GASB Update: Prepare now to implement successfully
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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

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<th>GASB Standard</th>
<th>Effective Date (periods beginning after)</th>
<th>Starting Year-End</th>
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GASB 75 – OPEB Reporting

75 – Applies to the Employer

• Similar requirements to GASB 68
• Replaces all GASB Statement 45 and 57 requirements for OPEB.
• Annual measurements now required

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
  o 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:
  o Retirement of a tangible capital asset
  o Disposal of a replaced part that is a component of a tangible asset
  o 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 estimable

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

All other activities are fiduciary if all of the following are met:

- Assets are controlled by the government
  - Holds the assets or
  - Has the ability to direct the use, exchange or employment of the assets

- Assets are not derived either:
  - Solely from government’s own resources
  - From government-mandated or voluntary nonexchange transactions
All other activities are fiduciary if all of the following are met (continued):

- Assets have one or more of the following characteristics:
  - Administered through a trust in which the government is not a beneficiary, dedicated to providing benefits to recipients in accordance with benefit terms and legally protected from creditors of the government.
  - 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 organization/other governments.

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

- Blending a component unit when the primary government is a business type activity that reports single column for financial statement presentation
- Reporting amounts previously reported as goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market and participating interest-earning investments at amortized costs

GASB 85 – Omnibus

Addresses practice issues in a variety of topics:

- Blending a component unit when the primary government is a business type activity that reports single column for financial statement presentation
- Reporting amounts previously reported as goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market and participating interest-earning investments at amortized costs
GASB 85 – Omnibus

Addresses practice issues in a variety of topics (continued):

- Timing of the measurement of pension or OPEB liabilities and expenditures using current financial resources focus
- Recognizing on-behalf payments for pensions or OPEB
- Payroll-related measures in RSI for OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB

GASB 85 – Omnibus

Addresses practice issues in a variety of topics (continued):

- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans
### GASB 86 – Certain Debt Extinguishments

- Pertains to extinguishments using existing resources placed in an irrevocable trust to be used solely for satisfying existing payments of both interest and principal of the defeased debt and future payments from government are remote.
- Debt is no longer recorded, but should recognize deferred refunding gain or loss.
- Current financial resources measurement focus, should recognize debt service expenditures for amounts paid to escrow agent.
- Provide general description of transaction in notes.
- Should apply retrospectively.

**Other items addressed in this standard applicable to all in-substance defeasance transactions:**

- Any remaining prepaid insurance related to the extinguished debt should be included in the net carrying amount of the debt when calculation deferred gains/losses.
- Must disclose in the year of defeasance if it is not prohibited to substitute essentially risk-free assets with not essentially risk-free assets.
- In future years, must disclose the amount of outstanding defeased debt where this is applicable separately from other outstanding defeased debt.
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.

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.
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)

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)
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.
• 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.

GASB 87 – Leases

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.
Other Lease Topics:

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

How to get started
**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.

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**What is Debt?**

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.
GASB 88 – Debt Disclosures

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 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
Goal

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

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.

**Exposure Drafts**

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<td>Conduit Debt – Reexamination of Interpretation 2</td>
<td>Completed</td>
<td>May 2019</td>
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On the horizon

- Financial Reporting Model project (re-examination of GASB 34)
- Revenue & Expense Recognition project
- Note Disclosure Reexamination

Useful resources
Resources

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: 67, 68, 74 and 75
- The Comprehensive Implementation Guide is updated regularly
- An implementation guide for Statements 84 and 87 are in the works.

Thank you for attending

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