



GASB Update


**State of North Carolina
State Treasurer's Conference**

**GASB—Breaking News and
Implementation Issues**

The views represented in this presentation are those of the Board.
Official positions of the GASB are reached only after extensive due process and deliberations.


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How Is GASB Responding to the Crisis?

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Statement 95

Postponement of the Effective Dates of Certain Authoritative Guidance

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Statement 95

What?

In response to numerous stakeholder requests prompted by the Covid-19 pandemic, the Board added a project to postpone the effective dates of certain Statement and Implementation Guide provisions

Why?

The Board has decided to focus on provisions that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later

When?

The Board approved the issuance of a proposed Statement for public comment on April 14

The Board approved final Statement on May 7

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Postponed Provisions Include:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 87, *Leases*
- 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—an amendment of GASB Statements No. 14 and No. 61*
- 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*
- Implementation Guide No. 2019-3, *Leases*

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Effective Dates—June 30

2021

- Statement 84—Fiduciary Activities
- Statement 90—Majority Equity Interests
- Statement 93—Replacement of Interbank Offered Rate
- Implementation Guide 2019-1—Update
- Implementation Guide 2019-2—Fiduciary Activities

2022

- Statement 87—Leases
- Statement 89—Interest Cost Incurred before the End of a Construction Period
- Statement 92—Omnibus 2020 (multiple effective dates)
- Statement 97—CCUC and Section 457 Plans
- Implementation Guide 2019-3—Leases
- Implementation Guide 2020-1—Update

2023

- Statement 91—Conduit Debt
- Statement 94—Public Private Partnerships
- Statement 96—Subscription-Based IT Arrangements

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Proposed Technical Bulletin

Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020 and Coronavirus Diseases

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Effective Date Postponement

What?

The Board has cleared proposed guidance that addresses issues arising from the CARES Act and coronavirus diseases

Why?

The Board acted in response to numerous stakeholder requests for guidance

When?

Comment deadline:
June 25, 2020

Would be effective immediately

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Topics Addressed (continued)

- How to account for forgivable loans under the Paycheck Protection Program
- Whether resources provided through certain programs to a business-type activity or enterprise fund are nonoperating revenues
- Whether outflows incurred in response to the coronavirus are extraordinary items or special items for financial reporting purposes

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Topics Addressed

- Whether resources received from the Coronavirus Relief Fund (CRF) are subject to eligibility requirements or to purpose restrictions and how they should be accounted for
- Whether CARES Act provisions that addresses a government's loss of revenue should be considered an eligibility requirement, for purposes of revenue recognition
- Whether amendments to the CARES Act after the statement of net position date but prior to the issuance of financial statements are the basis for recognition in financial statements for the period reported

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Project Timeline

Added to Current Technical Agenda	June 9, 2020
Cleared by the Board	June 9, 2020
Comment Deadline	June 25, 2020
Final Technical Bulletin Expected	June 30, 2020

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Other Efforts

- Delay of comment deadline—Disclosure Framework
- Surveys and interviews delayed
 - Research—restarted
 - Postimplementation reviews—July 1
- Technical inquiries
 - CARES Act
- Website
 - Toolbox
 - Breaking news

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Statement 97

Certain Component Unit Criteria and Section 457 Plans

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Identifying Fiduciary Activities Q&As

- Fiduciary Component Units
 - Intended to clarify other Implications of Statement 14, as amended
 - Financial accountability applicability (Q4.4-Q4.6)
 - No board equivalent to appointment of a majority of board if government performs the duties that the Board normally would (Q4.6)
 - Implication of being legally obligated or otherwise assuming the obligation to make contributions to a pension or OPEB plan (Q4.7)

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When Is There a Component Unit?

```

graph LR
    A[Legally separate?] -- Yes --> B[Voting majority?]
    A -- No --> C[Not a component unit]
    B -- Yes --> D[Financial benefit/burden or imposition of will?]
    B -- No --> E[Fiscal dependency and financial benefit/burden?]
    D -- Yes --> F[Component Unit]
    D -- No --> G[Not a component unit]
    E -- Yes --> H[Component Unit]
    E -- No --> I[Not a component unit]
    
```

