

# NYSAC & OSC Virtual County Finance School Webinar

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## *GASB Accounting Update*

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CPAs, Consultants & More

*June 2020*

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- **Government Principal in the Rochester and NYC markets**

**Plus over 50 professionals working in government across New York State**

# Agenda

- **GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance**
- **GASB 83 – Certain Asset Retirement Issues**
- **GASB 84 – Fiduciary Activities**

# Agenda (Continued)

## Accounting Standards -

- GASB 87–Leases
- **GASB 88 – Disclosures Related to Debt**
- GASB 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period

# Accounting Standards

- Established by the Governmental Accounting Standards Board (GASB)
- Provide guidance as to reporting financial transactions in accordance with GAAP
- There are always on-going projects that are intended to *improve* and *clarify* the financial reporting process



# ***GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance***

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.



# ***GASB 83 – Certain Asset Retirement Obligations***

**Effective for periods beginning after June 15, 2019**

- December 31, 2020 for Counties
- Addresses reporting for certain asset retirement obligations (AROs)

# ***GASB 83 – Certain Asset Retirement Obligations (Continued)***

**ARO – A legally enforceable liability associated with the retirement of a tangible capital asset**

- Sewage plant
- X-ray machine
- Nuclear reactor
- Etc.
- NOT landfills
- NOT pollution remediation



# ***GASB 83 – Certain Asset Retirement Obligations (Continued)***

**Retirement of an asset –  
Permanent removal of an asset  
from service**

- Sale
- Abandonment
- Recycling
- Disposal



# ***GASB 83 – Certain Asset Retirement Obligations (Continued)***

**ARO recognized when liability incurred and reasonably estimable (obligating event)**

- Internal obligating event
- External obligating event

# ***GASB 83 – Certain Asset Retirement Obligations (Continued)***

## **Note Disclosures:**

- Description of ARO and associated assets
- Method and assumptions used to measure liabilities
- Estimated remaining useful life
- How funding and assurance provisions are met
- Amount of assets restricted to pay liabilities
- If an ARO has occurred but is not estimable – disclose that fact

# **GASB 84 – *Fiduciary Activities***

**Improve identification of fiduciary activities**

**Current guidance does not define a fiduciary activity**

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

**– December 31, 2020 for Counties**



# **GASB 84 – *Fiduciary Activities*** ***(Continued)***

## **Four types of fiduciary funds to report:**

- Pension trust funds
- Investment trust funds
- Private purpose trust funds
- Custodial funds

# **GASB 84 – *Fiduciary Activities*** ***(Continued)***

## **Identifying fiduciary activities**

- **Fiduciary Component Units**
  - Pension/OPEB
  - Other
- **Other Fiduciary activities**

# GASB 84 – *Fiduciary Activities* (Continued)

<b><u>Fiduciary Activities Questionnaire</u></b>			
<b>#</b>	<b>Question</b>	<b>Yes</b>	<b>No</b>
1.	Is the entity a component unit? <sup>3</sup>	Go to #2.	Go to #5
2.	Are the assets held for pension or OPEB arrangements?	Go to #3	Go to #6
3.	Is the pension plan or OPEB plan within the scope of other GASB guidance?	Go to #15	Go to #4
4.	Are the assets from entities that are not part of the reporting entity being accumulated for pensions or OPEB that are not administered through trusts that meet the criteria in paragraph 3 of Statements 67 & 74?	Go to #15	Go to #14
5.	Does the government control the assets? <sup>4</sup>	Go to #9	Go to #13
6.	Are the assets held in a trust or equivalent arrangement and the government itself is <i>not</i> a beneficiary?	Go to #15	Go to #7
7.	Are the assets for the benefit of individuals and the government does <i>not</i> have administrative involvement or direct financial involvement? <sup>5</sup>	Go to #15	Go to #8
8.	Are the assets for the benefit of organizations or other governments that are <i>not</i> part of the financial reporting entity?	Go to #15	Go to #14
9.	Are the assets held for pension or OPEB arrangements? <sup>6</sup>	Go to #3	Go to #10
10.	Are the assets derived solely from the government's own-source revenue? <sup>7</sup>	Go to #14	Go to #11
11.	Are the assets derived from government mandated non-exchange transactions or voluntary non-exchange transactions?	Go to #12	Go to #6
12.	Are the assets derived from a pass-through grant for which the government does have administrative involvement or direct financial involvement?	Go to #14	Go to #6
13.	The activity would not be reported.		
14.	The activity would be reported with the governmental or business type activities.		
15.	The activity would be reported in a fiduciary fund.		

