



# 2020 GASB Update: How to Prepare for Implementation

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Webinar starts at 12 PM CT



**TARA LAUGHLIN, CPA, CGFM**  
Vice President,  
Assurance Services

Presented by



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# Administration



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## **TARA LAUGHLIN, CPA, CGFM**

Vice President,  
Assurance Services

10 years of experience specializing in providing auditing and consulting services to a variety of governmental and not-for-profit entities

Member of American Institute of Certified Public Accountants and Government Finance Officers Association

# Learning objectives

The key takeaways



# Learning objectives

Understand key changes impacting accounting and financial reporting

Learn what you can do now to prepare

Determine how your entity could be affected in the future

# New GASBs

# Effective dates

<b>GASB Standard</b>	<b>Effective Date (periods beginning after)</b>	<b>Starting Year-End</b>
<b>83 – Certain Asset Retirement Obligations</b>	6.15.18	<b>6.30.19</b>
<b>84 – Fiduciary Activities</b>	12.15.18	<b>12.31.19</b>
<b>87 – Leases</b>	12.15.19	<b>12.31.20</b>
<b>88 – Certain Disclosures Related to Debt</b>	6.15.18	<b>6.30.19</b>

# Effective dates

<b>GASB Standard</b>	<b>Effective Date (periods beginning after)</b>	<b>Starting Year-End</b>
<b>89 – Accounting for Interest Cost</b>	12.15.19	<b>12.31.20</b>
<b>90 – Majority Equity Interests</b>	12.15.18	<b>12.31.19</b>
<b>91 – Conduit Debt Obligations</b>	12.15.20	<b>12.31.21</b>
<b>92 – Omnibus 2020</b>	Varies	<b>Varies</b>

# Polling question #1

Please answer for continuing education credit

# GASB 83 – Certain asset retirement obligations

- Applies to obligations other than landfills associated with costs that are an unavoidable part of the cost of retiring a tangible capital asset
  - Retirement includes: sale, abandonment, recycling or disposal of a tangible capital asset
- ARO's result from normal operations (whether acquired or constructed) and include legally enforceable liabilities associated with all of the following:
  - Retirement of a tangible capital asset
  - Disposal of a replaced part that is a component of a tangible asset
  - Environmental remediation associated with the retirement of a tangible capital asset that results from the normal operation of the capital asset



# GASB 83 – Certain asset retirement obligations

- Recognize a liability when the liability is incurred and reasonably predictable
- Incurred when external and internal obligating events arise



# GASB 83 – Certain asset retirement obligations

- Liability is offset by a deferred outflow which is recognized over a systematic and rationale manner over the life of the tangible capital asset



# GASB 83 – Certain asset retirement obligations

- Liability should be measured based on the best estimate of the current values of outlays expected to be incurred.
- Current value is amount that would be paid if all activity was done at the end of the reporting period.
- Annually subsequent measurement should be done to adjust for inflation/deflation and review factors on if the original estimate should be changed.

# GASB 83 – Certain asset retirement obligations

## **Note disclosures should include:**

1. General description and source of the obligation
2. Methods and assumptions used in measurement
3. Estimated remaining useful life of tangible capital assets
4. How legally required funding and assurance provisions are being met
5. Amount of restricted assets for payment of the ARO.
6. If ARO has not been recognized because can't be estimated should disclose that fact.



# Polling question #2

Please answer for continuing education credit

# GASB 84 – Fiduciary activities

Establish criteria for identifying and reporting fiduciary activities

Focus is on whether a government controls the assets of a fiduciary activity and the beneficiaries with whom a fiduciary relationship exists



# GASB 84 – Fiduciary activities

Fiduciary CUs  
—  
Pension/OPEB

Fiduciary CUs  
—  
Other

Pension/OPEB  
— Not CUs

Other  
Fiduciary  
Activities

# GASB 84 – Fiduciary activities

## Fiduciary activities can result from fiduciary component units

- Certain pension and OPEB plan administered through a trust
- Other component units whose activities has one or more of the following characteristics:
  - Administered through a trust in which the government is not the beneficiary, provides benefits to recipients according to benefit terms and legally protected from creditors.
  - Assets are for the benefit of individuals and government does **not** have administrative involvement with the assets and assets are **not** derived from government's provision of goods or services to those individuals.
  - Assets are for the benefit of organizations/other governments that are **not** part of the reporting entity and assets are **not** derived from government's provision of goods or services to those organizations/other governments.

# GASB 84 – Fiduciary activities

Fiduciary activities can result from Pension and OPEB plans that are not component units if the government controls the assets of the arrangement

# GASB 84 – Fiduciary activities

Must meet ALL of the following criteria:		PLUS ANY of the following:
Assets controlled by government		Assets held in a qualifying trust in which gov't is not beneficiary, legally protected and dedicated to providing benefits to recipients <b>OR</b>
Assets not derived from own source revenues		Assets held for the benefit of individuals without the government having <b>administrative or direct financial involvement OR</b>
Assets not derived from government mandated or voluntary nonexchange transactions		Assets held for the benefit of outside organizations not part of the government's reporting entity

# GASB 84 – Fiduciary activities

What does it mean to have administrative or direct financial involvement?

- Monitoring secondary recipients for compliance with program-specific requirements
- Determining eligible secondary recipients or projects, even if using grantor-established criteria
- Having the ability to exercise discretion in how the funds are allocated
- Financing direct program costs or providing matching resources

# GASB 84 – Fiduciary activities

Example 1: School chess club – Benefit an individual or organization?

- Chess club is established in accordance with school policy and is not legally separate from the school.
- Club members conduct fundraising activities to pay for club activities during the year.
- Funds raised are held in a separate bank account in the school's name.

**Benefits individuals**

Applicable IG 2019-2 Question 4.16



# GASB 84 – Fiduciary activities

## Example 2: School chess club – Administrative involvement

- Same scenario as example 1
- The Chess club president and the members of the club establishes how the resources are to be spent and approve disbursements.

**No administrative involvement**

Applicable IG 2019-2 Question 4.18

# Polling question #3

Please answer for continuing education credit

# GASB 84 – Fiduciary activities

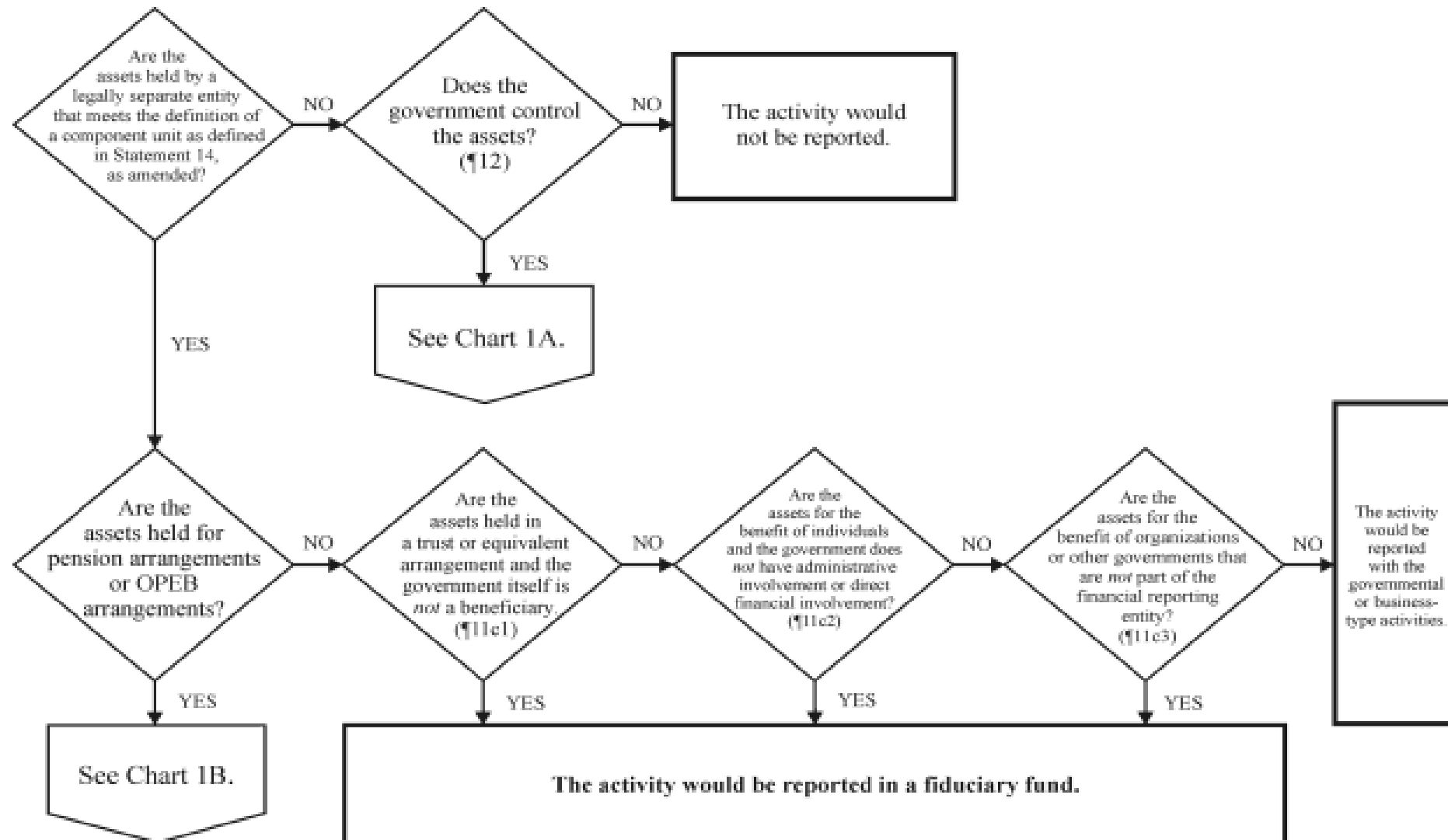
Replaces “agency” funds with “custodial” funds (not held in a trust and meets specified criteria)

Statement of Changes in Fiduciary Net Position would report additions / deductions for each fiduciary fund

Appendix C provides flowcharts for evaluating fiduciary activities

Appendix D provides financial statement presentation examples for all fiduciary activity fund types

# GASB 84 – Fiduciary activities



# GASB 87 – Leases

A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.



# GASB 87 – Leases

Changes lease accounting, will no longer have capital and operating leases, but will have to recognize a lease liability (lessee) or lease receivable (lessor) for most leases.





# GASB 87 – Leases

## Excluded leases include:

- Leases of intangible assets (i.e. licensing contracts for computer software)
- Leases for biological assets
- Leases of inventory
- Service concession arrangement contracts
- Leases where the underlying asset is financed with outstanding conduit debt.
- Supply contracts (power purchase agreements)



# GASB 87 – Leases

**Other exclusions discussed within the statement if certain criteria are met:**

- Short-term leases
- Leases that transfer ownership
- Certain regulated leases (i.e. air carriers and airports)



# GASB 87 – Leases

## What is the financial reporting impact?

**Lessees:** Will recognize a right to use asset, which is an intangible asset, and a lease liability.

**Lessors:** Will continue to report the underlying asset involved in the lease as their capital asset. They will also recognize a lease receivable with an offsetting deferred inflow.



# GASB 87 – Leases

- **Leases that are “short-term” continue to be accounted for more like an operating lease**
- **Leases are short-term if:**
  - At the commencement of the lease term, the maximum possible term under the lease contract is 12 months or less including any options to extend regardless of the probability of exercising the option.



# GASB 87 – Leases

- **Leases that transfer ownership are treated as a financed purchase by the lessee and a sale of assets by the lessor.**
  - Transfer of ownership does not include a purchase option, or a bargain purchase option until the option is exercised.



## Certain regulated leases:

- Lessors should recognize inflows of resources based on payment provisions of the lease contract and provide certain disclosures for leases for which external laws, regulations or legal rulings establish **all** of the following requirements:
  - Lease rates cannot exceed a reasonable amount, reasonableness is subject to determination by an external regulator
  - Lease rates should be similar for lessees that are similarly situated
  - Lessor cannot deny potential lessees the right to enter a lease if facilities are available, provided that the lessee's use of facilities complies with generally applicable use restrictions.

# GASB 87 – Leases

## **Other lease topics:**

- Lease modifications and terminations
- Leases with multiple components
- Contract combinations
- Subleases
- Sale-Leasebacks
- Lease-Leasebacks
- Related party leases



# GASB 87 – Leases





# GASB 88 – Debt disclosures

**Goal:** Improve consistency in disclosures related to debt, including direct borrowings and direct placements

**Purpose:** Defines debt for purposes of disclosures in notes to the financial statements and establishes additional financial statement note disclosure requirements related to debt obligations, including direct borrowings and direct placements



# DEBT

# GASB 88 – Debt disclosures

Debt is defined as:

- a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.
- debt does not include leases (except for contracts reported as a financed purchase of the underlying asset) or accounts payable.



## **Additional disclosures requirement related to:**

1. Amount of unused lines of credit
2. Assets pledged as collateral for debt
3. Terms specified in debt agreements related to significant events of default with finance-related consequences, termination events with financed-related consequences and subjective acceleration clauses.
4. Should separate information in debt disclosures regarding direct borrowings and direct placements from other debt

# GASB 88 – Debt disclosures

Changes in long-term obligations for the year ended June 30, 20X2, are as follows:

	Balance at July 1, 20X1	Increases	Decreases	Balance at June 30, 20X2	Due within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$21,500,000	\$ -	\$ 8,970,000	\$ 12,530,000	\$ 7,050,000
Notes from direct borrowings and direct placements	1,412,877	-	470,959	941,918	470,959
Total	<u>\$22,912,877</u>	<u>\$ -</u>	<u>\$ 9,440,959</u>	<u>\$ 13,471,918</u>	<u>\$ 7,520,959</u>
<b>Business-type activities:</b>					
Notes from direct borrowings	<u>\$ 76,800</u>	<u>\$ -</u>	<u>\$ 6,400</u>	<u>\$ 70,400</u>	<u>\$ 6,400</u>

GASB 88, Appendix C

# GASB 88 – Debt disclosures

Debt service requirements on long-term debt at June 30, 20X2, are as follows:

Year Ending June 30,	Governmental Activities				Business-Type Activities	
	Bonds		Notes from Direct Borrowings and Direct Placements		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
20X3	\$ 7,050,000	\$ 497,700	\$ 470,959	\$ 30,024	\$ 6,400	\$ 2,640
20X4	4,880,000	215,950	470,959	10,008	6,400	2,400
20X5	50,000	21,000	-	-	6,400	2,160
20X6	50,000	19,250	-	-	6,400	1,920
20X7	50,000	17,500	-	-	6,400	1,680
20X8–20Y2	250,000	52,500	-	-	32,000	4,800
20Y3–20Y7	200,000	17,500	-	-	6,400	240
	<u>\$12,530,000</u>	<u>\$ 841,400</u>	<u>\$ 941,918</u>	<u>\$ 40,032</u>	<u>\$ 70,400</u>	<u>\$ 15,840</u>

GASB 88, Appendix C

# GASB 89 – Accounting for interest costs

## Capitalization of interest cost



- Goal is to enhance relevance and comparability of information about capital assets and cost of borrowing and simplify accounting for interest costs incurred during period of construction
- Interest costs should not be capitalized as part of the historical cost of the capital asset
- Will be applied prospectively

# GASB 90 – Majority equity interests

## Goal

- To improve consistency in measurement and financial statement presentation of majority equity interests
- Improve relevance of information for certain component units



# GASB 90 – Majority equity interests

## Steps to implementation

Determine whether the equity interest is an investment or not using paragraph 64 of Statement 72.

Generally, if it is an investment, the equity interest should be measured using the equity method in accordance with paragraphs 205-209 of Statement 62.



# GASB 90 – Majority equity interests

## Steps to implementation

**If it is not an investment, should report the legally separate entity as a component unit and report the majority equity interest as an asset of the government or fund that holds the equity interest measured using the equity method.**

- If the component unit is blended, the asset and net position associated with the equity interest should be eliminated in the blending process

# Goal

- To provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice



# GASB 91 – Conduit debt obligations

## Definition

Conduit debt has **ALL** of the following criteria:

- ✓ Three parties involved – Issuer, third party obligor and debt holder/trustee
- ✓ Issuer and third party obligor are not in the same financial reporting entity
- ✓ Debt obligation is not a parity bond with the issuer
- ✓ Third party obligor, or agent, ultimately receives the proceeds of the debt
- ✓ Third party, not the issuer is primarily obligated for payment.

# GASB 91 – Conduit debt obligations

## Limited Commitments

No additional liability or  
evaluation required

## Additional Commitments

Potential liability  
Annual valuation required

## Voluntary Commitments

Event triggers evaluation  
Subsequent annual  
measurements

# GASB 92 – Omnibus 2020

Topic	Implementation date
GASB 87 – Interim reporting	Upon issuance
Intra-entity transfers between primary gov't and pension/OPEB plans	Beginning after June 15, 2020
Applicability of Statements 73/74 to assets accumulated for postemployment benefits	Beginning after June 15, 2020
Applicability of Statement 84 to postemployment benefit arrangements	Beginning after June 15, 2020
Measurement of liabilities related to AROs in gov't acquisition	Beginning after June 15, 2020
Reporting by public entity risk pools for amounts that are recoverable from reinsurers/excess insurers	Upon issuance
Nonrecurring fair value measurements in authoritative literature	Beginning after June 15, 2020
Terminology used to refer to derivative instruments	Upon issuance

# Polling question #4

Please answer for continuing education credit

# Useful resources



# Resources

[www.gasb.org](http://www.gasb.org)

- All GASB statements and Exposure Drafts are available on their website for free.
- All comments letters submitted on Exposure Drafts are available.
- Summaries are provided from the latest deliberations / meetings.
- Technical inquiries can be submitted to GASB.
- Implementation Guides issued for specific Statements: Including 84 and 87
- The Comprehensive Implementation Guide is updated regularly



# Thank you for attending



**TARA LAUGHLIN, CPA, CFGM**  
VICE PRESIDENT, ASSURANCE SERVICES



Tara.Laughlin@aghlc.com



316.291.4034



linkedin.com/in/tarajlaughlin

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[mike.ditch@aghlc.com](mailto:mike.ditch@aghlc.com)