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Resolution Step 2—Statement 97

- Bring “the primary government is performing the duties that a governing board would” guidance into Level A literature
- Exclude defined contribution pension and OPEB plans administered through trusts that meet the criteria and other employee benefit plans that otherwise would be defined contribution pension plans but to which only employees contribute from the provision—immediately
- Exclude those plans from financial burden modification introduced in Statement 84 (employer contributions)—immediately

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Other Recent Events

Outside the Standards-Setting Arena

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Other Recent Events

- New chairman—Joel Black
- New Board member
- Post-implementation review
 - Who conducts the review
 - Oversight

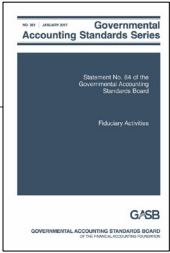
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Statement 84

Fiduciary Activities

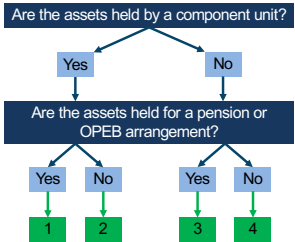




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When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



```


graph TD
    Q1[Are the assets held by a component unit?] -- Yes --> Q2[Are the assets held for a pension or OPEB arrangement?]
    Q1 -- No --> 1[1]
    Q2 -- Yes --> 2[2]
    Q2 -- No --> 3[3]
    
```



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Other Component Units Are Fiduciary if...


They have one or more of the following characteristics:



Assets are:

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


or



Assets are for the benefit of individuals

- Assets are *not* derived from government's provision of goods or services to the individuals
- AND
- Government does not have administrative involvement or direct financial involvement w/ the assets


or



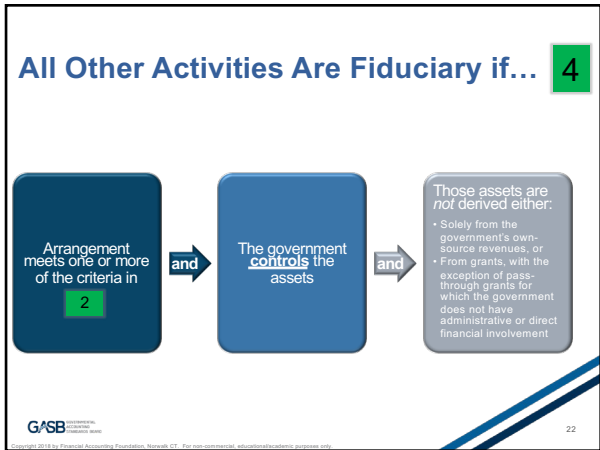
Assets are for the benefit of organizations/ governments not part of the reporting entity AND

- Assets are *not* derived from government's provision of goods or services to them

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Control

- Control means one or both of the following is true:
 - Government *holds* the assets
 - Government has ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries

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Reporting Fiduciary Activities—Fiduciary Funds

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
 - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- Custodial funds would report fiduciary activities for which there is no trust agreement or equivalent arrangement.

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Liability Recognition

- A government should recognize a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources
 - Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.
 - Government would recognize a liability when it collects taxes for other governments, even though it may not be required to distribute the taxes to those governments for a prescribed period
- Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus.

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Business-Type Activities (BTAs)

- A BTA's fiduciary activities would be reported in separate fiduciary fund financial statements.
- Assets that are, upon receipt, normally expected to be held 3 months or less could be reported instead in the statement of net position with corresponding liabilities, and with inflows and outflows reported as operating cash flows in the statement of cash flows
- A BTA that chooses to report resources in its own statement of net position would separately report additions and deductions, if significant, as cash inflows and cash outflows in the operating activities category of its statement of cash flows

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Other Reporting Requirements

- Additions would be presented disaggregated by source and, if applicable, separately display investment earnings, investment costs, and net investment earnings
- Deductions would be presented disaggregated by type and, if applicable, separately display administrative costs
 - Disaggregated additions and deductions requirement would apply to the statement of changes in fiduciary net position for all fiduciary funds *except* custodial funds held for three months or less
 - For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

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What Is a Lease?



