entity accumulated for pensions
OPEB plans administered through a trust that meets GASB's criteria	Assets from entities not part of the reporting entity accumulated for OPEB

...Only if the government **controls** the assets.

Path 3 (continued)

Pension or OPEB arrangements that are *not* component units

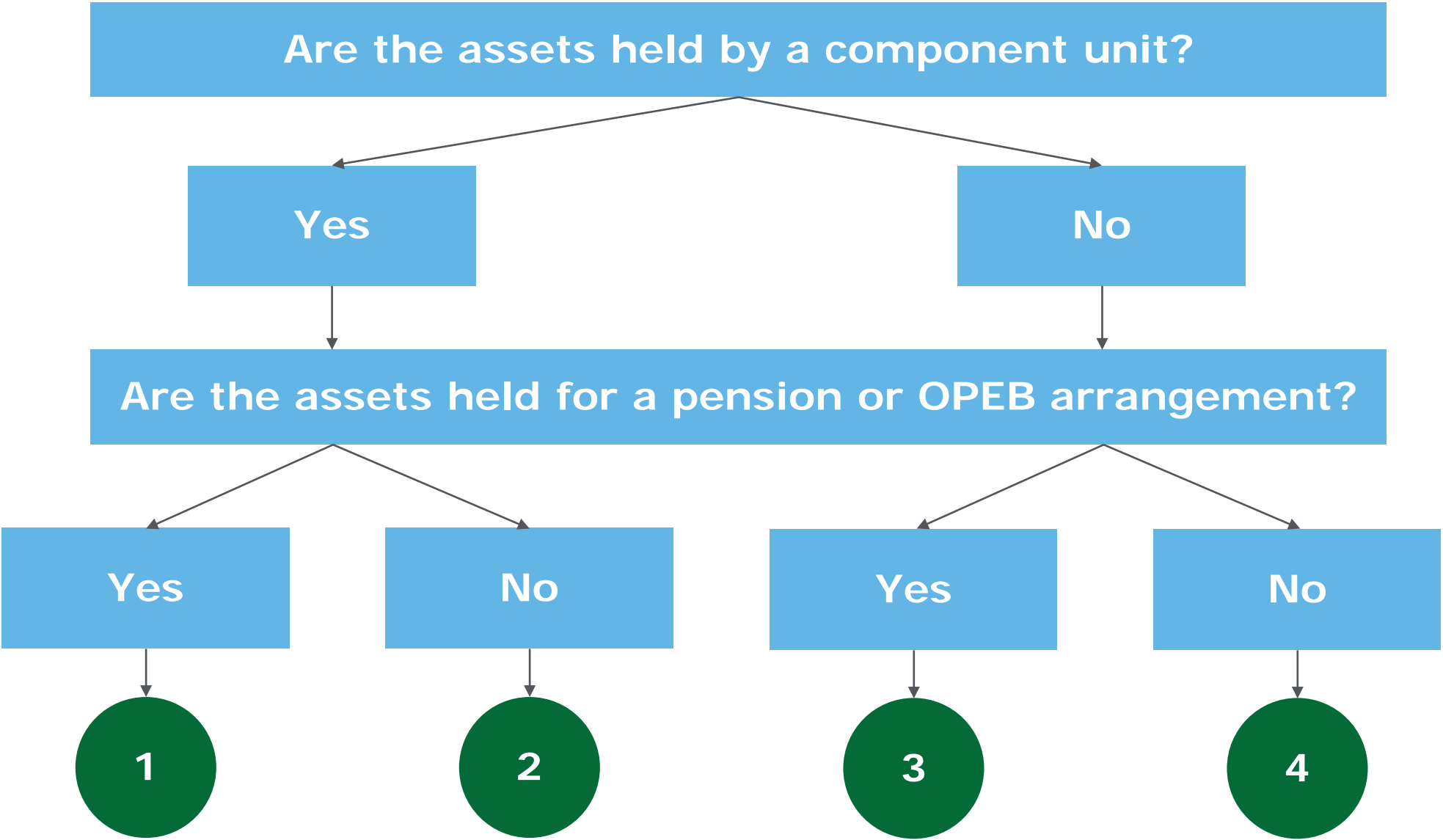
What is **control**? A government controls the assets if the government:

- Holds the assets, or
- Has the ability to use, exchange, or employ the assets in a manner that provides benefits to the specified or intended beneficiaries
- Restrictions on use of the assets for specific purposes do not negate government's control

Key considerations for Path 3

- Participating in the selection of investment options would not, by itself, result in the determination that the government controls the assets (Q&A 4.33)
- If the government (or a government official) serves as the trustee of a trust, the government is considered to be holding (and thus controlling) the assets (Q&A 4.34)

Paths to Determining If an Activity is Fiduciary



Path 2

Component units other than pension or OPEB arrangements

If they meet the component unit criteria, the following will be reported as fiduciary activities:

Assets are:

- Administered through a trust in which the government is *not* a beneficiary
- Dedicated to providing benefits AND
- Legally protected from the government's creditors

Assets are:

- For the benefit of individuals
- *Not* derived from government's provision of goods or services to the individuals AND
- Government does *not* have **administrative** or **direct financial involvement**

Assets are:

- For the benefit of organizations or governments *not* part of the reporting entity AND
- *Not* derived from government's provision of goods or services to them

Administrative involvement—Monitors compliance stipulations or eligible expenditures established by the government or by a non-beneficiary resource provider or can exercise discretion over how assets are allocated

Direct financial involvement—Financing of some of the program costs (i.e. matching resources)

Path 4

Other fiduciary activities that are *not* component units

The following will be reported as fiduciary activities...

Assets are:

- Administered through a trust in which the government is *not* a beneficiary
- Dedicated to providing benefits AND
- Legally protected from the government's creditors

Assets are:

