Deloitte.

GASB Crash Course

TASSCUBO Summer Conference

June 27, 2022

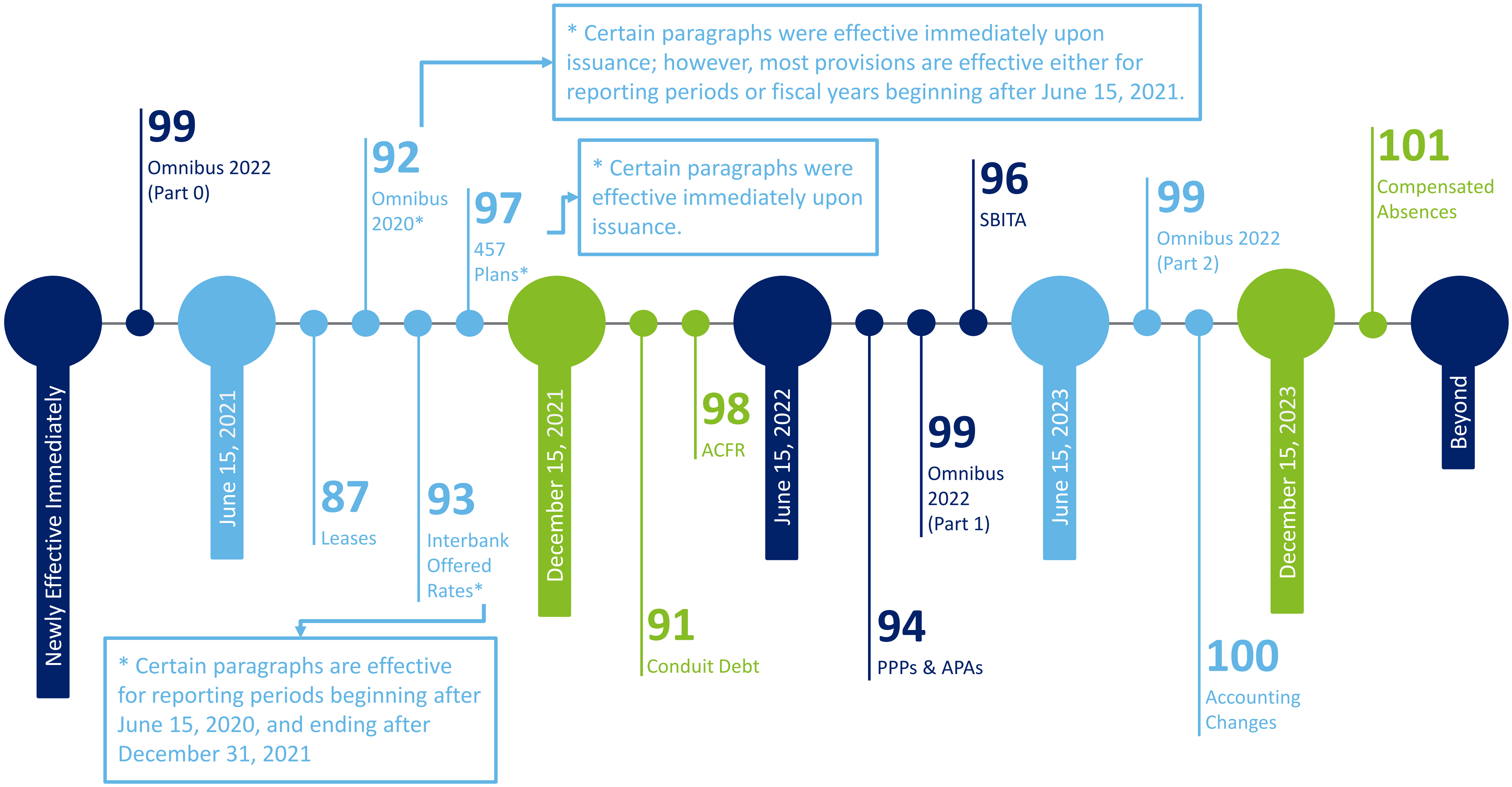
Agenda

01 **GASB Statements**

02 **GASB's Current Projects**

03 **GASB's Pre-Agenda Research**

Post-GASB 95 Effective for periods/years beginning after…



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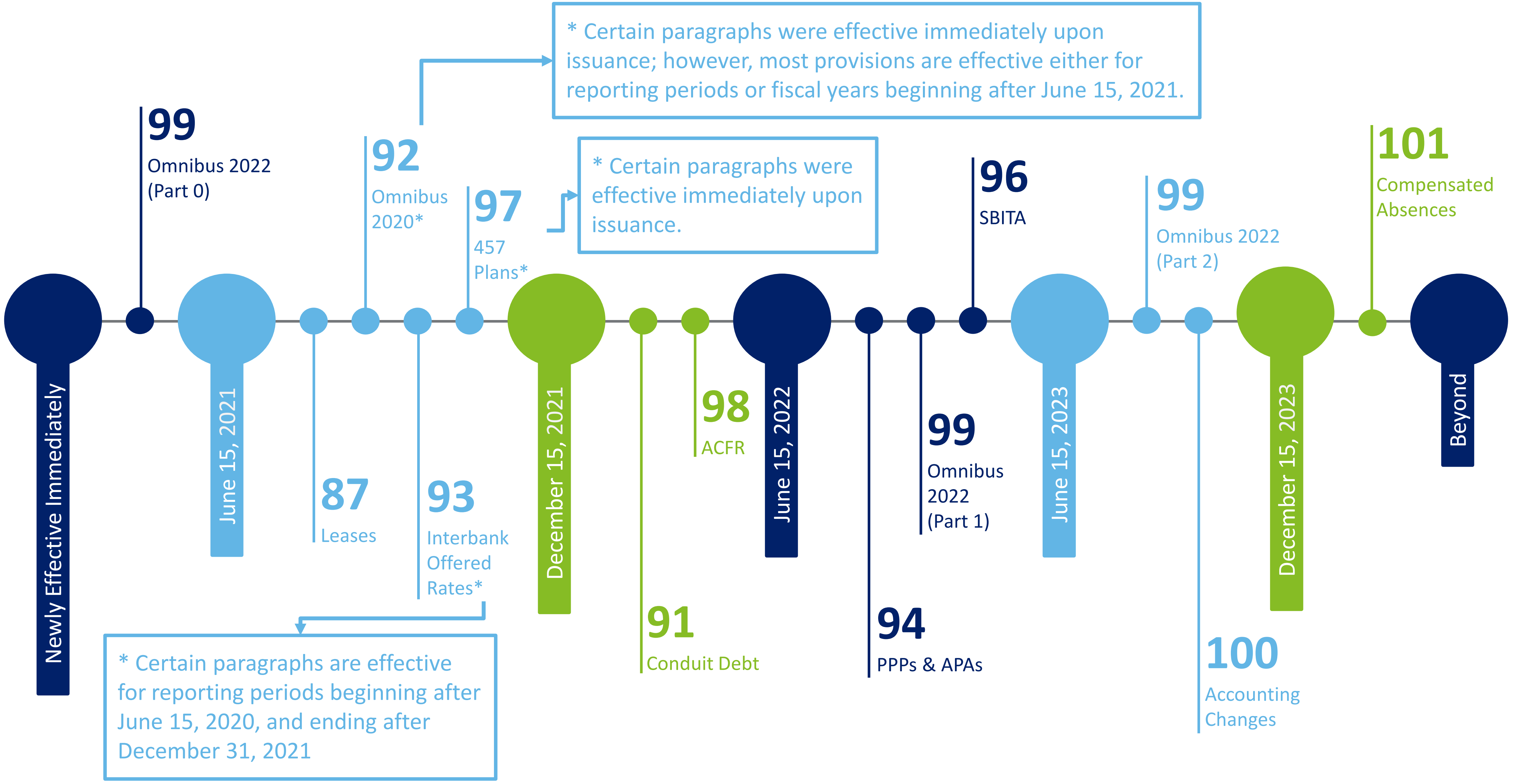


Statement No. 99

Omnibus 2022 (Part 0)

GASB 99 Topics Effective Immediately (Part 0)