Implementation Guide 2019-3 guidance:

- Do easements meet the definition?
Yes, if all parts of definition met
(Q4.5 explains perpetual or nonexchange will not)

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Scope Exclusions



Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset



Biological assets (including timber, living plants, and living animals)



Inventory



Most P3s and SBITAs



Assets financed with outstanding conduit debt



Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

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Definition of a Lease—Control

- Control requires both of the following:
 - (1) the right to obtain the present service capacity from use of the underlying asset, and
 - (2) the right to determine the nature and manner of use of the underlying asset
- Control applied to the right-to-use lease asset (a capital asset) "specified in the contract"
 - Control criteria NOT limited to contracts that convey substantially all of the present service capacity from use of the underlying asset
 - Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day

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What Is Control of the Right to Use?

Implementation Guide 2019-3 guidance:

- What if rancher is required to allow access and use by others?
Does not convey control, not a lease (Q4.4)
- What about rights of substitution of essentially identical asset?
Does not affect evaluation of control (Q4.9)

Implementation Guide 2020-1 guidance:

- What if a government places significant restrictions on a lessee rights to use an underlying asset?
Does not affect evaluation of control, as specified in the contract (Q.6)

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Lease Term

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

2021.....2027.....2031

- Plus or minus periods covered by options to:
 - **Extend lease**, if reasonably certain of being exercised
 - **Terminate lease**, if reasonably certain of *not* being exercised
- Excludes cancelable periods
 - Periods for which lessee and lessor both have option to extend or terminate (such as rolling month-to-month leases)
- Fiscal funding and cancellation clauses are ignored unless reasonably certain of being exercised

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What Is the Lease Term?

Implementation Guide 2019-3 guidance:

- Underlying asset being constructed?
Lease term begins when access is gained (Q4.12)
- Month-to-month holdover period?
Not included in lease term (Q4.13)
- Both parties have right to cancel but reasonably certain neither will?
Cancellation period not included in lease term, regardless of probability (Q4.15)
- Only lessee has right to cancel but reasonably certain it will not?
Cancellation period included in lease term (Q4.16)



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Short-Term Lease Exception

- A *short-term* lease is one that, at the beginning of the lease, has a “maximum possible term” under the contract, including any options to extend, of 12 months or less
- Practicality exception for short-term leases
 - For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the noncancelable period including any notice period

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What Is a Short-term Lease?

Implementation Guide 2019-3 guidance:

- Six-month noncancelable plus 12 month option not reasonably certain of being exercised?
Not a short-term lease but lease term would be six months (Q4.18)
- Maximum possible term when only lessee has option to cancel?
Include all optional periods (Q4.19)

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Short-Term Leases

Lessee accounting	<ul style="list-style-type: none"> • Recognize expenses/expenditures based on the terms of the contract • Do not recognize assets or liabilities associated with the right to use the underlying asset
Lessor accounting	<ul style="list-style-type: none"> • Recognize lease payments as revenue based on the payment provisions of the contract • Do not recognize receivables or deferred inflows

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Leases Overview—Initial Reporting

	Assets	Liability	Deferred Inflow
LESSEE	Intangible asset (right to use underlying asset)	Present value of future lease payments	N/A
LESSOR	<ul style="list-style-type: none"> Lease receivable Continue to report leased asset 	N/A	Equal to lease receivable plus any cash received up front that relates to a future period

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Leases Overview—Subsequent Reporting