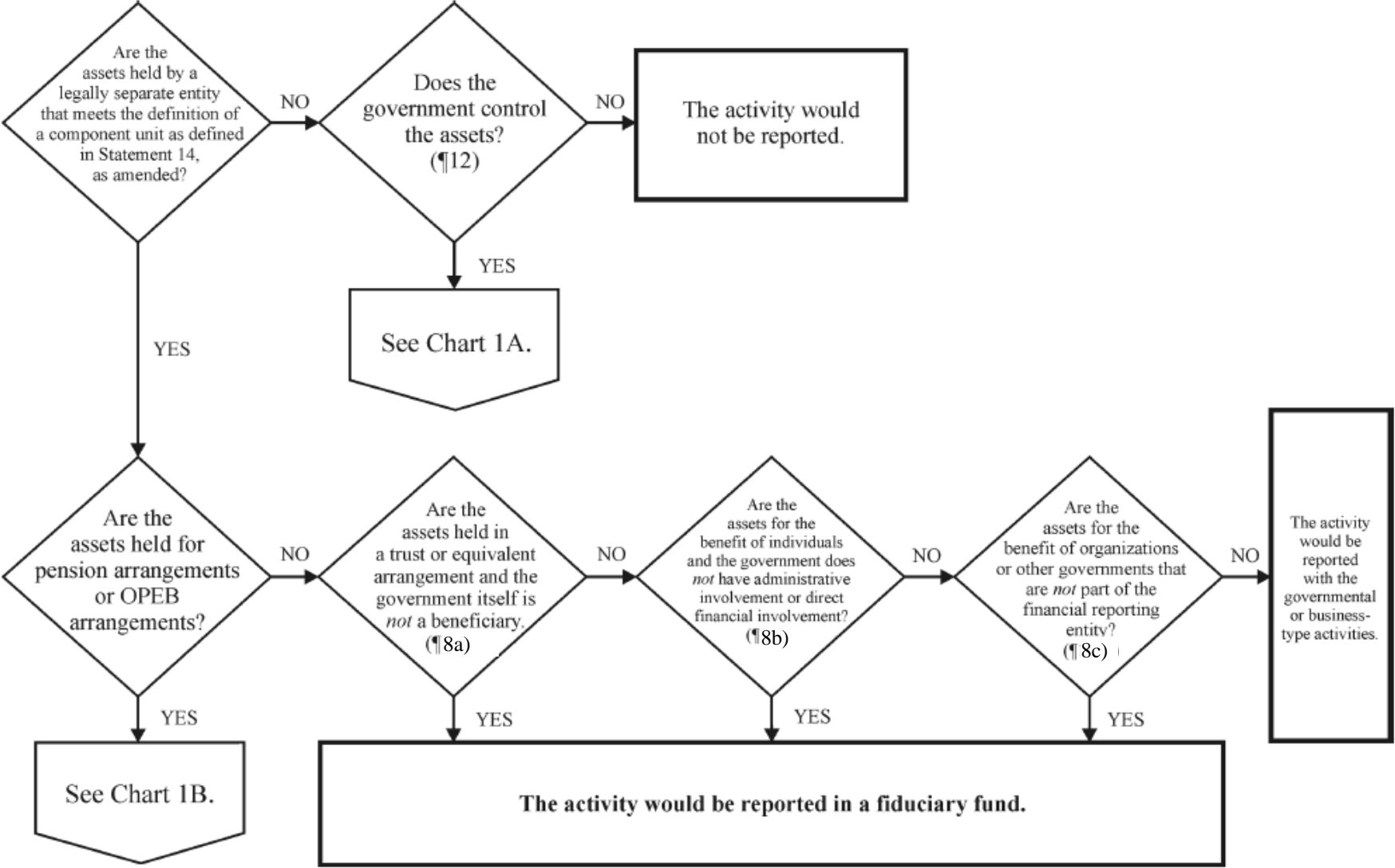
- For the benefit of individuals
- *Not* derived from government's provision of goods or services to the individuals AND
- Government does *not* have **administrative** or **direct financial involvement**

Assets are:

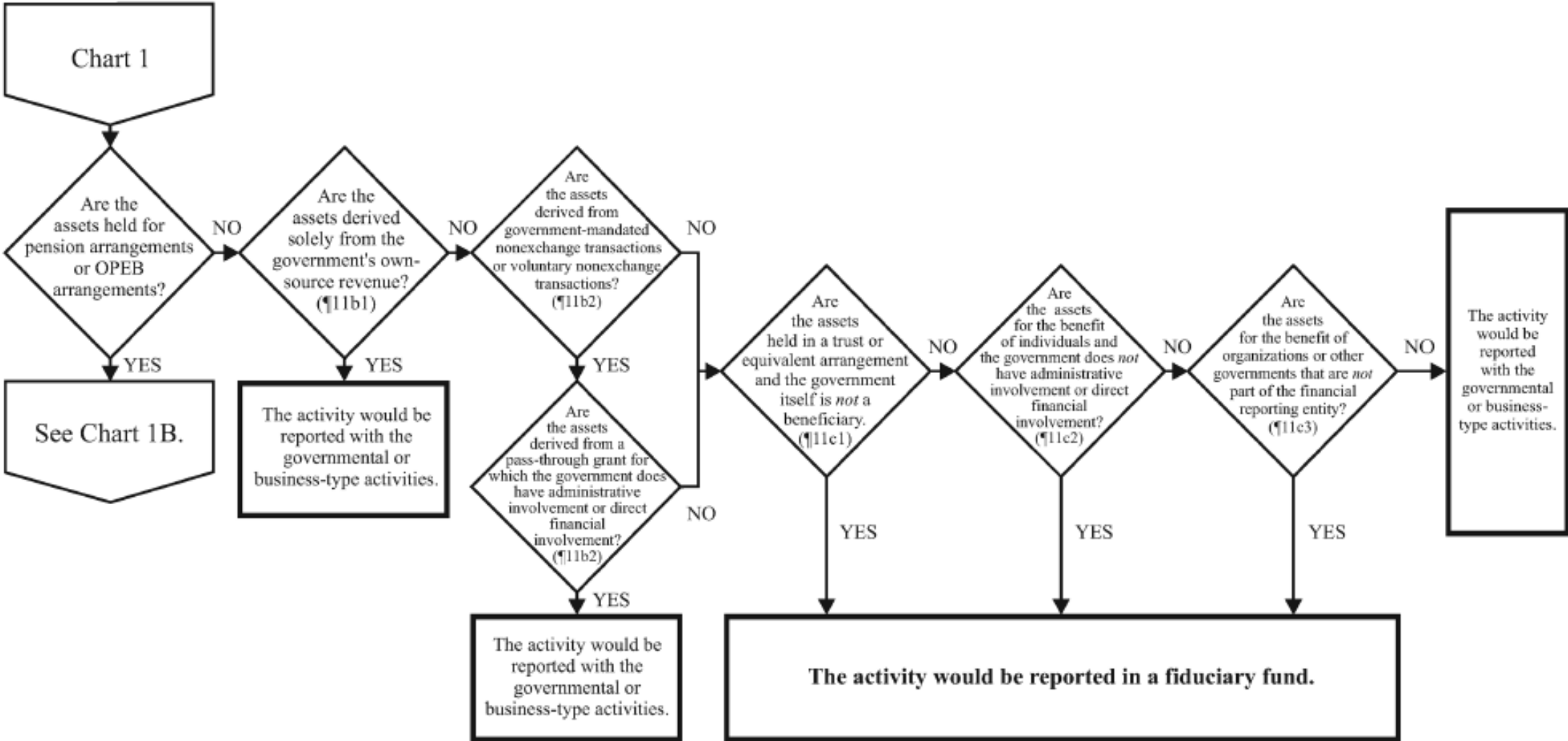
- For the benefit of organizations or governments *not* part of the reporting entity AND
- *Not* derived from government's provision of goods or services to them

...Only if the government **controls** the assets **AND** those assets are **not derived from own-source revenues or grants** (exception for pass-through grants)