- Replacement of LIBOR
- SNAP
- Disclosure of nonmonetary transactions
- Pledges of future revenues within a reporting entity
- GASB terminology edits

Statement No. 87

Leases

Existing guidance on leases

Lessees

- Capital lease
- Operating Lease

Lessors

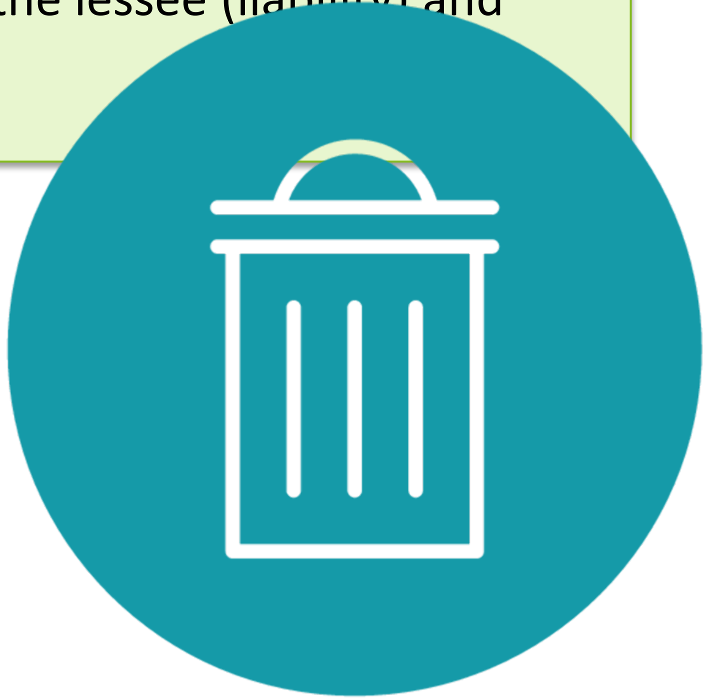
- Sales-type leases
- Direct financing leases
- Operating leases

~~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).