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

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LESSEE—Initial Measurement

- Initial measurement of a lease liability includes:
 - Fixed payments (less any lease incentives receivable from the lessor)
 - Variable payments based on an index or rate (such as CPI), using the rate as of the beginning of lease
 - Variable payments that are fixed in substance
 - Residual value guarantees *reasonably certain* of being required
 - Purchase options *reasonably certain* of being exercised
 - Termination penalties, if lease term reflects lessee exercising termination options/fiscal funding clauses
 - Any other *reasonably certain* payments

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LESSEE—Initial Measurement (continued)

- Lease liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset
- Lease liability payments discounted using the rate the lessor charges the lessee (may be implicit) or, if that rate cannot be readily determined, the lessee's incremental borrowing rate

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Lessee's Lease Liability

Implementation Guide 2019-3 guidance:

- See question 4.26 for measurement of variable payments indexed to CPI
- All payments variable based on usage but reasonably certain of usage?
Do not include in lease liability (Q4.28)

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Lessee's Lease Asset

Implementation Guide 2019-3 guidance:

- Payments made during construction period (before lease term)?
Report prepayments until lease term begins, then reclassify (Q4.32)
- See questions 4.34 and 4.35 for treatment when purchase option exercised

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Lease Incentives

- Lease Incentives—reduce the amount lessee has to pay
 - a) Payments made to, or on behalf of, the lessee, for which there is a right of offset
 - b) Other concessions
- Payments provided at or before inception of lease reported as
 - Direct reductions of lessee's lease asset
- Payments provided after inception of lease reported as
 - Reductions of expense for period provided
 - Reduces PV of lease liability (and lessor's receivable)

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Contracts with Multiple Components

Statement 87

- Generally, account for lease and non-lease components as separate contracts and multiple underlying assets as separate lease components in certain circumstances (paragraphs 64 and 65)
- Allocate contract price to different components (paragraph 66)

Implementation Guide 2019-3

- One component meets scope exclusions and one does not?
- Separate and account for them individually (Q4.59)
- Separate utilities and janitorial costs of building lease?
- Yes, if practicable to do so (Q4.60)

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Contracts with Multiple Components

- Allocation process:
 - First — use any prices for individual components if price allocation not unreasonable based on contract terms and professional judgment (maximizing observable information)
 - If no prices or if not reasonable, use best estimate based on professional judgment (maximizing observable information)
 - If not practicable to determine best estimate, may account for components as single lease unit

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Other Topics Covered by Statement 87

Disclosures

Contract combinations

Lease modifications & terminations

Lease incentives

Subleases

Sale-leasebacks

Lease-leasebacks

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Statement 94

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

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Definitions: PPPs and APAs

Public-private partnerships and public-public partnerships (PPPs) are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate or use infrastructure or other nonfinancial assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's infrastructure or other nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain availability measures
- May include design, finance, construction, or service components

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Transferor Reporting

For all PPPs, recognize:

- Receivable for installment payments to be received, if any
- Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the PPP term

If underlying PPP asset is a new asset or an existing asset that has been improved...

- ...and the PPP is an SCA: also recognize the capital asset at acquisition value when placed into operation
- ...and the PPP is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

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Other Provisions

A PPP that meets the definition of a lease would be reported under Statement 87, unless the arrangement

Meets the definition of a service concession arrangement (SCA) or
Requires the operator to improve the transferor's asset or add an asset that will be provided to the transferor at the end of the arrangement

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

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Statement 96

Subscription-Based Information Technology Arrangements

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SBITA—Recognition and Measurement

An SBITA would be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

Measurement of the subscription asset would include certain capitalizable implementation costs based on stages like those for internally developed software in Statement 51:

- Preliminary project stage
- Initial implementation stage
- Operation and additional implementation stage

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SBITA—Stages

Preliminary project stage

- Outlays would be expensed as incurred

Initial implementation stage

- In general, outlays would be capitalized
- However, if no subscription asset is recognized (such as for a short-term SBITA), outlays would be expensed as incurred

Operation and additional implementation stage

- Outlays would be expensed as incurred for operations
- In general, outlays would be capitalized for additional implementation (for example, additional modules)

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Statement 91

Conduit Debt Obligations

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Governmental
Accounting Standards Series

Statement No. 91 of the
Governmental Accounting
Standards Board

Conduit Debt Obligations

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Definition of Conduit Debt

- There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or trustee.
- The issuer and the third-party obligor are *not* within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.

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Limited, Additional and Voluntary Commitments Extended by Issuers

Generally, issuers' commitments are **limited** to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** to support debt service in the event of the third-party obligor's default.

- For example:
- Extending a moral obligation pledge
 - Extending an appropriation pledge
 - Extending a financial guarantee
 - Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

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Recognition by the Issuer

- ☐ Do not recognize a conduit debt obligation as a liability
- ☐ May have a related liability arising out of an additional or voluntary commitment
- ☐ **Additional commitment:** report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- ☐ **Voluntary commitment:** if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments
- ☐ Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

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Arrangements and Capital Assets

Some conduit debt obligations include arrangements* that involve capital assets to be used by the third-party obligor but owned by the issuer.

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

*Often characterized as "leases"

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Arrangements and Capital Assets (continued)

Does title pass to third-party obligor at end of arrangement?	Does the issuer recognize a capital asset?	Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of <i>entire</i> capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only <i>portions</i> of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement

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Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

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

If the issuer recognizes a related liability


- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

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Practice Issue Projects

Timetable	
Compensated Absences	Exposure Draft—February 2021
Prior Period Adjustments, Accounting Changes, and Error Corrections	Exposure Draft—March 2021

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Big Three

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Conceptual Framework— Disclosure Framework

Exposure Draft

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What Is Essential?

Information that has one of the following characteristics is essential:

- Characteristic A: Evidence that the information, regardless of its source, *currently* is being utilized in users' analyses for decision making or assessing accountability.
- Characteristic B: Evidence that if the information becomes available, users would modify their analyses for decision making or assessing accountability to incorporate that information.

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Financial Reporting Model

Exposure Draft—June 2020

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Measurement Focus and Basis of Accounting

- Measurement Focus—Short-term financial resources
- Basis of Accounting—Accrual

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Short-term Financial Resources

- Short-term transactions or other events and long-term transactions or other events should be established by the specific applicable terms of the transaction or other event or estimated payments when there are no terms.
 - The recognition period should be one year.
- Short-term transactions or other events should be recognized when incurred
- Long-term transactions or other events should be recognized when due—the date at which payment is scheduled or, if not scheduled, expected to be made in accordance with the recognition terms

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Long-term Items and Exceptions

- Effective hedging derivative instruments are long-term transactions.
- Accrued interest related to a long-term transaction also is a long-term transaction.
- An exception from the recognition concepts of the short-term financial resources measurement focus for long-term debt issued for short-term purposes.
 - Tax anticipation notes

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Accrual Basis of Accounting

- “Applicability of the reporting period” for transactions and events should be determined by applying an accrual basis of accounting to the fundamental transaction (applying interperiod equity in the context of the short-term financial resources measurement focus).
 - Would result in the deferral of items such as upfront payments for tobacco settlements and service concession arrangements.

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Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

Operating

- Activities other than nonoperating activities

Nonoperating

- Subsidies received and provided
- Revenues and expenses of financing
- Resources from the disposal of capital assets and inventory
- Investment income and expenses

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Budgetary Reporting

- Required supplementary information should be the single communication method for budgetary comparison information.
- Variances required between
 - Final budget and actual amounts and
 - Original budget and final budget amounts

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Revenue and Expense Recognition

Preliminary Views—June 2020

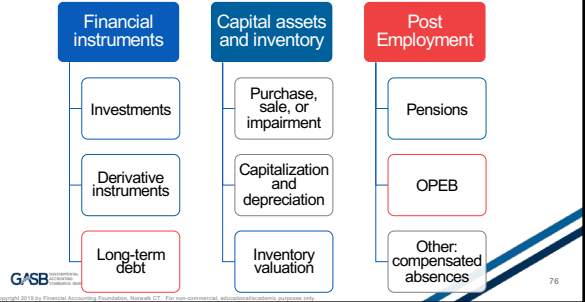
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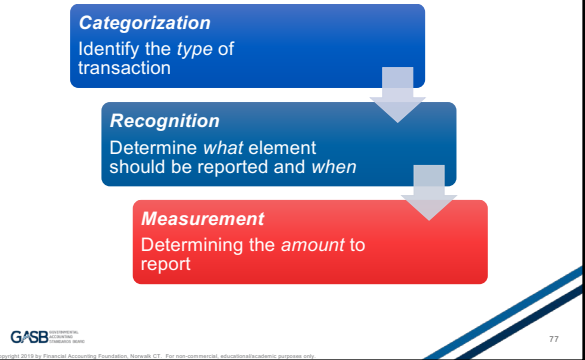
Scope (exclusions)

- Broadly, revenues and expenses that are not explicitly excluded below



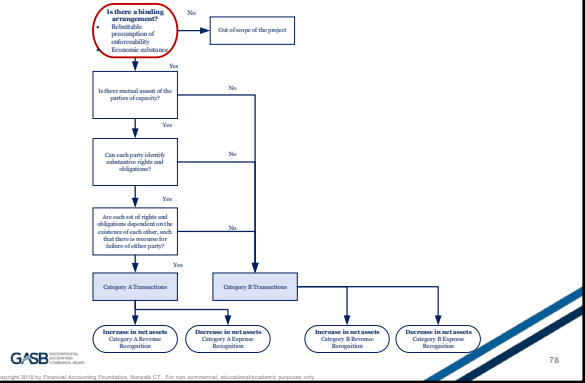
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What is a Revenue and Expense Recognition Model?



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Categorization Component



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Model Outcomes*

Category A	Category B
Fees for service (water, electric, garbage)	Taxes (property tax, income tax, sales tax)
Eligibility-based grants	Punitive fees
Research grants and revolving loans	Special assessments
Medicaid fees for services	Donations
Tuition fees	Regulatory fees (drivers licenses, building permits, marriage licenses, professional licenses)
Most expenses	Purpose-restricted grants
	Capital fees (developer fees, PFCs)
	Medicaid supplementary payments

* Transactions highlighted in blue would have different outcomes than under current literature

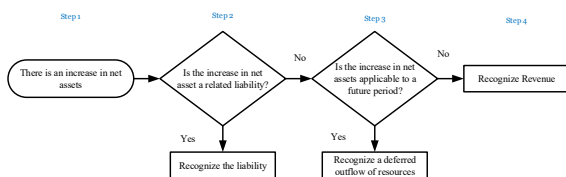
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Question

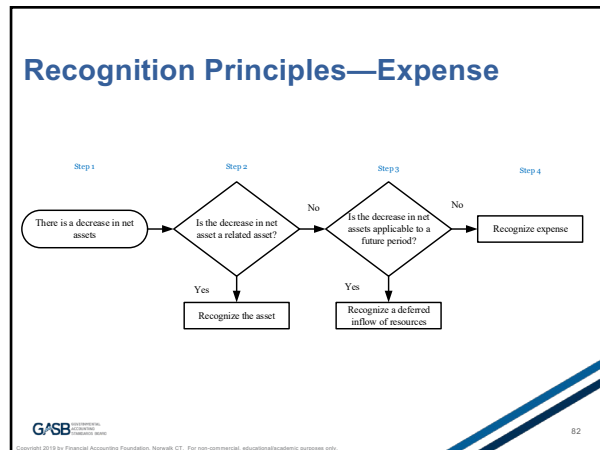
What are better terms that the GASB can use in describing Category A and Category B?

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Recognition Principles—Revenue



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Measurement

- Principle—Measure the liquid flow of resources
- Transaction amount—Exposure Draft
 - Allocation
 - Variable consideration
 - Financing components
 - Nonmonetary consideration

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