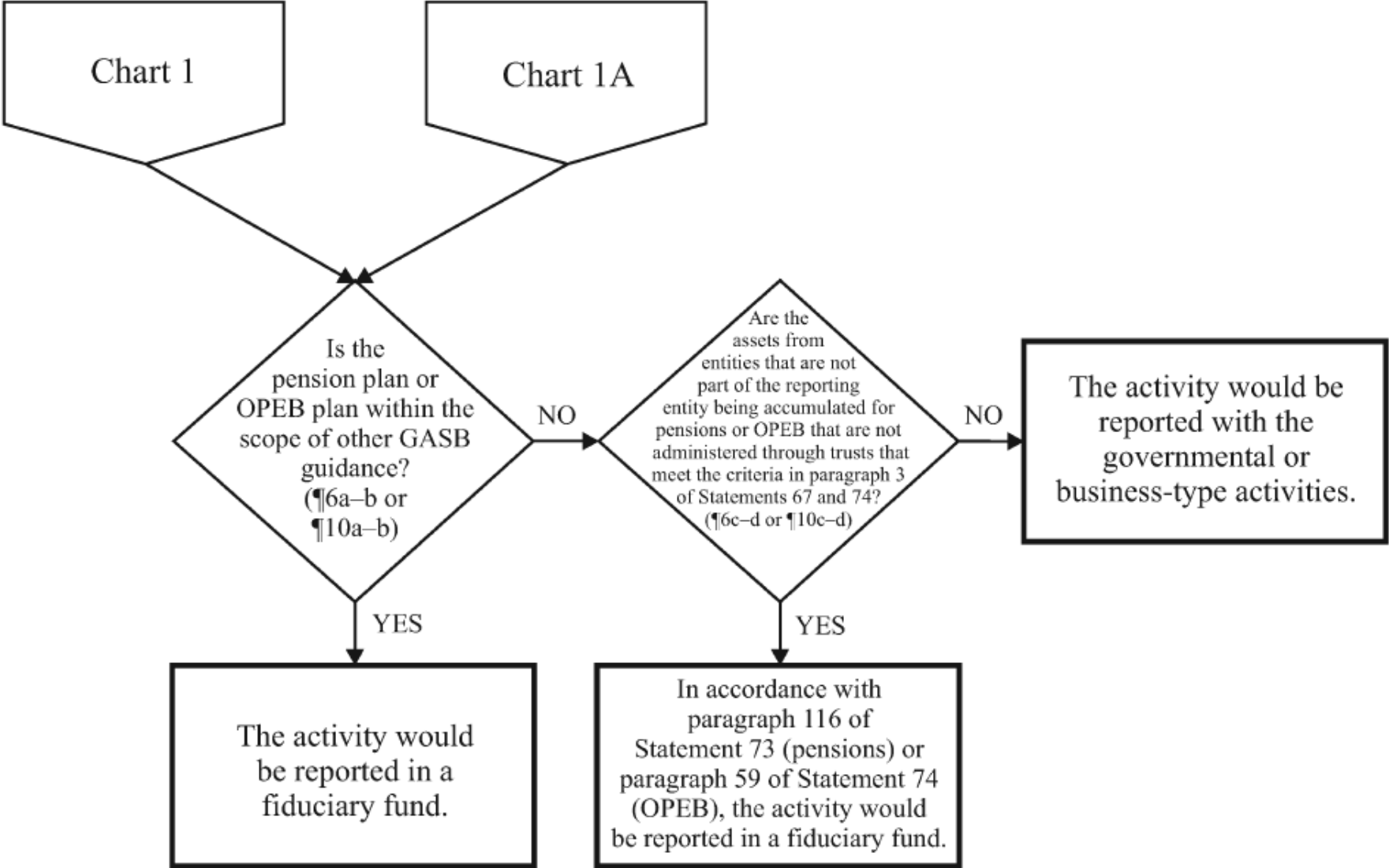
The Decision Tree – Chart 1



The Decision Tree – Chart 1A



The Decision Tree – Chart 1B



Possible Implementation Strategies and Pitfalls

Common Implementation Challenges

Deferred compensation (IRS Section 457) plans

Tax collections for entities outside the reporting entity

For certain activities, determination of whether the entity has "administrative involvement"

Defined contribution plans such as IRS Section 401(a) and 401(k) plans

Materiality of fiduciary activities compared to the government as a whole

Implementation Tips

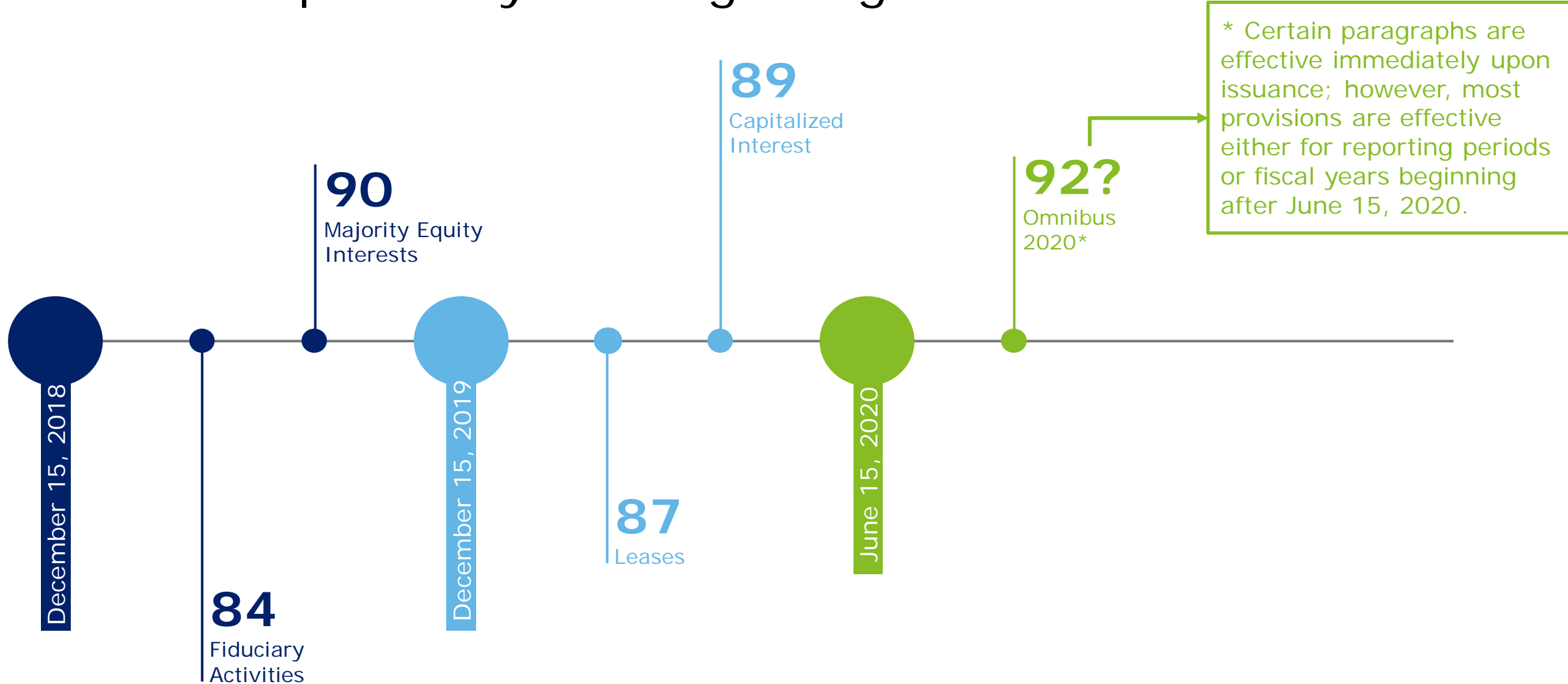
- Inventory all of the assets you are holding in bank accounts or in trusts
- Understand all of your postemployment benefit plans including:
 - Defined benefit plans
 - Defined contribution plans
 - Deferred compensation plans
- Begin pro forma financial statements and updating terminology in disclosures and supplementary schedules
- Relook at all activities currently presented in fiduciary funds
- Analyze inflows and liabilities in your non-fiduciary funds for potential fiduciary activities

Document

Document

Document

Effective for periods/years beginning after...



Statement No. 87

Leases

Existing guidance on leases

Lessees

- Capital lease
- Operating Lease

Lessors

- Sales-type leases
- Direct financing leases
- Operating leases



~~Existing~~ guidance on leases

NEW

Single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Generally, all leases should be presented on the face of the balance sheet of the lessee (liability) and lessor (receivable).