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.

Lessees

Special Types of Leases—Lessee

Types of Leases for a Lessee

- **Lease**
  - Follow new accounting rules
- **Short-Term**
  - Account for this similar to an operating lease
- **Contracts that Transfer Ownership**
  - Account for this as a financed purchase

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)

Lessees

The Debits & Credits

Accounting for Leases—Lessee

	Initial Recognition	Amortization	Remeasurement
Right-to-Use Asset	• Lease liability • Prepayments • Lease incentives[1] • Certain initial direct costs	Amortize in systematic and rational manner	• Impairment • Remeasurement of liability
Lease Liability	• Fixed Payments • Lease incentives[1] • Variable payments (indexed or fixed in substance) • Reasonably certain residual value guarantees or purchase options • Reasonably certain termination penalties • Other reasonably certain payments Discount using interest rate	Payments first applied to accrued interest, then to lease liability	• 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 Only if there is a significant effect on the lease liability

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

Interest Rate (Lessee & Lessor)

Lessee & Lessor Options:

- Stated interest rate in the lease
- Implicit interest rate in the lease[1]

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.

Implementation Guide 2020-1—Question 4.15
4.15. Q—Paragraph 47 of Statement 87 requires a lessor to discount the future lease payments to be received using the interest rate the lessor charges the lessee. How should the lessor determine that rate? A—If the lease contract contains a stated interest rate, the stated rate generally is the rate the lessor charges the lessee. If the stated rate is the rate the lessor charges the lessee, the lessor should use that rate. If there is no stated rate (or if the stated rate is not the rate the lessor charges the lessee), 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 should 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 there is no stated rate (or if the stated rate is not the rate the lessor charges the lessee) and the implicit rate cannot be determined, the lessor may presume (unless there is persuasive evidence to the contrary) that it is recovering its cost associated with interest cost and use the lessor’s own incremental borrowing rate as the discount rate.

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)

Lessors

Special Types of Leases—Lessor

Types of Leases for a Lessor

- **Lease**
  - Follow new accounting rules
- **Short-Term**
  - Account for this similar to an operating lease
- **Contracts that Transfer Ownership**
  - Account for this as a sale of the asset
- **Asset is an Investment**
  - No recognition, but some disclosures
- **Regulated Leases**
  - Recognize revenue based on contract with some disclosures

Lessors

The Debits & Credits

Accounting for Leases—Lessor

	Initial Recognition	Amortization	Remeasurement
Lease Receivable	• Fixed Payments • Lease incentives payable to lessee[1] • Variable payments (indexed or fixed in substance) • Residual value guarantees fixed in substance[2] Discount using interest rate	Payments first applied to accrued interest, then to lease receivable	• Change in lease term • Change in interest rate charged to lessee • A contingency resolves making variable payments fixed or in-substance fixed Only if there is a significant effect on the lease receivable
Deferred Inflow	• Lease receivable • Prepayments • Lease incentives[1] • Certain initial direct costs	Amortize in systematic and rational manner	• 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.

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

Statement No. 92

Omnibus 2020

Statement No. 93

Replacement of Interbank Offered Rates

Background

Many arrangements in which variable amounts are received or paid are based on an interbank offered rate (IBOR)

London Interbank Offered Rate (LIBOR) is expected to cease to exist in its current form at some point

Key Questions:

- What should I do if my derivative instrument is amended/renegotiated for such a change? Can an organization continue hedge accounting?
- What should I do if my lease is amended/renegotiated for such a change?

Overview—Hedging Derivative Instruments

When the reference rate of the original hedging derivative instrument's variable payment is an IBOR, or an IBOR multiplied by a coefficient or adjusted by addition or subtraction of a constant), a government should continue hedge accounting if **ALL** of the following are true :

- Hedging instrument is amended or replaced to change the reference rate or to add/change fallback provisions related to the reference rate
- New reference rate essentially equates to the original reference rate
  - Were the adjustments to the coefficients/constants limited to what was necessary to essentially equate the old and new reference rates
  - Was an up-front payment made between parties limited to what was necessary to essentially equate the old and new reference rates
- All other terms are identical. Only term changes were to reference rate (which may also affect periodic payment dates and frequency, methodology, and dates for reset)

Account for this as an asset (or liability) and amortize (effective interest method) over the duration of the derivative instrument

Overview—Leases

Changes should **not** be considered lease modifications:

- Contract is amended solely to replace the IBOR with another rate
- IBOR is only adjusted as necessary to essentially equate the old and new rates

Statement No. 97

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

Summary

The statement requires the following when considering whether an entity is a component unit (EFFECTIVE IMMEDIATELY):

1. When determining whether a primary government is financial accountable, the absence of a governing board should be treated the same if the government performs the duties of a typical governing board <u>except for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans.</u>

2. The concept that the legal obligation to contribute to a plan is considered a “financial burden” only applies to defined benefit plans administered through trusts.