# **GASB 84 – *Fiduciary Activities*** ***(Continued)***

## **What does this mean for Counties?**

- **Items that become part of custodial funds:**
  - **SSI and welfare trust payments held for others**
  - **Mortgage tax payments owed to other municipalities**
  - **Bail deposits**
  - **Jail inmate accounts**

# **GASB 84 – *Fiduciary Activities*** ***(Continued)***

## **What does this mean for Counties?**

- **Things that will or could be part of your general fund:**
  - **Payroll tax liabilities**
  - **“Off the books” accounts such as the clerk, DMV, Sherriff’s accounts**
  - **Any departmental cash that was previously held in agency**
  - **Think: is this own generated by own source revenue?**
- **Private Purpose Trusts stay basically unchanged.**

# **GASB 84 – *Fiduciary Activities*** ***(Continued)***

## **Statement of Fiduciary Net Position**

- Report assets, deferred outflows, liabilities, deferred inflows and net position

## **Statement of Changes in Fiduciary Net Position**

- Disaggregate additions by source
- Disaggregate deductions by type



# **GASB 87 – Leases**

## **Purpose**

- To improve the accounting and financial reporting of leases by governments
- Requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases
- Lessee is required to record a lease liability and lease asset
- Lessor is required to record a lease receivable and a deferred inflow of resources

## **Effective Date**

- For periods beginning after June 15, 2021
  - December 31, 2022 for Counties

# GASB 87 – *Leases (Continued)*

## Definition of a Lease

- A contract that conveys the right to use another entity's non-financial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction
- Any contract that meets the above definition falls under the scope of GASB 87 (*unless specifically excluded*)

# **GASB 87 – *Leases (Continued)***

## **Exclusions**

- **Intangible assets**
- **Biological assets**
- **Inventory**
- **Service Concession Arrangements**
- **Assets financed with outstanding conduit debt, unless both the asset and debt are reported by the lessor**
- **Supply contracts**

# GASB 87 – *Leases (Continued)*

## Lease Term

- The period during which a lessee has a noncancelable right to use an underlying asset PLUS:
  - Periods covered by a lessee's or lessor's option to extend the lease if its reasonably certain that the option will be taken
  - Periods covered by a lessee's or lessor's option to terminate the lease if its reasonably certain that the option will not be taken

# GASB 87 – Leases (Continued)

## Short-Term Leases

- At start of lease term, the maximum possible term under the contract is 12 months (or less)
- Payments are recorded as expenditures for Lessees
  - No liability or asset recorded
- Receipts are recorded as revenues for Lessors
  - No receivable or deferred inflow of resources recorded

# GASB 87 – Leases (Continued)

## Lessee Accounting

- Initial Reporting (economic resources method)
  - The Lessee should recognize a lease asset and a lease liability at the start of the lease term

	<u>Debit</u>	<u>Credit</u>
Intangible Asset - right to use	\$ XXX	
Lease Liability		\$ XXX



# GASB 87 – Leases (Continued)

## Lessee Accounting (Continued)

- Subsequent Reporting (economic resources method)
  - The lessee should reduce the liability as payments are made and also recognize an expenditure for interest.
  - The lessee should amortize the asset over the shorter of the lease term or useful life of the underlying asset

	<u>Debit</u>	<u>Credit</u>
<b>Amortization</b>	<b>\$ XXX</b>	
Intangible Asset - right to use		\$ XXX
<b>Lease Liability</b>	<b>\$ XXX</b>	
<b>Interest Payments</b>	<b>\$ XXX</b>	
Cash		\$ XXX