Lease (n):

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 is manifested by:

- The right to obtain the present service capacity from use of the underlying asset, **AND**
- 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 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

Definition of a Lease—GASB Q&A

4.8. Q—Are cell phone tower or antenna placement agreements leases?

A—If the agreements meet the definition of a lease in paragraph 4 of Statement 87, including the control criterion, then such agreements are leases. The control criterion generally is met if a cell phone tower or antenna placement agreement conveys control of the right to use the land on which the tower is placed or the connection point to which the antenna is affixed.

Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights)
- Biological assets (including timber, living plants, and living animals)
- 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 power purchase agreements that do not convey control of the right to use the underlying power generating facility)
- Inventory



Definition of a Lease—GASB Q&A

4.10. Q—A government enters into a lease agreement that conveys control of the right to use a parcel of land to a company that engages in oil and gas exploration and production. Is this lease excluded from Statement 87?

A—No. In this example, the company has control of the right to use the land itself. In contrast, if the government only provided the company with the right to explore for or to exploit oil and gas but did not convey control of the right to use the land, that lease would be excluded from Statement 87. Although paragraph 8a of Statement 87 excludes “rights to explore for or to exploit natural resources such as oil, gas, and minerals,” that exclusion applies only when the underlying asset in the lease is the right to explore for or to exploit those resources.

Contracts with Multiple Components

Contracts may contain multiple components (multiple underlying assets or both a lease component and a nonlease component)

- A lease for a building which includes maintenance services for the building or common area maintenance

Account for multiple underlying assets separately if:

- The assets have different lease terms OR
- The underlying assets are in different asset classes for disclosure purposes

Contracts with Multiple Components (continued)

Account for lease and nonlease components separately

- EXCEPTION: If it is not practical to determine a best estimate for price allocation for some or all of the components, account for the contract as a single lease unit (based on primary lease component within unit)

Allocation of contract price to components

- First, use any prices for individual components included in the contract as long as they appear reasonable
- If stand-alone pricing is not available, use professional judgment to determine best estimate for allocating contract price (maximize use of observable information)

Accounting for Leases

Lease Term

Starts with the noncancelable period, plus periods covered by a lessee's or a lessor's option to:

- Extend the lease, if the option is reasonably certain of being exercised
- Terminate the lease, if the option is reasonably certain of NOT being exercised

Excludes "cancelable" periods

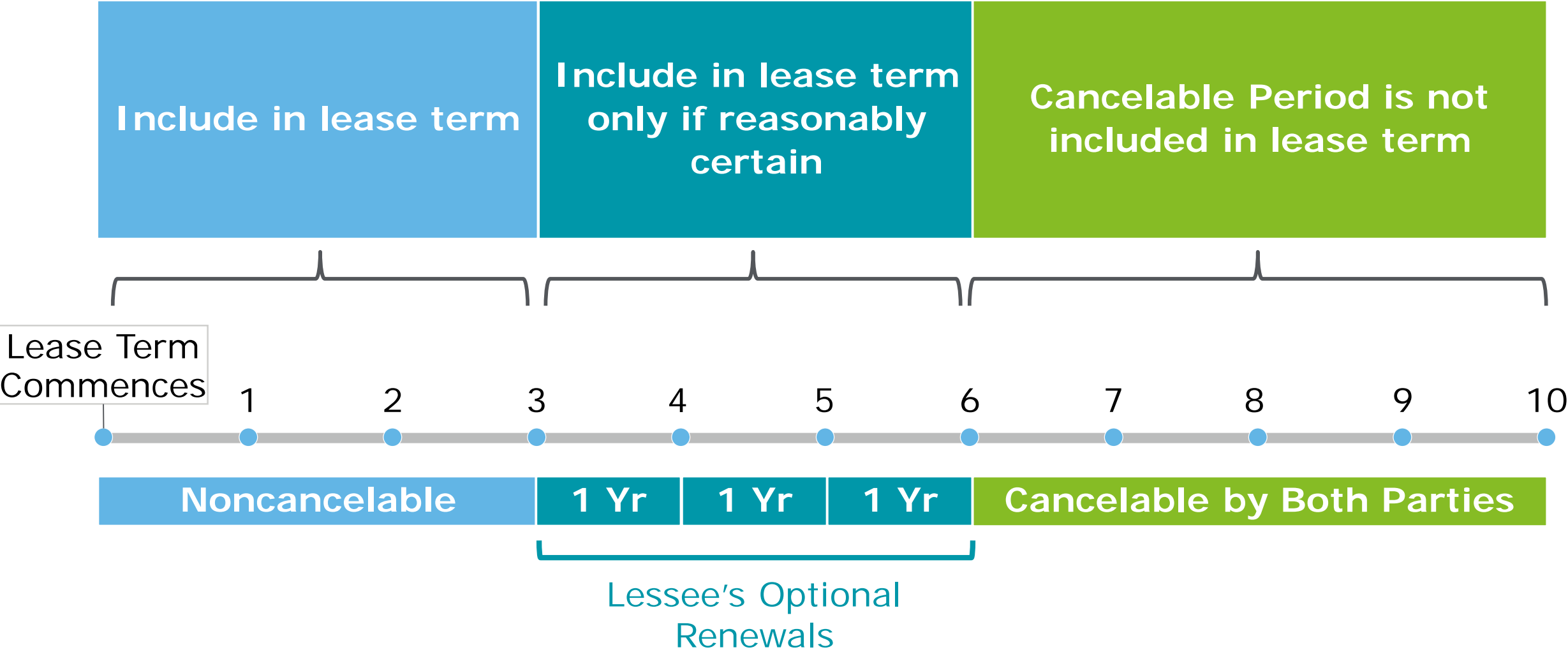
- Periods for which lessee and lessor each have the option to terminate
 - Rolling month-to-month leases, or right-to-use asset during a holdover period

Fiscal funding/cancellation clauses ignored unless reasonably certain of being exercised

Reasonably certain:

Higher threshold and less speculative than probable, more consistent with reasonably assured.

Lease Term (Continued)



Lease Term (Continued)

Reassess the lease term only if any 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 not to exercise an option even though originally determined that the lessee or lessor would exercise that option
- An event specified in the contract that obligates the lessee to extend or terminate the lease occurs, resulting in a change in the lease term

