





GASB Updates

**Association of Government Accountants
Phoenix Chapter – Professional Development Training**

April 30, 2021
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GASB Standards Effective June 30, 2021

- Statement 84 and Implementation Guide No. 2019-2—fiduciary activities
- Statement 90—majority equity interests
- Statement 93—replacement of interbank offered rates (except paragraph 11b, 13, and 14)
- Statement 97—(paragraphs 4 & 5)—certain component unit criteria and fiduciary activities
- Implementation Guide No. 2019-1—implementation guidance update—2019



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GASB 84

Fiduciary activities



Separate criteria for

- Fiduciary component units
 - Pension and OPEB
 - Other
- Pension and OPEB arrangements that are not component units
- Other fiduciary activities



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Other fiduciary activities—criteria



- a. The assets associated with the activity are controlled by the government
- b. The assets associated with the activity are **not** derived either:
 - 1) Solely from the government's own-source revenues or
 - 2) From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the government does not have administrative involvement or direct financial involvement.



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Other fiduciary activities—criteria



- c. The assets associated with the activity have one or more of the following characteristics:
 - 1) The assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government.



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Other fiduciary activities—criteria



- c. The assets associated with the activity have one or more of the following characteristics:
 - 2) The assets are for the benefit of individuals and *the government does not have administrative involvement with the assets or direct financial involvement with the assets*. In addition, the assets are not derived from the government's provision of goods or services to those individuals.
 - 3) The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government's provision of goods or services to those organizations or other governments.



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FY 2020 Reporting Guidelines



County				
Statement of fiduciary net position				
Fiduciary funds				
June 30, 2020				
	Investment trust funds ¹	Private-purpose trust funds ²	Custodial funds	
			External investment pool ¹	Other
Assets				
Cash and cash equivalents				
Taxes receivable for other governments				
Interest and dividends receivable				
Investments, at fair value				
Other assets				
Total assets				
Liabilities³				
Accounts payable				
Due to other governments				
Due to others				
Other long-term liabilities				
Total liabilities				
Net position				
Restricted for:				
Pool participants				
Individuals, organizations, and other governments				
Total net position				



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FY 2020 Reporting Guidelines



County				
Statement of changes in fiduciary net position				
Fiduciary funds				
Year ended June 30, 2020				
	Investment trust funds	Private-purpose trust funds	Custodial funds	
			External investment pool	Other
Additions:¹				
Contributions from pool participants				
Property tax collections for other governments ²				
Collections for individuals				
Investment earnings:				
Interest and dividends				
Net increase (decrease) in fair value of investments				
Total investment earnings				
Less investment expense				
Net investment earnings				
Inmate collections				
Other				
Total additions				
Deductions:¹				
Distributions to pool participants				
Beneficiary payments to individuals				
Property tax distributions to other governments				
Administrative expense				
Payments to inmates				
Other				
Total deductions				
Net increase (decrease) in fiduciary net position				



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FY 2020 Reporting Guidelines



- School districts
- Community college districts



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GASB Standards Effective June 30, 2022



- Statement 87 and Implementation Guide No. 2019-3—leases
- Statement 89—accounting for interest cost incurred before the end of construction period
- Statement 92—omnibus 2020 (remaining paragraphs)
- Statement 93—replacement of interbank offered rates (paragraph 11b, 13, and 14)
- Statement 97 (paragraphs 6-9)—Section 457 plans
- Implementation Guide No. 2020-1—implementation guidance update—2020 (except Statement 87 & 91 related questions)



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Leases

PREPARING FOR GASB'S NEW LEASE STANDARD EARLY PLANNING AND ASSESSMENT ARE KEY EFFECTIVE FOR FISCAL YEAR ENDING JUNE 30, 2022

Background

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 – Leases (GASB 87). GASB 87's objectives are to better meet the information needs of financial statement users by improving how governments report leases, enhancing the comparability of financial statements between governments, and enhancing the relevance, reliability, and consistency of information about governments' leasing activities. GASB 87 is effective for governments with a June 30 year-end for the year ending June 30, 2022.¹

Governments may enter into leases for many types of assets. Under previous guidance, leases were classified as either capital or operating leases—depending on whether the lease met certain criteria—with different reporting requirements for each type. GASB 87's definition of leases excludes contracts that transfer ownership; therefore such contracts previously classified as capital leases are not covered by GASB 87 requirements and are instead reported as financed purchases. Other previously classified capital and operating leases will now be accounted for under a single reporting model that requires lessees to recognize a lease liability and an intangible right-to-use leased asset, and lessors to recognize a lease receivable and a deferred inflow of resources. It is more common for a government to be a lessee, leasing property or equipment, but a government may also be a lessor if, for example, it has unused space it leases to a third party.

The new lease accounting standards represent the most far-reaching changes GASB has introduced in many years, and implementation efforts may take well over a year for governments with a significant volume of leases. Also, implementation may significantly impact many departments and stakeholders from various levels across the organization, and not just the finance department. Finally, changes in processes, internal controls, and IT systems are likely necessary to help ensure all material leases² are captured and the underlying data necessary to apply the new lease standards is efficiently compiled.

WHAT SHOULD WE BE DOING NOW TO PREPARE?