# **GASB 87 – *Leases (Continued)***

## **Lessee Accounting (Continued)**

- **Notes to the financial statements:**
  - **Description of its leasing arrangements**
  - **Total amount of leased assets (by major class) an related accumulated amortization**
  - **Amount of outflows recognized in the reporting period for variable payments and other payments not previously included in the measurement of the lease liability**
  - **Principal and interest requirements to maturity**
  - **Commitments under the leases**
  - **Components of any net impairment loss recognized on the lease asset during the period**

# GASB 87 – Leases (Continued)

## Lessor Accounting

- Initial Reporting (economic resources method)
  - The Lessee should recognize a lease receivable and a deferred inflow of resources

	<u>Debit</u>	<u>Credit</u>
Lease Receivable	\$ XXX	
Deferred Inflow of resources - Lease		\$ XXX

- The lease receivable is measured at the *present value of payments (discounted for future interest)*
- The deferred inflow is measured at the initial measurement of the *receivable PLUS* and *payments made to the lessor at or before the start of the lease and certain direct costs*

# GASB 87 – Leases (Continued)

## Lessor Accounting (Continued)

- Subsequent Reporting (economic resources method)
  - The lessor should reduce the receivable as payments are made
  - The lessor should recognize revenue over the lease term

	<u>Debit</u>	<u>Credit</u>
<b>Cash</b>	<b>\$ XXX</b>	
<b>Interest Revenue</b>		<b>\$ XXX</b>
<b>Lease Receivable</b>		<b>\$ XXX</b>
<b>Deferred Inflow of resources - Lease</b>	<b>\$ XXX</b>	
<b>Lease Revenue</b>		<b>\$ XXX</b>

# **GASB 87 – Leases (Continued)**

## **Lessor Accounting (Continued)**

- **Notes to the financial statements**
  - **Description of its leasing arrangements**
  - **Amount of inflows recognized in the reporting from leases, if that amount cannot be determined based on amounts displayed on the face of the financial statements**
  - **Amount of inflows recognized in the reporting period for variable payments and other payments not previously included in the measurement of the lease receivable**
  - **The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments.**

# ***GASB 88 – Certain Disclosures Related to Debt***

## **Purpose**

- To improve consistency in the information that is disclosed in notes to governmental financial statements related to debt, including debt borrowings and direct placements
- To provide financial statement users with additional essential information about debt

## **Effective Date**

- For periods beginning after June 15, 2019
  - December 31, 2020 for Counties



# **GASB 88 – *Certain Disclosures Related to Debt (Continued)***

## **Definition of Debt for Purposes of Disclosures**

- ***“A liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established”***
- **For disclosure purposes, debt does not include:**
  - **Leases (except for contracts reported as a financed purchase)**
  - **Accounts Payable**



# ***GASB 88 – Certain Disclosures Related to Debt (Continued)***

## **Notes to Financial Statements**

- A government should disclose summarized information about the following items:
  - Amounts of unused lines of credit
  - Assets pledged as collateral for debt
  - Terms specified in debt agreements related to significant
    - Events of default with finance related consequences
    - Termination events with finance related consequences
    - Subjective acceleration clauses



# ***GASB 89 – Accounting for Interest Cost Incurred Before the end of a Construction Period***

## **Purpose**

- To enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period.


## **Effective Date**

- For periods beginning after December 15, 2020
  - December 31, 2021 for Counties



# ***GASB 89 – Accounting for Interest Cost Incurred Before the end of a Construction Period (Continued)***

**Under GASB 89, interest incurred during the period of construction does not have a present service capacity and therefore it was determined that it should not be capitalized.**



# ***GASB 89 – Accounting for Interest Cost Incurred Before the end of a Construction Period (Continued)***

- This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund**



## ***GASB 89 – Accounting for Interest Cost Incurred Before the end of a Construction Period (Continued)***

- This Statement also reiterates that in 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 on a basis consistent with governmental fund accounting principles.

# Other GASBs

- ***GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements - December 2023***
- ***GASB 93 – Replacement of Interbank Offered Rates – delayed by GASB 95 to December 2022***
- ***GASB 92 – Omnibus 2020, delayed by GASB 95, various implementation dates***
- ***GASB 91 – Conduit Debt Obligations, delayed by GASB 95 to December 2023***
- ***GASB 90 – Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61, delayed by GASB 95 to December 31, 2021***





QUESTIONS ?



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