Lease Term Example

QUESTION

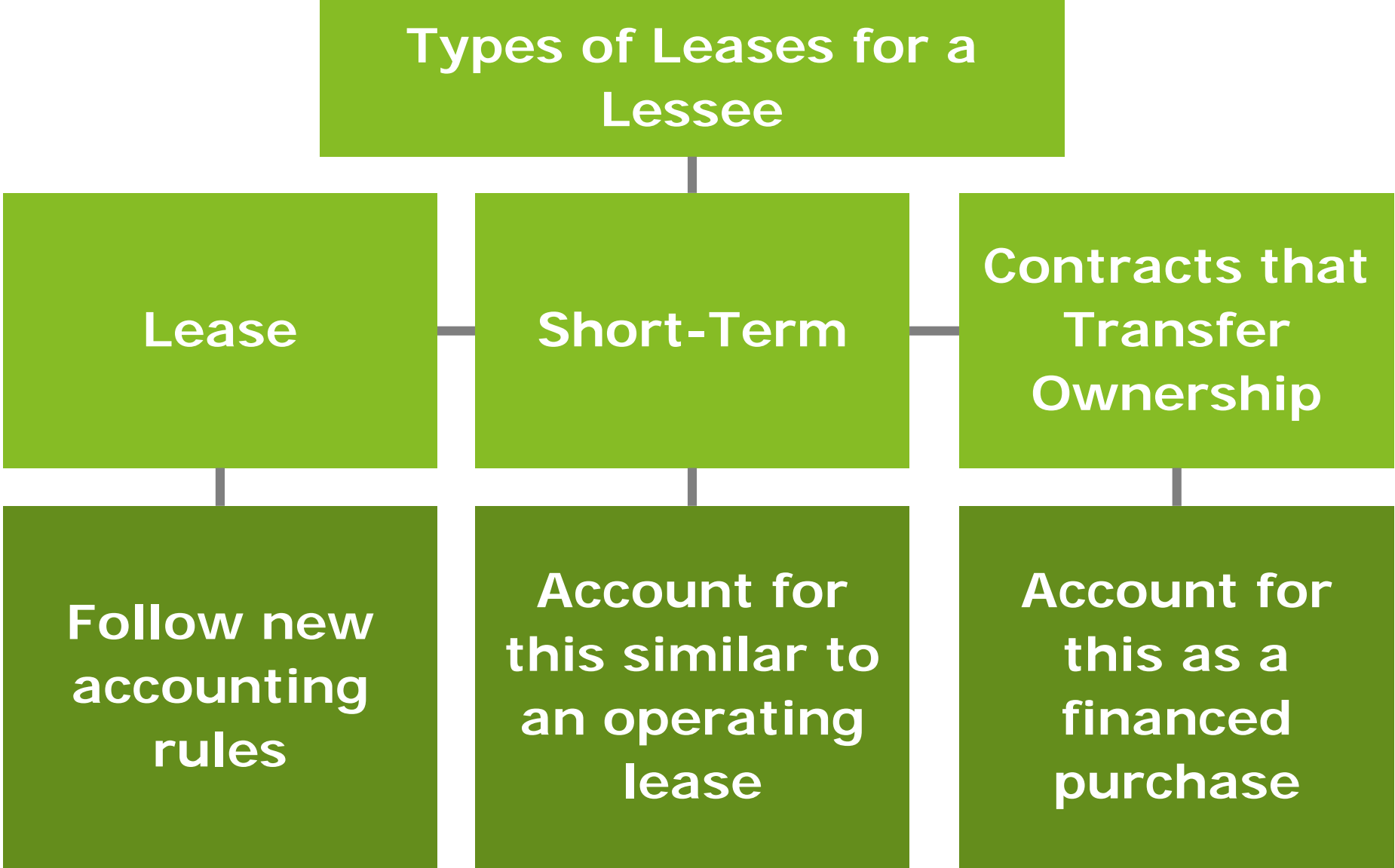
- We have entered into a lease with a noncancelable term that runs from June 1, 20x1 to May 31, 20x2. At May 31, 20x2, the lease reverts to a month-to-month (either party can cancel each month without permission) lease for up to two years. What is our lease term?

ANSWER

- Since the month to month periods are cancellable by both parties, you have a term of 12 months.

Lessees

Special Types of Leases—Lessee



Short-Term Leases & Contracts that Transfer Ownership

A **short-term lease** is one that, at the commencement of the lease term, has a “maximum possible term” under the contract of 12 months or less

Maximum possible term -

- Includes any options to extend regardless of their probability
- For a lease that is cancelable either party, the maximum possible term is the noncancelable period including any notice period
- NOTE: Leases that transfer ownership do not qualify for the short-term lease exception, even if they meet the other criteria

A **contract that transfers ownership** is a contract that:

- Transfers ownership of the underlying asset to the lessee at the end of the contract
- Has no termination options (except fiscal funding or cancellation that is not reasonably certain)

Lease Term Example

QUESTION

- We have entered into a lease with a noncancelable term that runs from June 15, 20x1 to May 31, 20x2. After the stated lease term expires, the lease requires 1 month notice in order to terminate the lease. Would this lease qualify as a short-term lease?

ANSWER

- No - The term of the lease prior to the notice period is already 11.5 months, however, the 1 month notice period makes the term 12.5 months total, so this would not qualify as a short-term lease.

Lease Threshold—GASB Q&A

4.23. Q—A government adopts a capitalization threshold and expenses acquisitions, including lease assets, that fall below that threshold. Can the government apply a similar threshold to recording lease liabilities?

A—Lease liabilities that are significant, either individually or in the aggregate, should be recognized. Authoritative pronouncements do not provide specific guidance related to a determination of capitalization threshold amounts. However, governments often establish capitalization thresholds. (See Question 7.9.8 of *Implementation Guide No. 2015-1*.) When applying a capitalization threshold to leases, lessees should consider the quantitative and qualitative significance of the lease liability, in addition to the significance of the lease asset in accordance with the guidance provided in Question 7.4.1 of *Implementation Guide 2015-1*, as amended.

Lessees

The Debits & Credits

Accounting for Leases—Lessee

	Initial Recognition	Amortization	Remeasurement
Right-to-Use Asset	<ul style="list-style-type: none"> Lease liability Prepayments Lease incentives¹ Certain initial direct costs 	<p>Amortize in systematic and rational manner</p>	<ul style="list-style-type: none"> Impairment Remeasurement of liability
Lease Liability	<ul style="list-style-type: none"> Fixed Payments Lease incentives¹ Variable payments (indexed or fixed in substance) Reasonably certain residual value guarantees or purchase options Reasonably certain termination penalties Other reasonably certain payments <p>Discount using interest rate</p>	<p>Payments first applied to accrued interest, then to lease liability</p>	<ul style="list-style-type: none"> Change in lease term Change in likelihood of residual value guarantee or purchase option Change in estimated amounts for payments Change in interest rate charged by lessor A contingency resolves making variable payments fixed or in-substance fixed <p>Only if there is a significant effect on the lease liability</p>

¹ See paragraphs 61 and 62 for guidance on how lease incentives affect initial recognition

Reasonably Certain Payments—GASB Q&A

4.24. Q—A government enters into a lease with another government that includes an optional extension period of three years, exercisable only by the lessee. The payment amounts for the optional period will be negotiated at the time the option is exercised. The lessee has an ongoing relationship with the lessor and is reasonably certain that it will exercise its option to extend. Therefore, the optional renewal period is included in the lease term in accordance with paragraph 12a of Statement 87. How should the lessee measure the lease liability if the payment amount for the optional period is not specified in the contract?

A—Paragraph 12a of Statement 87 requires that periods covered by a lessee option to extend the lease should be included in the lease term if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option. In this example, the payments may be estimated based on the lessee and lessor's ongoing relationship and professional judgment, maximizing the use of observable information. For example, if appropriate, the estimate may be based on the last known payment amount.

Interest Rate (Lessee & Lessor)

Lessee & Lessor Options:

- Stated interest rate in the lease
- Implicit interest rate in the lease¹

Lessees are also given the option of using their estimated incremental borrowing rate if the interest rate cannot be readily determined.

¹ Not required to apply the guidance for imputation of interest in paragraphs 173-187 of Statement 62, but may do as a means of determining the interest rate implicit in the lease.

Interest Rate (Lessor)—GASB Draft Q&A

4.17. 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?