Early planning and assessment are necessary to achieve compliance. Governments should become familiar with the new standard, identify key personnel and responsibilities, and develop a comprehensive plan with implementation milestones. One of the biggest implementation challenges governments will face is determining their complete population of leases. Determination and analysis of the lease population, as further discussed below, will aid in the successful implementation of GASB 87.

¹ GASB Statement No. 86 – Postponement of the Effective Dates of Certain Authoritative Guidance. GASB standards need not be applied to unamortized leases.
October 2020 Arizona Auditor General

PREPARING FOR GASB'S NEW LEASE STANDARD DETERMINING AND ANALYZING THE LEASE POPULATION

Take a complete inventory of all contracts to identify the lease population. Not every lease under the new standards will be called a lease in its existing contract. Also, leases could be embedded within service contracts and agreements. For example, a school district's contract for student transportation services may include the use of the contractor's buses. If the contract allows the school district to control aspects of how those buses are used, that service contract may include an embedded lease of buses under GASB 87.

Procedures to help identify leases, including embedded leases, may include the following:

- Consult with legal and procurement departments and employees most familiar with contracting processes.
- Consult with operational departments, as needed, to identify contracts maintained in decentralized systems outside the business or procurement areas.
- Scrutinize accounts payable data to identify significant vendors and recurring payments that could represent leases under the new guidance.
- Analyze rent expenses and review rental agreements for property and equipment.
- Evaluate construction projects and related agreements for potential lease arrangements.
- Review service contracts that include the use of tangible assets to provide the related services.
- Re-evaluate previous operating leases where the government is the lessor to ensure proper recognition of lease receivables and deferred inflows of resources under the new guidance.


The individuals with the best knowledge of contracts should look for unrecorded leases, taking a close look at all operations. Governments should undertake careful, upfront planning to identify a complete lease population and to establish appropriate procedures as new and modified contracts are needed. Identifying embedded leases can involve considerable time and judgment because many of these contracts may not have been identified as leases in the past.

Analyze the lease population and determine scope. After all potential leases have been identified, the government should evaluate and analyze them to determine if they meet the new GASB 87 criteria. Leases determined to be short-term (those with a total possible term of 12 months or less) and leases that transfer ownership of the underlying asset should be excluded from GASB 87 reporting. Governments should work closely with their internal and external auditors to determine appropriate materiality thresholds for lease reporting and should avoid simply defaulting to existing capitalization thresholds for property and equipment. This materiality assessment should consider the significance of the lease liability and asset for lessees and the lease receivable and deferred inflow of resources for lessors. Governments should review their lease thresholds at least annually to ensure all material leases, either individually or in the aggregate, are reported.

Identify opportunities to leverage technology as part of the implementation process. The new lease standard requires significantly more data and calculations to produce accounting journal entries and disclosures for lease reporting. Governments that identify unrecorded leases across departments should consider centralizing storage and management of lease agreements using IT solutions to facilitate transition to the new lease standard. Governments that choose to implement a new IT tool to manage leases will need to allow additional time in their implementation process to ensure the new tool will be fully operational.

Other available resources:

GASB Pronouncements: GASB Statement No. 87
GASB Implementation Guide No. 2019-3
GFA Advisory Account for Leases
October 2020 Arizona Auditor General




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Leases—IG 2020-1

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. . . . **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.**



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GASB Standards Effective June 30, 2023



- Statement 91—conduit debt obligations
- Statement 94—public-private and public-public partnerships and availability payment arrangements
- Statement 96—subscription-based information technology arrangements
- Implementation Guide No. 2020-1—implementation guidance update—2020 (Statement 87 & 91 questions)



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GASB exposure drafts/preliminary views issued



- Communication methods: notes to financial statements
 - Exposure draft: February 2020
 - Final concepts statement: May 2021
- Financial reporting model improvements
 - Exposure draft: June 2020
 - Final standard: June 2022
 - Proposed effective date: June 30, 2025 (larger governments) or June 30, 2026 (smaller governments)
- Recognition of elements of financial statements
 - Exposure draft: June 2020
 - Final concepts statement: June 2022



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GASB exposure drafts/preliminary views issued



- Revenue and expense recognition
 - Preliminary views: June 2020
 - Exposure draft: June 2023
 - Final standard: March 2025
- Implementation guide update—2021
 - Exposure draft: November 2020
 - Final implementation guide: May 2021
- Compensated absences
 - Exposure draft: February 2021
 - Comment deadline: June 4, 2021
 - Final standard: December 2021
 - Proposed effective date: June 30, 2024



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GASB exposure drafts/preliminary views issued



- Renaming the comprehensive annual financial report
 - Exposure draft—April 2021
 - Comment deadline: July 9, 2021
 - Final standard—October 2021
 - Proposed effective date: June 30, 2022



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Upcoming GASB projects

- Prior-period adjustments, accounting changes, and error corrections—reexamination of Statement 62
 - Exposure draft: May 2021
 - Final standard: May 2022
- Omnibus
 - Exposure draft: August 2021
 - Final standard: May 2022
- Risk and uncertainties disclosures
 - Exposure draft: November 2021
 - Final standard: November 2022



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Questions:

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