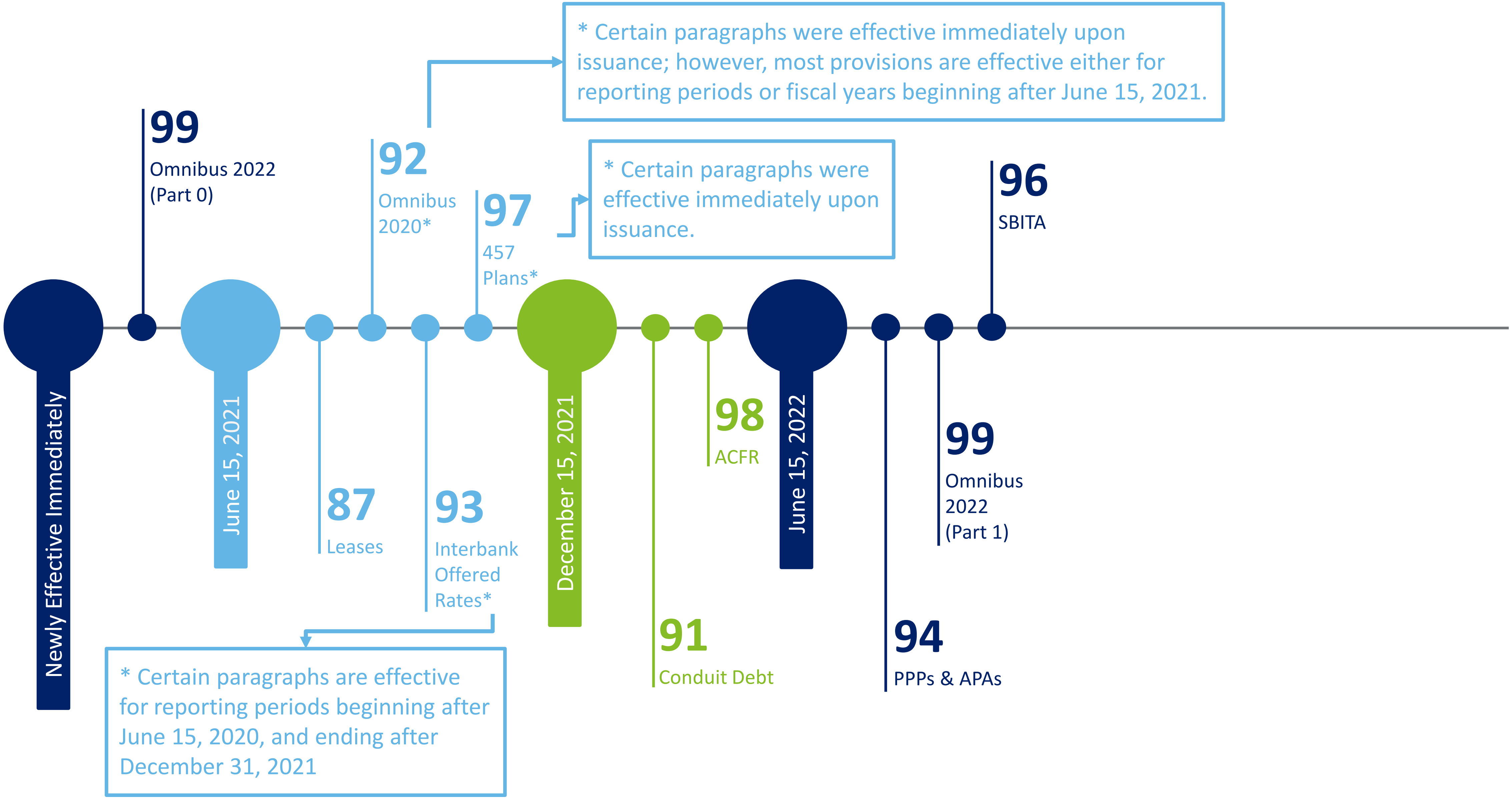
The Statement requires the following as it relates to IRC 457 Plans when determining whether fiduciary activities (Effective for fiscal years beginning after June 15, 2021):

1. 457 plans to be classified as either a pension plan or other employee benefit plan depending on whether the plan meets the definition of a pension plan

2. Clarifies Statement No. 84, as amended, should be applied to all arrangements organized under IRC Section 457

3. Clarifies that IRC Section 457 Plans that meet the definition of a pension plan should follow Statements No. 68 and 73, as amended, as appropriate.

Post-GASB 95 Effective for periods/years beginning after…



Statement No. 91

Conduit Debt Obligations

Statement No. 98

The Annual Comprehensive Financial Report

Statement No. 94

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

Key Terminology

What do the acronyms mean?

Public-Private or Public-Public Partnerships (PPPs)

A transferor contracts with an operator to provide **public services** by conveying **control of the right to operate or use** a **nonfinancial asset**, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Service Concession Arrangements (SCAs)

An SCA is a PPP arrangement that meets **ALL** the following criteria:

- Transferor conveys to operator the right and related obligation to provide **public services** through the use and operation of an underlying PPP asset in exchange for **significant consideration**, such as an upfront payment, installment payments, a new facility, or improvements to an existing facility.
- Operator **collects** and is **compensated** by fees from third parties
- Transferor determines or can **modify or approve which services** the operator is required to provide, **to whom** the operator is required to provide the services, and the **prices or rates** that can be charged for the services.
- The transferor is entitled to **significant residual interest** in the service utility of the underlying PPP asset **at the end** of the arrangement.

Availability Payment Arrangements (APAs)

A **government compensates an operator** for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The payments by the government are **based entirely on the asset's availability for use rather than** on tolls, fees, or similar revenues or **measures of demand**.

Availability for use may be based on specified criteria such as physical condition of the asset, construction milestones, or the achievement of certain availability measures.

Examples

What does this look like in real life?

Public-Private or Public-Public Partnerships (PPPs)

A University contracts with an operator to provide student housing. The operator will construct the student housing facility on the University’s property and make ground lease payments to the University.

In return, the operator will have the right to operate the student housing facility for 30 years. The University maintains the right to place students within the student housing facility and limits the residents to students. **Further, the University, for convenience, collects student housing payments from the students and remits the amounts collected to the operator.** The University has some ability to control the rates charged, but the housing rate is determined by the operator. At the end of the 30 years, the student housing facility reverts to the University.

Service Concession Arrangements (SCAs)

A University contracts with an operator to provide student housing. The operator will construct the student housing facility on the University’s property and make ground lease payments to the University.

In return, the operator will have the right to operate the student housing facility for 30 years. The University maintains the right to place students within the student housing facility and limits the residents to students. **The operator is responsible for collecting rent directly from the students.** The University can modify and approve the rates charged by the operator for student housing. At the end of the 30 years, the student housing facility reverts to the University.

Availability Payment Arrangements (APAs)

A University contracts with an operator to design, construct, and maintain a student housing facility for 20 years.

In return for operating the student housing, the **University will make a payment to the operator** of $10,000,000 at the start of construction, $20,000,000 upon the opening of the student housing facility, and an annual payment of $1,000,000 for each year that the student housing is available for University students. Lastly, if the student housing is opened prior to the Spring 2022 semester, the University will make a bonus payment of $1,500,000 to the operator.

The operator will collect rent from the students and remit it to the University and the University will pay them $10,000 annually for doing so.

Thinking Through It: Accounting Treatment Overview for Transferor

Agreement

APA

- 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

PPP

Lease*

Account for agreement using GASB Statement No. 87

* Agreement only involves existing assets and improvements are not required to be made by operator

Service Concession Arrangement

- Must meet all criteria
- Recognize receivable for payments at commencement.
- Recognize capital asset and/or improvements at acquisition value when placed into service
- Recognize deferred inflow of resources

Non-Lease, Non-SCA PPP

- Recognize receivable for payments at commencement.
- Recognize improvements at acquisition value when placed in service
- Receivable for new assets based on operator's estimated carrying value when ownership transfers
- Recognize deferred inflow

Tricky Accounting Considerations

- Term of agreement when options are present – Assessing reasonable certainty of options to renew or termination options
- What is a public service? – Doesn’t have to be the primary function of the underlying asset
- Present value of installment payments
- Estimating acquisition value or carrying value at time of transfer
- Return of underlying asset in its original condition
- Modifications and terminations
- Agreements with multiple components
- Also covers scenarios in which the government is the operator

Key Takeaways

- Supersedes GASB Statement No. 60 on Service Concession Arrangements
- Broader applicability to all PPPs and APAs
- PPPs and SCAs are often alternatives to an entity obtaining its own financing
- Where to look for these:
  - Student housing
  - Dining
  - Parking
  - Concessions at athletic or performing arts venues
  - Bookstores

Statement No. 96

Subscription-Based Information Technology Arrangements

Subscription-Based IT Arrangements (SBITA)—Key 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.

What is a SBITA?

- Provide access to vendor’s IT software and associated tangible capital assets for subscription payments without granting perpetual license or title to the IT software and associated tangible capital assets
- For a period of time
- Exchange or exchange-like transaction
- Excludes agreements that meet the definition of lease in which the software component is insignificant when compared to the underlying tangible capital asset

Examples:

- Cloud products (SaaS, PaaS, IaaS)
- Licenses to software
- Applications

How do I account for a SBITA?

Recognize a **liability** equal to the present value of subscription payments expected to be made during the subscription term

- Includes all fixed or indexed payments
- Does not include purely variable payments (dependent on usage of software or number of user seats)

Recognize a subscription **asset** measured based on:

- SBITA liability
- Capitalization of implementation costs
- Payments made to the SBITA vendor at or before commencement
- Adjust for any SBITA incentives

* Short-term SBITA are excluded from measurement (maximum possible term of 12 months or less)

How do I figure out the term of my SBITA?

Starts with the noncancelable period, plus periods covered by a government's or SBITA vendor'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 government and SBITA vendor each have the option to terminate
  - Rolling month-to-month SBITA, or a SBITA that continues into 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.

Tricky Accounting Considerations

- Does not apply if the government is a SBITA vendor
- Discounting to present value
- Assessing options (terminations or renewals)
- Multiple components – software maintenance and updates
- Modifications and terminations
- Judgment on capitalizable costs during implementation

Statement No. 99

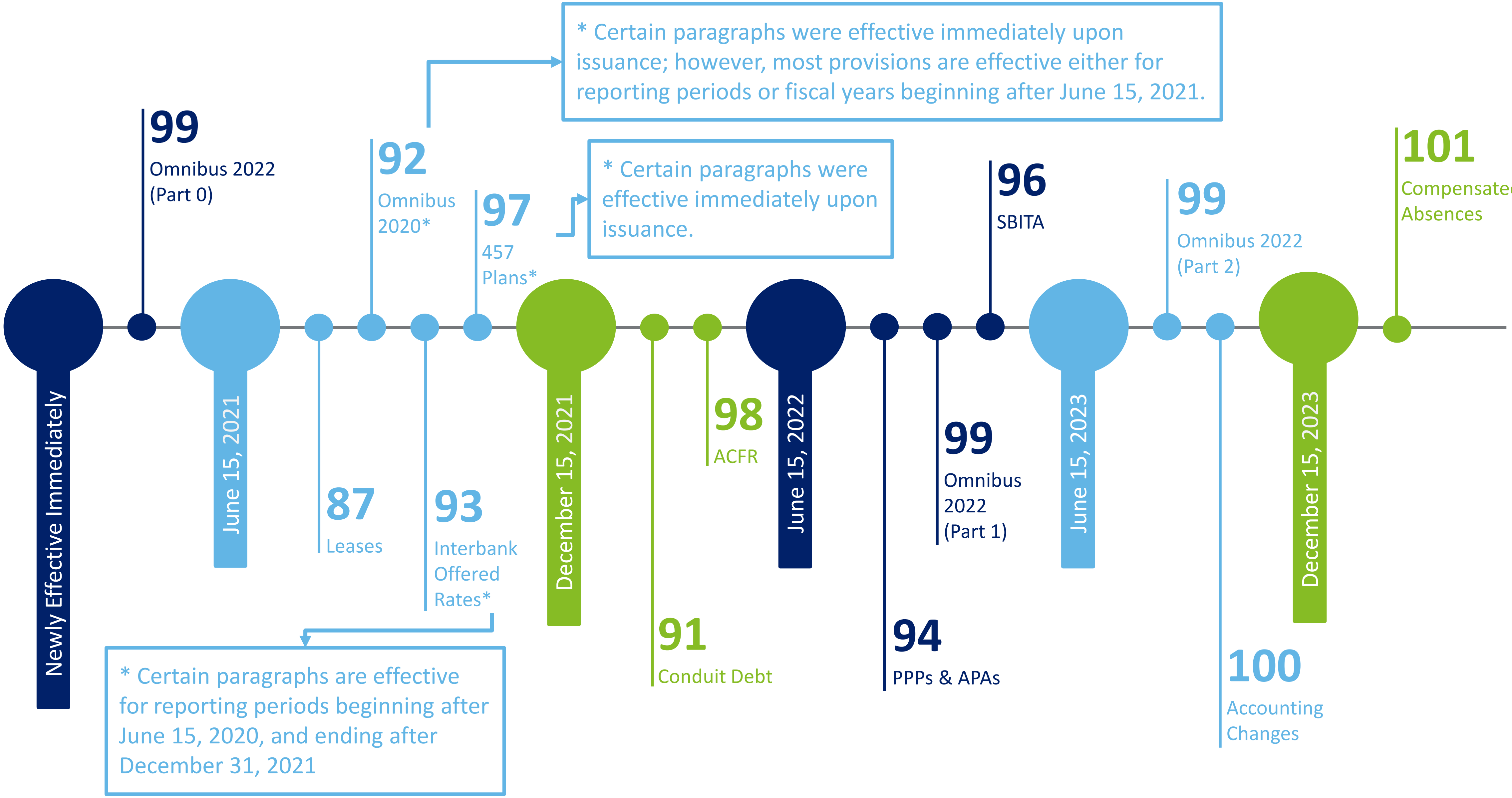
Omnibus 2022 (Part 1)

GASB 99 Topics Effective for Fiscal Years Beginning after June 15, 2022

Leases / PPPs / SBITA

- Termination options
- Purchase options
- Short-term leases
- Lease variable payments
- Lease remeasurement
- Lease incentives
- Changes in term and remeasurement for PPPs

Post-GASB 95 Effective for periods/years beginning after…



Statement No. 99

Omnibus 2022 (Part 2)

GASB 99 (Part 2) – Effective fiscal years beginning after June 15, 2023

Topic	Effective Date
Accounting for exchange or exchange-like financial guarantees	Essentially, GASB is requiring the application of Statement 70 on Nonexchange Financial Guarantees to exchange or exchange-line financial guarantees.
Derivative instruments that are neither hedges or investments	Requires separate presentation of these “other derivative instruments” Example: A derivative instrument that was intended to be a hedge but does not meet the hedge effectiveness criteria
Termination of hedge accounting	Separate presentation on the resource flows statement of the effect of the hedge termination

Statement No. 100

Accounting Changes and Error Corrections

Accounting Changes / Error Corrections—Definitions

Accounting Changes			
Change in Accounting Principle	**Change in Accounting Estimate**	**Change to or Within the Financial Reporting Entity**	**Corrections of an Error**
1) A change from one generally accepted accounting principle to another generally accepted accounting principle that is preferable 2) The implementation of new authoritative accounting or financial reporting pronouncements	Accounting estimates are outputs determined based on inputs (data, assumptions, measurement methodologies). A change in accounting estimate occurs when inputs change. Changes to inputs result from a change in circumstance, new information, or more experience.	1) Addition or removal of a fund 2) Change between major and nonmajor 3) Addition or removal of a component unit 4) Change in a component unit between blended and discrete	Results from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date.

Accounting Changes / Error Corrections—Accounting

Accounting Changes			
Change in Accounting Principle	**Change in Accounting Estimate**	**Change to or Within the Financial Reporting Entity**	**Corrections of an Error**
Retroactive to all prior periods presented, if practicable RSI and SI – Do not restated periods earlier than those presented in the basic financial statements	Prospective by recognizing the change in the reporting period the change occurs	Adjust beginning balances for the effect of the change as if the change occurred at the beginning of the reporting period (not all periods presented) RSI and SI – Do not restated periods earlier than those presented in the basic financial statements	Retroactive to all prior periods presented – no practicability exception RSI and SI – Restated periods earlier than those presented in the basic financial statements, if practicable

Statement No. 101

Compensated Absences

Broadening Traditional Thought of Compensated Absences

Compensated absence—Leave for which employees may receive one or more (a) cash payments when the leave is used for time off; (b) other cash payments, such as payment for unused leave upon termination of employment; or (c) noncash settlements, such as conversion to defined benefit postemployment benefits.

Examples include:

- Vacation (annual) leave
- Sick leave
- Paid time off (PTO)
- Holidays
- Parental leave
- Bereavement leave
- Military leave
- Jury duty
- Unrestricted sabbatical leave

When to recognize a liability for unused leave

Compensated absence—Leave for which employees may receive one or more (a) cash payments when the leave is used for time off; (b) other cash payments, such as payment for unused leave upon termination of employment; or (c) noncash settlements, such as conversion to defined benefit postemployment benefits.

Examples include:

- Vacation (annual) leave
- Sick leave
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- Parental leave
- Bereavement leave
- Military leave
- Jury duty
- Unrestricted sabbatical leave

Liability Recognition for Unused Leave

Recognize a liability for leave that:

- Accumulates
- Is for services already rendered, <u>AND</u>
- Is *more likely than not* to be used for time off or otherwise paid in cash or settled through noncash means. Consider:
  - Employment policies
  - Eligibility for use or payment/settlement in the future
  - History of use, payment or forfeiture
  - Information indicating history may not be representative of future trends

Liability Recognition for Unused Leave (continued)

Leave Type	Recognition
Leave more likely than not to be settled through conversion to defined benefit pension or OPEB	Not recognized
Leave dependent upon the occurrence of a sporadic event that affects a small population of employees in a particular reporting period (e.g., military leave, parental leave, jury duty)	When leave commences
Unlimited leave and holiday leave taken on a specific date	When leave is taken

Liability Measurement

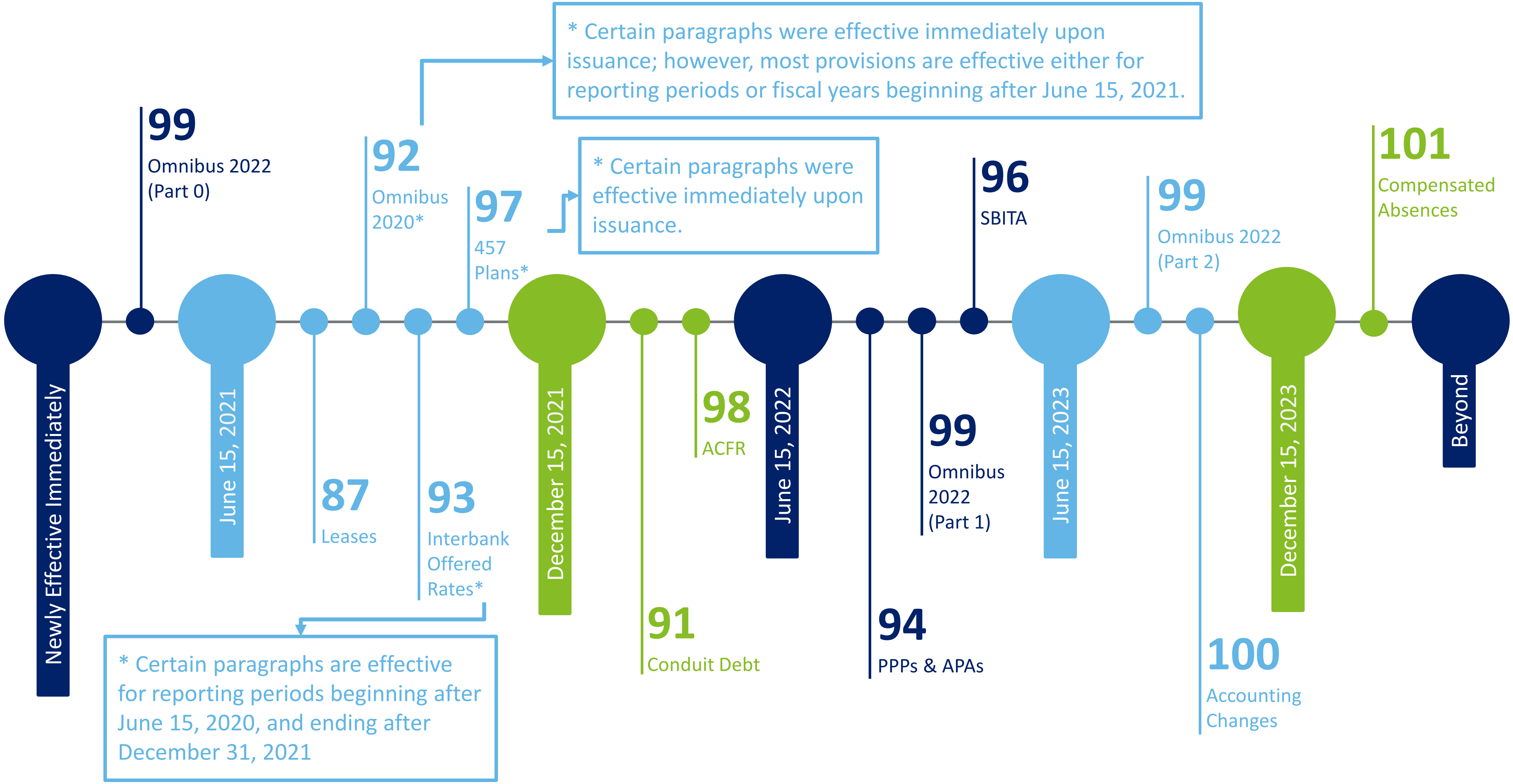
Measurement of liability for unused leave, including salary-related payments

- Unused leave time x rate as of the date of the financial statements, where rate is
  - Employee's pay rate, or estimated pay rate representative of eligible population for leave pools
  - Salary-related payment rates
- For any leave more likely than not to be paid at a different rate, use expected rate
- For unused leave more likely than not to be settled through noncash means other than conversion to defined benefit pension/OPEB, use amount for which it is expected to be settled

NOTE: Changes in future periods due to increases in rates are recognized in the period of the change.

Salary-related payments—Non-salary obligations incurred related to providing leave in exchange for services rendered (e.g., employer's payroll tax obligation, certain defined contribution pension/OPEB contributions). Must be directly and incrementally associated with leave. (Exception for salary-related payments to defined benefit pension/OPEB.)

Post-GASB 95 Effective for periods/years beginning after…



GASB's Current Projects

Current Projects

Projects	Stage
Risks and Uncertainties Disclosures	Exposure Draft—Expect final statement in April 2023
Financial Reporting Model	Exposure Draft—Expect final statement in December 2023
Classification of Nonfinancial Assets	Initial Deliberations—Expect Exposure Draft in May 2023
Revenue and Expense Recognition	Preliminary Views—Expect Exposure Draft in March 2025
Going Concern Uncertainties and Severe Financial Stress	Initial Deliberations—Expect Preliminary Views in December 2023

GASB’s Pre-Agenda Research

Pre-Agenda Research

Research Topics
Capital Assets
Subsequent Events

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