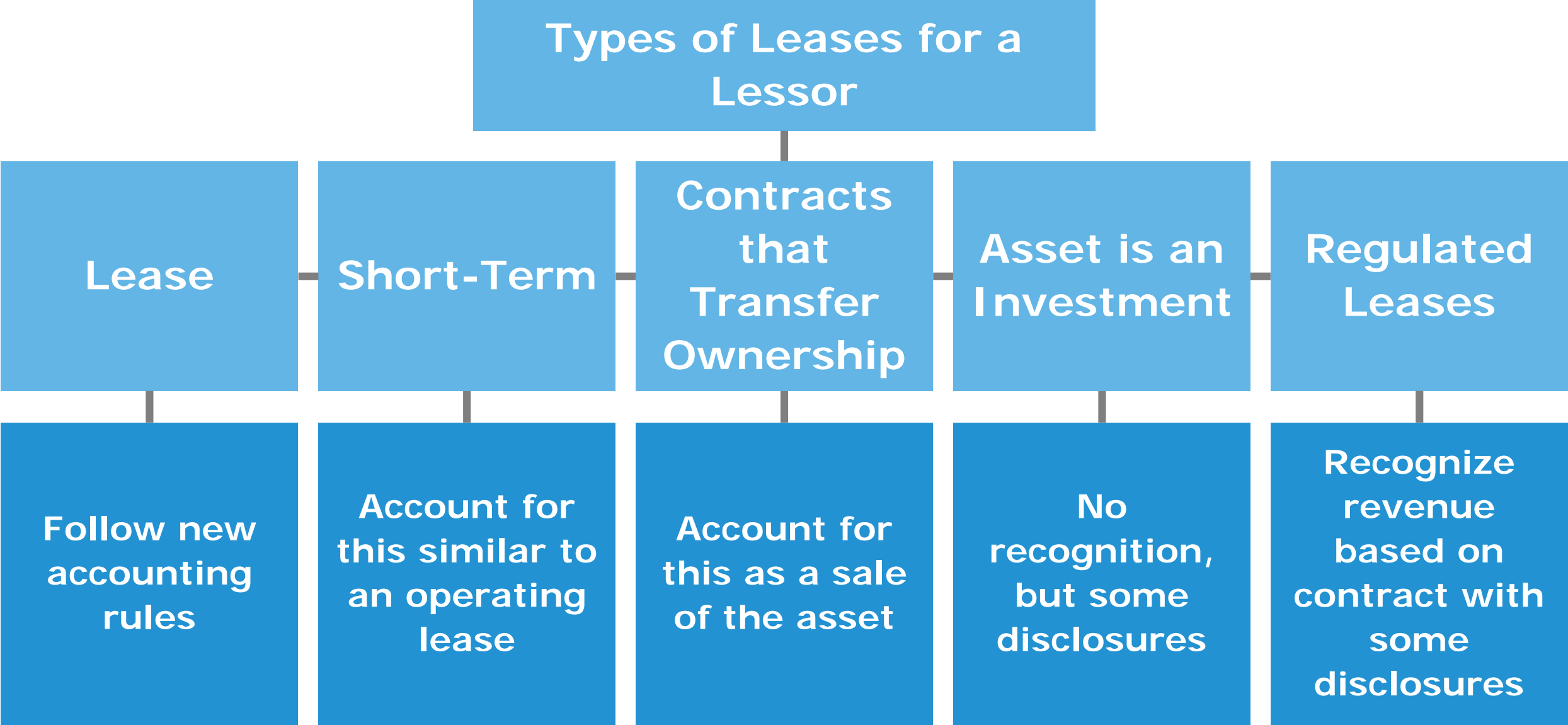
A—If the lease contract contains a stated interest rate, the lessor should use that rate. In the absence of a stated rate, the lessor should determine whether the rate implicit in the lease can be estimated. Paragraph 47 of Statement 87 provides that lessors may apply the guidance for imputation of interest in paragraphs 173–187 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Paragraph 183 of Statement 62 states that “the prevailing rates for similar instruments of issuers with similar credit ratings will normally help determine the 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.

Lessee Disclosures (Does Not Apply to Short-Term Leases)

- ❑ A general description of leasing arrangements
- ❑ Basis, terms, and conditions, for variable lease payments
- ❑ Existence, terms, and conditions, of residual value guarantees provided by the lessee
- ❑ Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets
- ❑ Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets
- ❑ Variable lease payments recognized during period but not previously included in lease liability
- ❑ Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)
- ❑ A maturity analysis of all future lease payments – payments for each of the first 5 years, then 5-year increments thereafter, principal and interest separately
- ❑ Lease commitments for which the lease term has not begun
- ❑ Components of any impairment loss (impairment loss and related change in lease liability)
- ❑ Collateral for leases (unless it is the underlying asset itself)

Lessons

Special Types of Leases—Lessor



Regulated Leases & Leases of Assets that are Investments

A regulated lease is one in which external laws, regulations, or legal rulings establish **ALL** of the following:

- Lease rates cannot exceed a reasonable amount (reasonableness subject to determination by an external regulator)
- Lease rates should be similar for lessees that are similarly situated
- Lessor cannot deny potential lessees right to enter into leases if facilities are available (lessee's use of the facilities has to comply with generally applicable use restrictions)

NOTE: Guidance uses aviation leases as an example

A lease of an asset that is an investment is a contract that:

- Leases an asset that has been reported at fair value on GASB Statement No. 72
- Do not apply guidance on leases, but certain disclosures are required

Regulated Leases & Leases of Assets that are Investments

Required disclosures for regulated leases:

- General description of agreements
- Extent to which capital assets are subject to preferential or exclusive use by counterparties under agreements, by major class of assets and by major counterparty
- Total inflows recognized in the current period if not presented on face of the financial statements
- Schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments thereafter
- Current year inflows for variable payments not included in expected future minimum payments

Required disclosures for leases of an asset that is an investment:

- 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

Lessors

The Debits & Credits

Accounting for Leases—Lessor

	Initial Recognition	Amortization	Remeasurement
Lease Receivable	<ul style="list-style-type: none"> Fixed Payments Lease incentives payable to lessee¹ Variable payments (indexed or fixed in substance) Residual value guarantees fixed in substance² <p>Discount using interest rate</p>	<p>Payments first applied to accrued interest, then to lease receivable</p>	<ul style="list-style-type: none"> Change in lease term Change in interest rate charged to lessee A contingency resolves making variable payments fixed or in-substance fixed <p>Only if there is a significant effect on the lease receivable</p>
Deferred Inflow	<ul style="list-style-type: none"> Lease receivable Prepayments Lease incentives¹ Certain initial direct costs 	<p>Amortize in systematic and rational manner</p>	<ul style="list-style-type: none"> Remeasurement of lease receivable

¹ See paragraphs 61 and 62 for guidance on how lease incentives affect initial recognition

² Only recognize residual value guarantees not fixed in substance when (a) a guarantee payment is required and (b) amount can be reasonably estimated. Purchase options or penalties are only recognized when options are exercised.

Variable Payments & Residual Value Guarantees—GASB Q&A

4.48. Q—In addition to fixed payments, a lease contract includes provisions for variable payments based on future performance and for a residual value guarantee that did not initially meet the criteria for recognition in the lease receivable. If those variable payments and residual value guarantee subsequently meet the criteria for recognition, should the amounts be added to the existing lease receivable or reported as separate receivables?

A—When the variable payments and residual value guarantee meet the criteria for recognition, the amounts should be considered separate receivables, and an inflow of resources should be recognized in the period to which those payments relate. Paragraphs 45 and 46 of Statement 87 state that variable payments based on future performance and residual value guarantees that are not fixed in substance should not be included in the initial measurement of the lease receivable. Remeasurement of the lease receivable, as discussed in paragraph 49, is not required when those payments meet the criteria for recognition.

Lessor Disclosures (Does Not Apply to Leases of Investments, Short-Term Leases, or Regulated Leases)

- General description of leasing arrangements
- Basis, terms, and conditions on which variable lease payments not included in the lease receivable are determined
- The total amount of inflows (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period related to leases if not displayed on the face of financials
- The lease inflows related to variable lease payments, residual value guarantees, termination penalties, and other payments not previously included in the lease receivable
- 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

If government's **principal ongoing operations** consist of leasing to other entities:

- Schedule of future lease payments included in lease receivable
- For each of subsequent five years and five-year increments thereafter
- Show both principal and interest

Example Relevant Data Points

- **General Information**

- Description
- Fund
- Component unit (if applicable)
- Lease ID
- Lessee/Lessor name
- Leased assets by major class
- Multiple component lease identifier

- **Lease Term**

- Commencement/end date
- Renewal options
- Renewal notice dates

- **Payment Information**

- Fixed payments
- Variable payments (related index if applicable)
- Interest rate
- Minimum guarantees
- Free rent periods
- Prepaid costs
- Residual value guarantees
- Security deposits
- Current year variable payments (not related to index)

- **Other Factors**

- Purchase option
- Termination options
- Lease incentives
- Regulated lease info



Other Lease Topics

Other Lease Topics

GASB's standard also addressed the following lease topics:

- Contract combinations
 - Lease modifications and terminations
 - Subleases
 - Sale-leasebacks
 - Lease-leasebacks
 - Intra-entity leases
 - Related party leases
-
- Other Selected GASB Q&A's

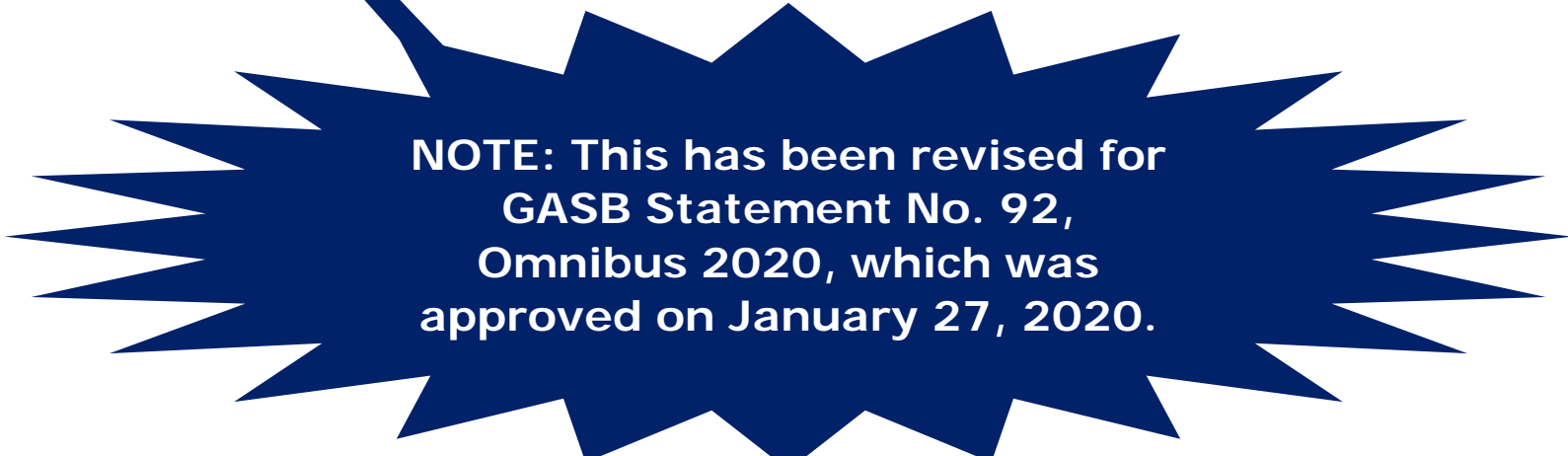
Planning for Implementation

Effective Date and Transition

Effective for **fiscal years beginning after December 15, 2019**

Applied retroactively

- Leases recognized and measured using facts and circumstances that exist at the beginning of the period of implementation
- Lessors would 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



**NOTE: This has been revised for
GASB Statement No. 92,
Omnibus 2020, which was
approved on January 27, 2020.**

Implementation & Transition—GASB Q&A

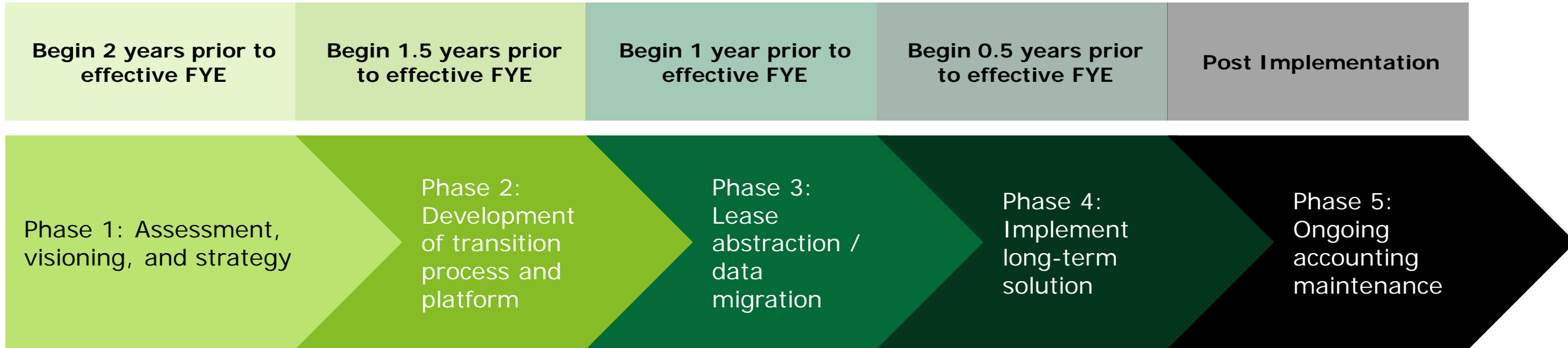
4.76. Q—For leases that were reported as operating leases prior to the implementation of Statement 87, should a government determine what the lease asset would have been on the date of implementation if it initially had been recognized and amortized in prior periods as a lease under the provisions of Statement 87?

A—No. Paragraph 94 of Statement 87 states that leases should be measured using the facts and circumstances that existed at the beginning of the period of implementation. The government is not required to estimate what the lease asset would have been if it initially had been recognized and amortized in prior periods as a lease under the provisions of Statement 87. The lease liability should be measured using the remaining lease term and discount rate as of the beginning of the earliest period restated. The right-to-use asset should be measured based on the lease liability at that date and no restatement of beginning net position would be required because the lease asset and lease liability would be the same.

Major Differences between GASB and FASB

ASC Topic 842	GASB Statement 87
Lease cash flows are classified as operating	Lease cash flows are classified as capital financing activities
Operating leases still result in straight-line rent expense	All leases are financings and thus front-loading expense recognition for all leases
Reasonable certainty judgment can influence classification of leases as short term	No judgment allowed in determination of whether a lease meets the short term exception
Requires reassessment of lease term for significant events/changes in circumstances within control of the lessee	Reassessment of lease term only required upon election to exercise/not exercise and option or an event in the contract requires extension termination
Guidance for lessors only affected mainly for consistency with ASC 606	Brings lessor balances for leases onto the balance sheet

Example Implementation Timeline



Begin 2 years prior to effective FYE

Begin 1.5 years prior to effective FYE

Begin 1 year prior to effective FYE

Begin 0.5 years prior to effective FYE

Post Implementation

Phase 1: Assessment, visioning, and strategy

Phase 2: Development of transition process and platform

Phase 3: Lease abstraction / data migration

Phase 4: Implement long-term solution

Phase 5: Ongoing accounting maintenance

- Lease landscape / portfolio assessment
- Data quality / gap assessment
- Accounting and process assessment
- Road-map / work-plan development
- Process and system assessment
- Plan for lease data abstraction

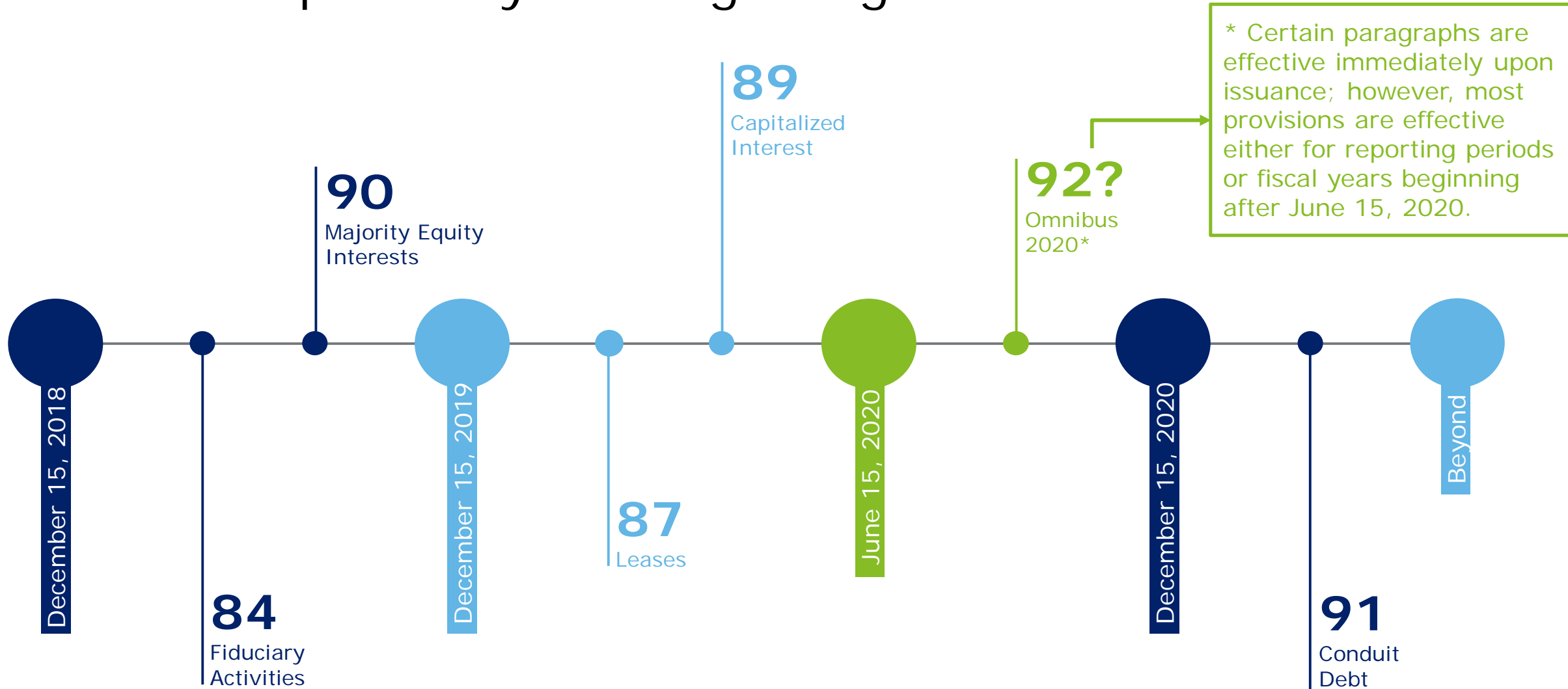
- Design / develop accounting and reporting for beginning balance restatement and disclosures
- Embedded lease process
- Pro-forma financial statements
- Training
- Internal controls and process development

- Lease abstraction
- Data migration from existing systems
- Data sanitization and normalization
- Enhancements to initial data capture process
- Develop management judgments and estimates
- Determine training needs for staff

- Deploy long-term solution ranging from handover of transitional solution through implementation of integrated workplace management solution
- Revisions to internal controls design and development as necessary

- Ongoing refinement of technology solution and steady-state process
- Status reports, project management materials
- Review guidance model
- Technical accounting policy documentation
- Shared services, centers of excellence, managed services

Effective for periods/years beginning after...



GASB's Current Projects

Current Projects

Projects	Stage
Public-Private Partnerships and Availability Payment Arrangements	Exposure Draft Redeliberations – Expect Final Statement in March 2020
Secured Overnight Financing Rate (LIBOR)	Exposure Draft Redeliberations – Expect Final Statement in March 2020
Subscription-Based Information Technology Arrangements	Exposure Draft Redeliberations – Expect Final Statement in May 2020
Deferred Compensation Plans	Exposure Draft Redeliberations – ON HOLD
Financial Reporting Model	Preliminary Views Redeliberations – Expect Exposure Draft in June 2020
Revenue and Expense Recognition	Invitation to Comment Redeliberations – Expect Preliminary Views in May 2020
Compensated Absences	Initial Deliberations – Expect Exposure Draft in February 2021
Prior Period Adjustments, Accounting Changes, and Error Corrections	Initial Deliberations – Expect Exposure Draft in February 2021

Overview of Public-Private Partnerships and Availability Payment Arrangements

Agreement

APA

- Payments by the government are based entirely on the asset's availability for use rather than on tolls, fees, or similar revenues or other measures of demand
- Recognize liability and capital asset if asset transfers at the end (financed purchase)
- Exclude any payments related to providing services for the operation or maintenance – Expense these as incurred

P3

Lease

Account for agreement using GASB Statement No. 87

Service Concession Arrangement

- Must meet all criteria
- Recognize asset early on (receivable or capital asset)
- Recognize deferred inflow of resources

Non-Lease, Non-SCA P3

- Receivable for assets based on operator's estimated carrying value when ownership transfers
- Recognize deferred inflow

Financial Reporting Model for Proprietary Activities—Overview

Operating versus nonoperating income

- Nonoperating
 - Subsidies received or provided
 - Includes transfers, capital contributions, additions to permanent/term endowments
 - Revenues and expenses related to financing
 - Resources from disposal of capital assets and inventory
 - Investment income and expenses
- Operating – Everything else

Separate section for noncapital subsidies and a subtotal for operating income (loss) and noncapital subsidies

Operating revenues

Operating expenses

Operating income (loss)

Noncapital subsidies

Operating income (loss) and noncapital subsidies

Nonoperating revenues and expenses

Increase (decrease) in net position

Subscription-Based IT Arrangements—Main Requirements

- Results in recording right to use subscription asset—an intangible asset—and a corresponding subscription liability at the commencement of term
- Exception for short-term SBITAs, which have a maximum possible term under the SBITA contract of 12 months (including any options to extend, regardless of their probability of being exercised)
 - Subscription payments for short-term SBITAs would be recognized as outflows of resources
- Provides capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA
- Requires note disclosures of essential information regarding a SBITA.

GASB's Pre-Agenda Research

Pre-Agenda Research

Research Topics

Capital Assets

Going Concern Disclosures

Interim Financial Reporting

Investment Fees



Blake Rodgers
blrodgers@deloitte.com



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2020 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited