

# GASB Update



**Government Finance Officers Association**

Kansas GFOA 10/10/2019



# Topics

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- I. New Final GASB Standards - 4
  - One new statement
  - Three new implementation guides
- II. GASB Exposure Drafts - 5
- III. Summaries of Upcoming Implementations



# **I. New Final GASB Standards**



# **GASB Statement No. 91**

## ***Conduit Debt Obligations***

**Issued: May 2019**

**Effective Date: Periods beginning after  
December 15, 2020**



# Conduit Debt

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- A debt instrument
- Issued in the name of a state or local government (the “issuer”)
- For the benefit of a third party (the “third-party obligor”) where
  - **Obligor** is primarily liable for the repayment of the debt instrument



# Conduit Debt Criteria

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1. At least 3 parties: Issuer, 3<sup>rd</sup> party obligor\* (obligor), and debt holder or trustee\*  
\* There may be more than one of these
2. Issuer and obligor are *not* part of same reporting entity
3. Debt not a parity bond or cross collateralized with other debt of issuer
4. The obligor (or its agent) – *not the issuer* – ultimately receives the proceeds of the debt, and
5. The obligor – *not the issuer* – is primarily obligated for the payment of all debt service



# Limited Commitments

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- Made by all conduit debt issuers
- Include:
  - Maintain tax-exempt status of debt
  - Use obligor-provided resources, if any, for debt service; and
  - May also facilitate payments from obligor to debt holders or bond trustees
- *Do not obligate issuer to pay any debt service using own resources*



# Additional Commitments

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- Made by some issuers
- Commitment to support debt if obligor is or will be unable to pay debt service
- May include:
  - A moral obligation pledge – *subject to annual appropriation*:
    - Is a non-binding covenant permitting issuer to appropriate funds for debt service, and
    - May maintain a debt service reserve





# Additional Commitments (cont.)

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- May include (cont.):
  - An appropriation pledge – *subject to annual appropriation*
  - A financial guarantee
    - Note: issuer will follow conduit debt – *not non-exchange financial guarantee* – disclosure requirements
  - Pledge of issuer's own revenue or assets as collateral



# Voluntary Commitments

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- Made by some issuers
- Decision to support debt – *without having an obligation to do so* – if obligor is or will be unable to pay debt service
- May include provisions for issuer to:
  - Voluntarily request an appropriation for debt service payment(s), or
  - Voluntarily make debt service payment(s)

# Issuer Liability Recognition

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- Conduit Debt –
  - Do Not Recognize.
- Liability to Support Debt Service Payment –
  - Recognize when it is *more likely than not* (likelihood > 50%) that the issuer will support one or more debt service payments for conduit debt.



# Evaluate Likelihood of Supporting Debt Service – When?

Commitments	Evaluate
Limited and Additional	<ul style="list-style-type: none"><li>• At least annually.</li></ul>
Limited only	<ul style="list-style-type: none"><li>• When there is <i>an event or circumstance that causes the issuer to reconsider</i> its willingness or ability to support the debt service payments (through a voluntary commitment);</li><li>• If evaluation results in reporting a liability for an issue, must evaluate that issue annually thereafter.</li></ul>

# Evaluate Likelihood of Supporting Debt Service – Qualitative Factors

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GASB 91 lists factors that must, *at minimum*, be considered; may be categorized as:

1. Obligor's ability to pay debt service
2. Project's viability to generate revenue to support debt service
3. Issuer's willingness and ability to pay debt service if obligor cannot
  - Relevant to:
    - Additional commitments that are subject to appropriation, and
    - Likelihood of voluntary commitments



# Liability to Support Debt Service

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- Economic Resources MF:
  - Recognize –
    - Liability and a related expense *if it is more likely than not* (>50%) that issuer will support debt service
  - Measure liability –
    - Discounted PV of best estimate of future payments to support debt
      - If no best estimate, discounted PV of the minimum of a range of estimates
- Current Financial Resources MF:
  - Recognize –
    - Fund liability and related expenditure to extent that a payment to support conduit debt obligation is *more likely than not* and is due and payable



# Associated Arrangements

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**A (lease-like) arrangement with *all* of the following attributes:**

- Construction/acquisition of the capital asset financed by the conduit debt,
- Issuer retains title to the capital asset from inception,
- Payments from obligor cover conduit debt service, and
- Payment schedule coincides with conduit debt service.



# Accounting for Associated Arrangements

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- If associated arrangement meets definition of a Service Concession Arrangement, follow that guidance (Cod. Sec. S30 / GASB 60).
- Otherwise, accounting different for each of three (3) classifications of associated arrangements, depending on:
  - Whether issuer *relinquishes title* to asset at end of arrangement, and
  - Whether obligor has exclusive use of *all or only a portion* of the capital asset during term of arrangement.





# Categories of Associated Arrangements

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1

## Issuer relinquishes title

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- Issuer relinquishes title at end of arrangement
- **No recognition**

2

## Issuer retains title & obligor has use of *entire* asset during arrangement

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- The obligor has exclusive use of the *entire asset* until the end of arrangement
- The issuer does not relinquish title at the end of the arrangement
- **Recognize: At end of arrangement, recognize asset and inflow at acquisition value**

3

## Issuer retains title & obligor has use of *part(s)* of asset during arrangement

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- The obligor has exclusive use of *only portions of the asset* until the end of arrangement
- The issuer does not relinquish title at the end of the arrangement
- **Recognize: At beginning of arrangement, recognize entire asset and deferred inflow at acquisition value; amortize deferred inflow and recognize revenue over life of arrangement**



# Note Disclosures – All Issuers

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- General descriptions by the issuer:
  - Conduit debt obligations
  - Limited commitment(s)
  - Voluntary commitment(s)
  - Additional commitments, if any, including:
    - Legal authority and limits for extending the commitment(s)
    - Length of time of commitment(s)
    - Arrangements for recovering payments from obligors, if any
- Aggregate outstanding principal of all conduit debt obligations by type of commitments (limited commitments only, additional commitments by type, voluntary commitments by type)



# Additional Disclosures – Issuers Reporting Liabilities to Support Debt

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- Brief description of timing of recognition and measurement of liability, including:
  - Beginning balances
  - Increases, including initial recognition and adjustments increasing estimates
  - Decreases, including payments and adjustments decreasing estimates, and
  - Ending balances
- Cumulative payments made on recognized liability
- Amounts expected to be recovered, if any



# Effective Date and Transition

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- Effective for periods beginning after December 15, 2020
  - Early implementation encouraged
- “Standard retroactive implementation”
  - Apply retroactively by restating all prior years presented
    - If not practicable, report cumulative effect of restatement on beginning balance of earliest year restated
  - In 1<sup>st</sup> year, disclose:
    - Nature of restatement and effect, and
    - Reason for not restating all PYs, if applicable



**GASB Implementation Guide No.  
2019-1, *Implementation Guidance  
Update–2019***

**Issued: April 2019**

**Effective Date: Periods beginning after  
June 15, 2019**



# 2019-1 Guide Contents

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## Fourteen (14) New Q&A's

Pension and OPEB - 5

Terminations of Hedging Derivatives - 1

Grant revenue recognition - 1

Insurance recovery - 1

Intra-entity asset transfers - 2

Nonspendable governmental fund balance calculation - 1

Tax abatement disclosures - 1

Irrevocable split interest agreements - 2



# 2019-1 Guide Contents (cont.)

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## Four (4) Amendments to Previous Q&A's

Financial accountability - 1

Pension and OPEB plan and employer reporting - 2

Derivative instruments - 1

Amendments clarify but do not change guidance provided in prior versions.



# 2019 CIG Update “Take-Aways”

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1. Pension and OPEB plans and employers’ measurement of PEB liabilities that use a rate or index must use the rate as of the measurement date
  - Average of rates/indexes from different dates may not be used
2. Retiree subsidies *implicit in premiums paid* for active employees *between the measurement date and the end of the employer’s reporting period* are OPEB plan contributions
  - Include in the calculation of deferred outflows of resources related to OPEB contributions





# 2019 CIG Update

## “Take-Aways” (cont.)

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3. Deferred inflows or outflows of resources from hedging derivative instruments are recognized on date the instrument terminates
  - Not on later settlement date
4. Insurance recoveries for storm damage clean-up costs in governmental funds:
  - Net against expenditures if realized or realizable in same year, or
  - Report as other financing source or extraordinary item if realized or realizable in subsequent year



# 2019 CIG Update

## “Take-Aways” (cont.)

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5. Assets transferred within a reporting entity must be reported by the transferee at the transferor’s carrying value
  - No mark-up to market value, even if transferee intends to hold the transferred asset as an investment or to sell
6. Long-term portion of governmental fund receivables that are reported as deferred inflows are not included in the calculation of nonspendable fund balance



# 2019 CIG Update

## “Take-Aways” (cont.)

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7. Tax abatement disclosure of forgone revenue is not affected by existence of alternative incentives otherwise available to taxpayer
8. Irrevocable split interest agreements:
  - If government’s remainder interest is a contribution to a permanent fund:
    - Recognize deferred inflow upon inception, and
    - Recognize establishment of permanent fund upon termination
  - If a lead interest is reported in a governmental fund, fund recognizes a fund liability for remainder interest



# **GASB Implementation Guide No. 2019-2, *Fiduciary Activities***

**Issued: June 2019**

**Effective Date: Periods beginning after  
December 15, 2018**

**[Same effective date as GASB 84]**



# 2019-2 Guide Contents

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## 52 New Q&A's

### A. Identifying fiduciary activities

- Fiduciary component units (CUs) [8]
- PEB arrangements that are not CUs [1]
- Other fiduciary activities [21]
- Control of assets [4]
- Own-source revenues [4]

### B. Reporting fiduciary activities in fiduciary funds

- Investment trust funds [2]
- Private-purpose trust funds [1]
- Custodial funds [5]



# 2019-2 Guide Contents (cont.)

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## 52 New Q&A's (cont.)

C. Statement of fiduciary net position [1]

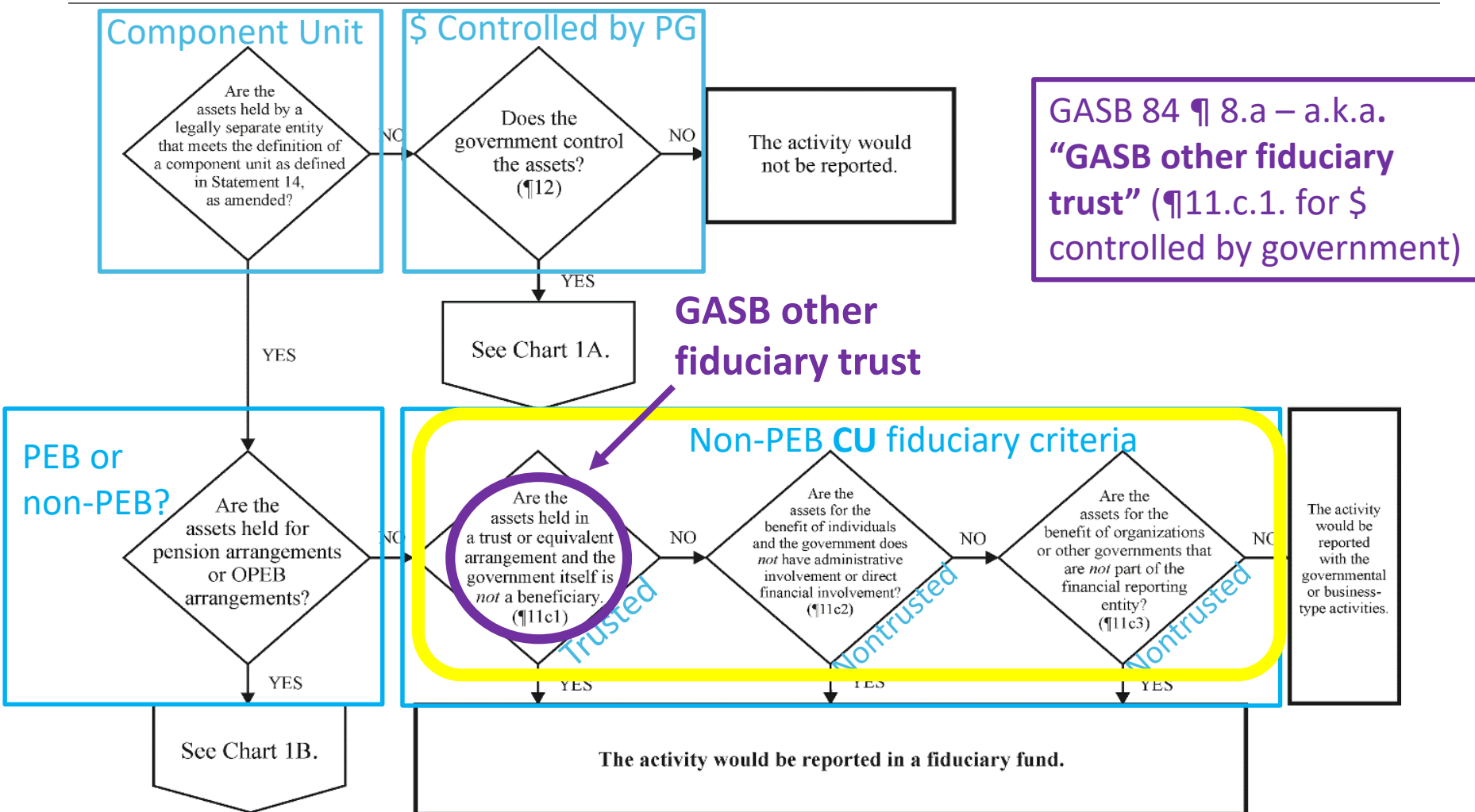
D. Statement of changes in fiduciary net position

- Disaggregation exception [3]

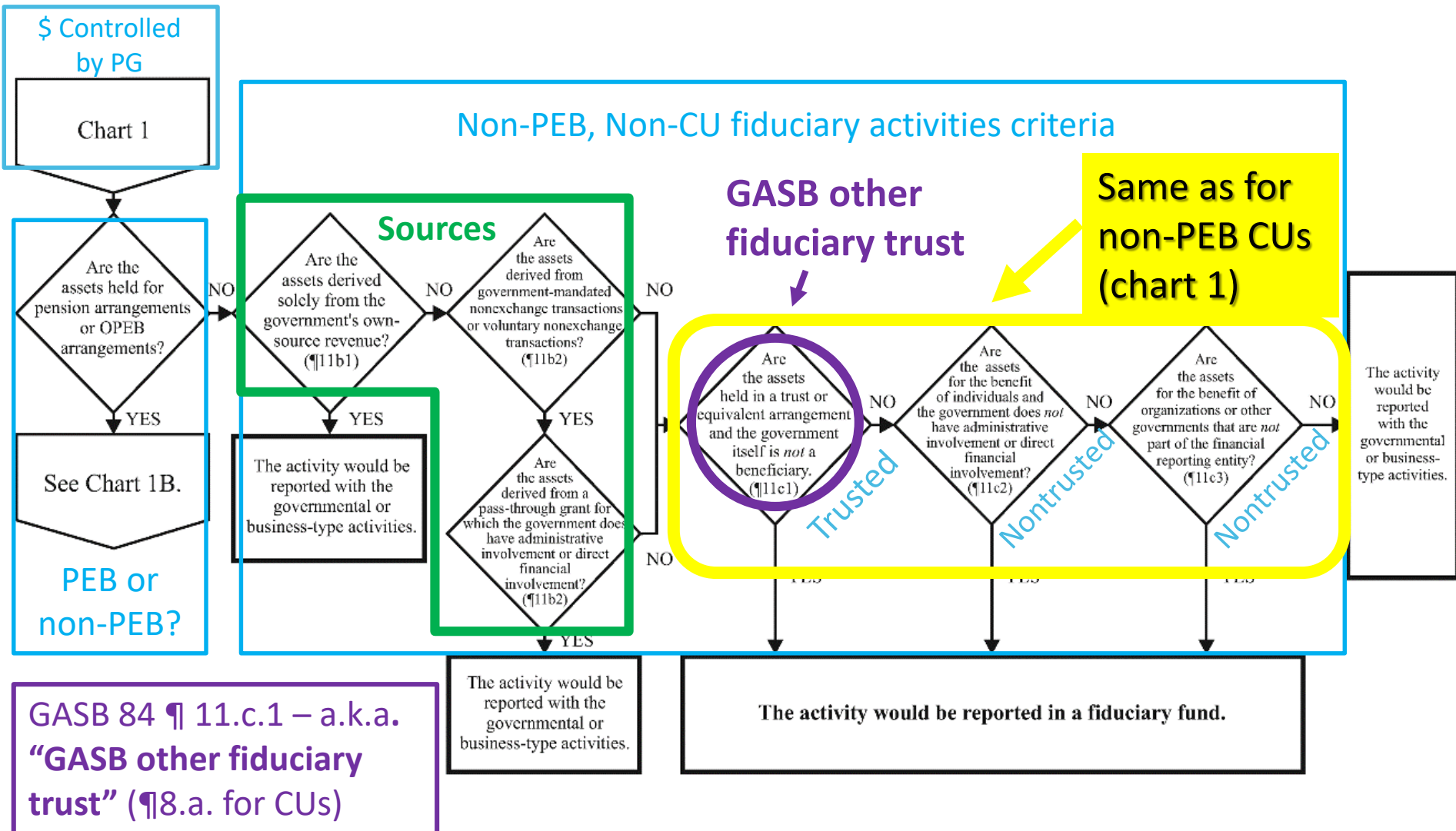
E. Reporting fiduciary component units [2]

## 3 Amendments to Previous Q&A's – Technical Corrections

# Fiduciary activities flowchart #1

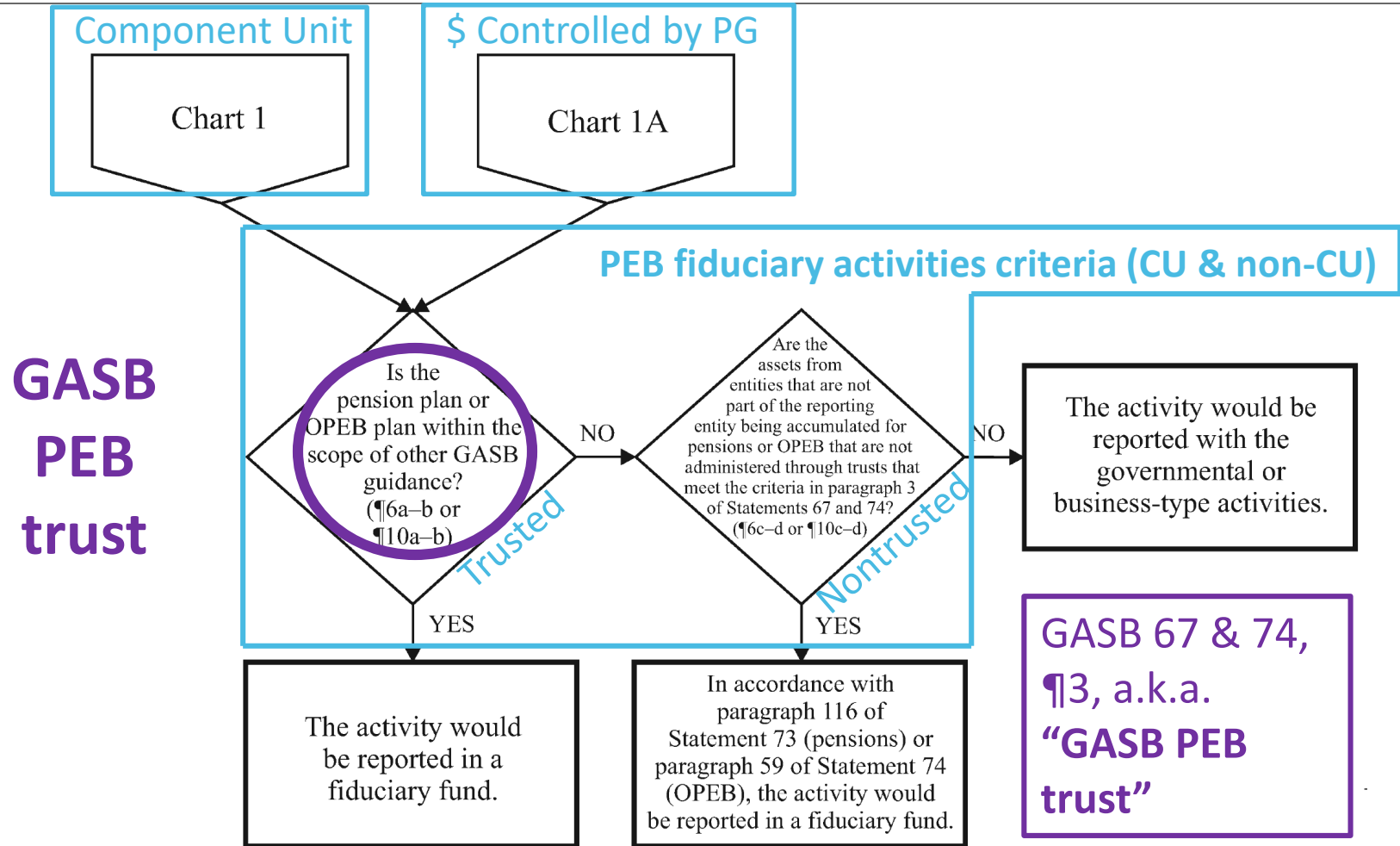


# Fiduciary activities flowchart #1A





# Fiduciary activities flowchart #1B





# Fiduciary IG “Take-Aways”

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- New(*ish*) information:
  1. Within GASB PEB trusts, only *legal trusts*, not equivalent arrangements, are presumed to be legally separate
    - Legal analysis is required to determine if an equivalent arrangement is a legally separate entity



# Fiduciary IG

## “Take-Aways” (cont.)

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- New(*ish*) information (cont.):
  2. A government that performs the duties that a PEB plan’s governing body would typically perform for a PEB plan that has no governing board of its own *has the equivalent of the authority to appoint a voting majority of the plan’s board*
    - Government probably also can impose its will on the plan, making it financially accountable for the plan
    - Likely impact for OPEB plans where assets are in an employer-controlled trust



# Fiduciary IG

## “Take-Aways” (cont.)

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- New(*ish*) information (cont.):
  3. Only a *separate legal entity* that is not part of the same reporting entity can qualify as an organizational or other governmental beneficiary of nontrusted other fiduciary activities
    - Other = other than PEB arrangements
    - Student organizations are generally not legally separate from school – means districts that have *administrative involvement* with student activity funds cannot report them as fiduciary activities



# Fiduciary IG

## “Take-Aways” (cont.)

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- New(*ish*) information (cont.):
  4. Administrative involvement
    - Includes:
      - Setting fees
      - Enforcing *specific* policies and guidelines, and
      - Requiring approval by government employee without specific guidelines
    - Excludes enforcing *general policies* such as legal compliance



# Fiduciary IG

## “Take-Aways” (cont.)

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- New(*ish*) information (cont.):
  5. Assets held as a result of an exchange or exchange-like transaction are *own-source revenue* and therefore not an allowable source for assets to be reported as other fiduciary activities
    - Includes contractor deposits and retainage, payroll withholding, and the portion of a shared revenue held by the government that charged the fee/tax prior to transfer to government with which revenue is shared



# Fiduciary IG

## “Take-Aways” (cont.)

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- New(*ish*) information (cont.):
  6. Any revenue for which a government is *obligated to provide a product or service* is an own-source revenue and cannot be the source for an other fiduciary activity
    - Includes prepaid tuition plan assets, activity fees administered by colleges and universities
  7. Assets held *in order to provide a service* may be fiduciary while assets *derived from providing a service* are not fiduciary



# Fiduciary IG

## “Take-Aways” (cont.)

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- New(*ish*) information (cont.):
  8. Governments may sponsor plans (PEB, 529) for which they do not have control of assets
    - Indicators that a government may not control assets include:
      - Independent board
      - Third-party administrator (hired by independent board)
      - Third-party custodian, and
      - Beneficiary-directed investments
    - Indicators of government control include:
      - Government is custodian, trustee, directs investment, or holds assets in its own accounts/name/tax ID





# Fiduciary IG

## “Take-Aways” (cont.)

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- New(*ish*) information (cont.):

- 9. Custodial accounts

- External portion of pooled resources (PEB, cash and investment accounts) in single, separate column within custodial “section”

			<u>Custodial funds</u>	
Pension (and other employee benefit) trust funds	Investment trust funds	Private purpose trust funds	External investment pool funds	Other custodial funds



# Fiduciary IG

## “Take-Aways” (cont.)

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- New(*ish*) information (cont.):

- 10. Liability recognition:

- GASB PEB trusts – as per GASB PEB standards
    - All others – when an event has occurred that compels disbursement
      - If to beneficiaries – when no further action, approval or condition is required to be taken or met by the beneficiary to release the assets, or
      - If to others – in accordance with existing GAAP for economic resources measurement focus financial statements
        - » Generally, when goods or services are received



# Fiduciary IG

## “Take-Aways” (cont.)

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- New(*ish*) information (cont.):

- 11. Fiduciary component unit recognition:

- “Roll-up”: A PG will report the sum of a fiduciary CU’s and that CU’s own fiduciary CU’s in the PG’s own fiduciary funds
    - Even single column reporting BTAs must report fiduciary CUs, unless eligible and elect BTA exception
    - BTA Exception:
      - “Normally expected to be held for 3 months or less”
        - » Can be based on history
      - Occasional delay does not preclude exception
      - “Sometimes” 3 months = **X**



# **GASB Implementation Guide No. 2019-3, *Leases***

**Issued: August 2019**

**Effective Date: Periods beginning after  
December 15, 2019**

**[same effective date as GASB 87]**



# 2019-3 Guide Contents

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## 77 New Q&A's

### Topics:

- Scope, applicability and transition [11]
- Short-term leases and determining lease term [9]
- Contracts that transfer ownership [2]
- Recognition and Measurement (lessee & lessor) [35]
- Variations on lease contracts [7]
- Lease modifications and terminations [6]
- Sale-leaseback, Lease-leaseback, and intra-entity leases [7]



# Leases IG “Take-Aways”

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- New(*ish*) information:
  1. Lease term may be less than one year and short-term exception not be applicable
    - Extension possible but not reasonably certain
  2. Lessee must have exclusive, but need not have uninterrupted, right to control underlying asset
    - Only on certain days of the week, times of the day
    - Only during certain months/seasons
  3. Lessor may have right to substitute an identical asset



# Leases IG “Take-Aways” (cont.)

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- New(*ish*) information:
  4. Lease term cannot begin until underlying asset is available for use by lessee
    - Payments during construction are prepayments
    - When lease term commences, include prepayments in measurement of initial lease (intangible, right-to-use) asset
  5. Termination penalties:
    - Do not affect the inclusion or exclusion of cancellable periods
    - Are considered when determining if options are reasonably certain to be exercised



# Leases IASB “Take-Aways” (cont.)

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- New(*ish*) information:
  6. Estimations, using professional judgement, maximizing use of observable inputs:
    - Payments included in initial lease liability calculation for a period covered by a unilateral lease extension option that is reasonably certain to be exercised, but for which lease payments are left to future negotiation
    - Fair value of right-to-use intangible asset (FV of underlying asset for portion of useful life), and
    - Portion, if any, of a minimum lease payment that should be deemed to be fixed in substance and included in initial lease liability calculation by the lessee





# Leases IG “Take-Aways” (cont.)

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- New(ish) information:
  7. Capitalization thresholds:
    - May only be used to exclude leases from recognition if neither the lease assets *nor the lease liabilities* are significant
      - Qualitatively or quantitatively, and
      - Individually or in aggregate
  8. Restoration costs:
    - Lease liability if payable to lessor
    - ARO if lessee must restore or pay a 3<sup>rd</sup> party



## **II. GASB Exposure Drafts**

**Five new EDs since May 2019.**

**All expected to result in final statements by June 2020.**



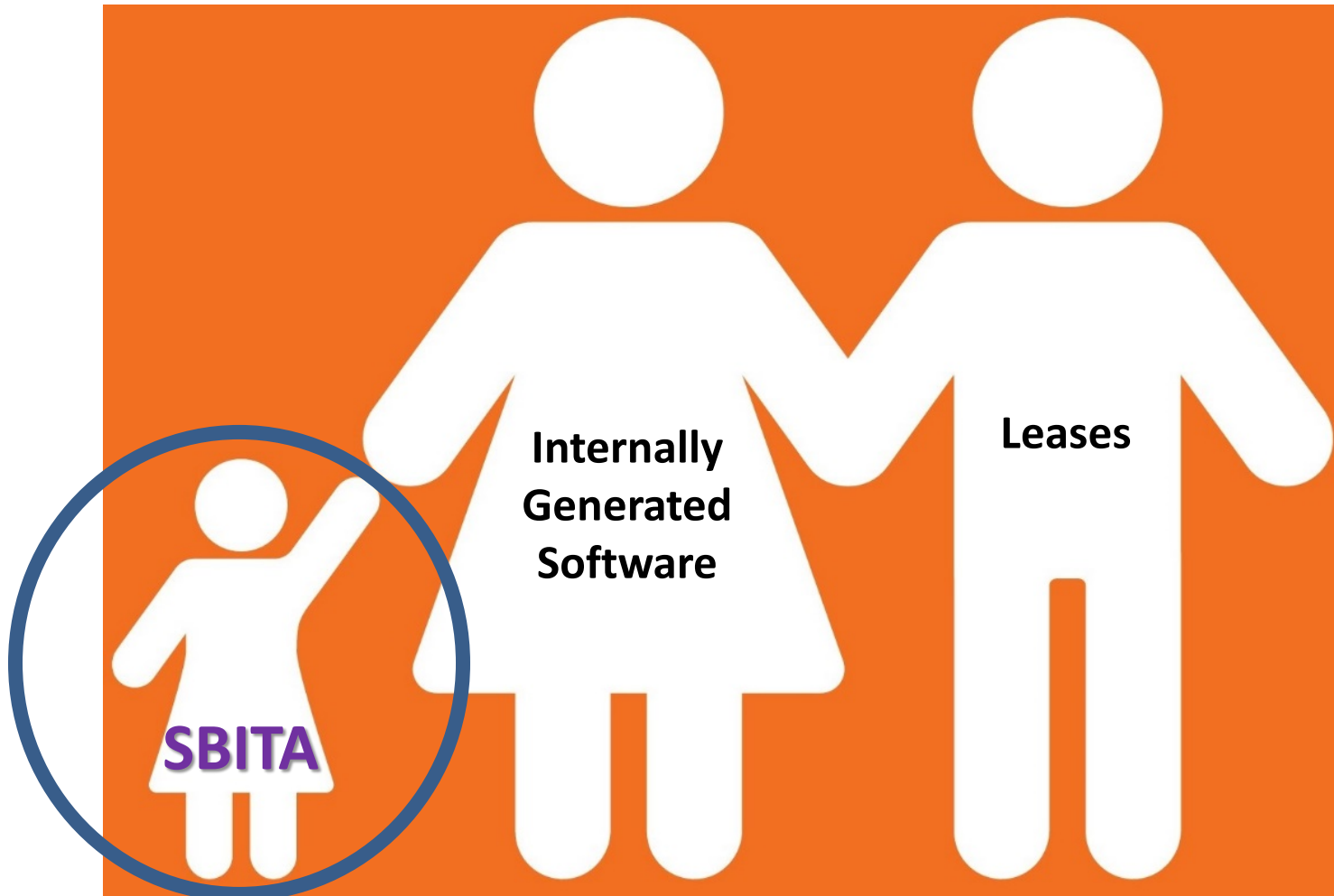
GASB Exposure Draft  
Proposed statement on  
**Subscription-based Information  
Technology Arrangements**

ED Issued: **May 2019**

Comment period ends: **August 23, 2019**

Proposed Effective Date: **Fiscal years  
beginning after June 15, 2021, and  
reporting periods thereafter**

# Subscription Based Information Technology Arrangements (SBITAs)





# SBITA v. Lease

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## SBITA

A contract that conveys control of the right to use another party's **hardware, software, or a combination of both, including IT infrastructure** as specified in the contract for a period of time in an exchange or exchange-like transaction

## Lease

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



# Excluded from ED scope

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- Governments that provide the right to use their hardware or software to other entities through SBITAs
- Service Concession Arrangements (GASB 60; Cod. Sec. S30)
- Arrangements that grant a perpetual license to use a vendor's software (GASB 51; Cod. Sec. 1400.142-.153)



# SBITA

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- SBITA vendor = Party whose IT hardware/infrastructure and/or software is being used ( $\approx$  lessor)
- Government ( $\approx$  lessee)
- Underlying hardware or software = IT hardware/infrastructure and/or software that is the subject of the contract
- Subscription asset = intangible right-to-use asset



# SBITA term

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Noncancellable period

+ periods covered by one party's (unilateral) option to extend if, based on all relevant factors, it is reasonably certain *to be extended*

+ periods covered by one party's (unilateral) option to terminate\* if, based on all relevant factors, it is reasonably certain *not to terminate*

= SBITA term

\*Fiscal funding clause – affects term only if reasonably certain *to be exercised*





# SBITA term (cont.)

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- Factors affecting likelihood of option exercise:
  - Economic incentives or disincentives
  - Technological developments
  - Changes in demand for technology
  - Essentiality of underlying hardware or software to provision of governmental services, and
  - History of exercising options
- Reassess SBITA term if:
  - Option is exercised or not exercised contrary to prior determination of reasonable certainty, or
  - Event requiring extension or termination occurs



# Short-term SBITA

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- Maximum possible term of 12 months or less
  - Including all options to extend, regardless of likelihood of exercise
  - For cancellable SBITA (month-to-month, year-to-year), maximum term includes notice period
- Expense/expenditure based on payment provisions of SBITA contract
  - No expense/expenditure during free periods



# Vender-paid incentives

Payments made to, or on behalf of, a government for which the government has the right of offset with its obligation to SBITA vendor or other concessions granted to the government by the vendor.

Paid at or before inception of SBITA

- Direct reduction of to subscription asset.

To be paid later – fixed or fixed-in-substance

- Reduce subscription payments used to calculate initial subscription liability (and included in asset).

To be paid later – variable or contingent

- Exclude from initial measurement, and
- Include in remeasurement once known.



# Subscription Liability Measurement

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Present value of payments expected to be required during the contract term, including:

- Fixed payments,
- Variable payments dependent on an index or rate (use value as of commencement),
- Variable payments that are fixed in substance,
- Payments for SBITA termination penalties if the term reflects the exercise of an option, or fiscal funding clause, for which there is a penalty, and
- Other payments to SBITA vendor that the government is reasonably certain to be required to pay
- Less: Any vendor-paid incentives receivable (if fixed or fixed in substance)



# Discount Rate

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- Interest rate the SBITA vendor charges the government:
  - May be the interest rate implicit in the SBITA contract
  - If not known, may be estimated as interest rate that the government would pay to borrow the amount of the payments during the subscription term (incremental borrowing rate)
  - Government *may* apply imputation guidance in GASB Cod. Sec. 130, *Interest Costs – Imputation*



# Remeasure SBITA Liability

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Remeasure at reporting date if one or more of the following occur and changes are expected to significantly affect liability:

- Change in subscription term,
- Change in estimated subscription payments used to measure liability,
- Change in interest rate charged by SBITA vendor (if used as discount rate), or
- A contingency that determines (fixes) variable payments is resolved.



# Remeasure SBITA Liability (cont.)

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When remeasuring, also update the following, if the changes are expected to significantly affect the liability:

- Index or rate used to measure variable payments, and
- Discount rate, if there is a change in the subscription term.

However, the liability is not required to be remeasured solely for a change in an index or rate, nor solely for a change in the government's incremental borrowing rate.



# Intangible Right-to-use Subscription Asset

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- Measure - sum of:
  - Initial measurement of subscription liability and
  - Subscription payments made to SBITA vendor at or before beginning of the subscription term
  - Less: SBITA vendor incentives paid to (or on behalf of) government at or before beginning of the term and
  - *Capitalizable implementation costs*





# Subscription Asset (cont.)

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- Amortize in a systematic and rational manner over the shorter of:
  - Subscription term, or
  - Useful life of the underlying hardware or software
- Adjust by same amount as SBITA liability when liability is remeasured
  - Any remainder is an inflow (gain)



# Implementation stages

1

- Preliminary project stage – EXPENSE
- Conceptual formulation, evaluation of alternatives, technological feasibility, final selection of alternatives

2

- Initial implementation stage – CAPITALIZE
- Design of chosen path, configuration, coding, testing and installation, other ancillary charges necessary to place subscription asset into service

3

- Post-implementation stage – EXPENSE
- Maintenance, troubleshooting, other activities needed for on-going access to underlying hardware or software

EXPENSE training costs regardless of stage • Expense data conversion costs unless necessary to make subscription asset operational.



# Implementation Cost – Capital Eligibility

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*Expense* all costs incurred before:

- Determination of project objective and the nature of service capacity of subscription
- Demonstration of feasibility of subscription
- Demonstration of intent, ability and effort to enter into subscription
- Preliminary project stage activities are completed, and
- Management authorizes and commits to funding at least the first fiscal year of the SBITA



# Other SBITA costs

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For SBITAs already in operation –

Outlays that are in addition to subscription payments should be *capitalized only* if they result in either:

- Increased functionality (new tasks), or
- Increased efficiency (higher level of service)



# Also similar to lease guidance

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- Impairment
- Vendor-paid incentives
- Contracts with multiple components
- Contract combinations
- Contract modifications and terminations
- Note disclosures



# Proposed

## Effective Date and Transition

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- Fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- Early implementation is encouraged
- Measure SBITA assets and liabilities using facts as of beginning of first year restated
- Standard retroactive implementation



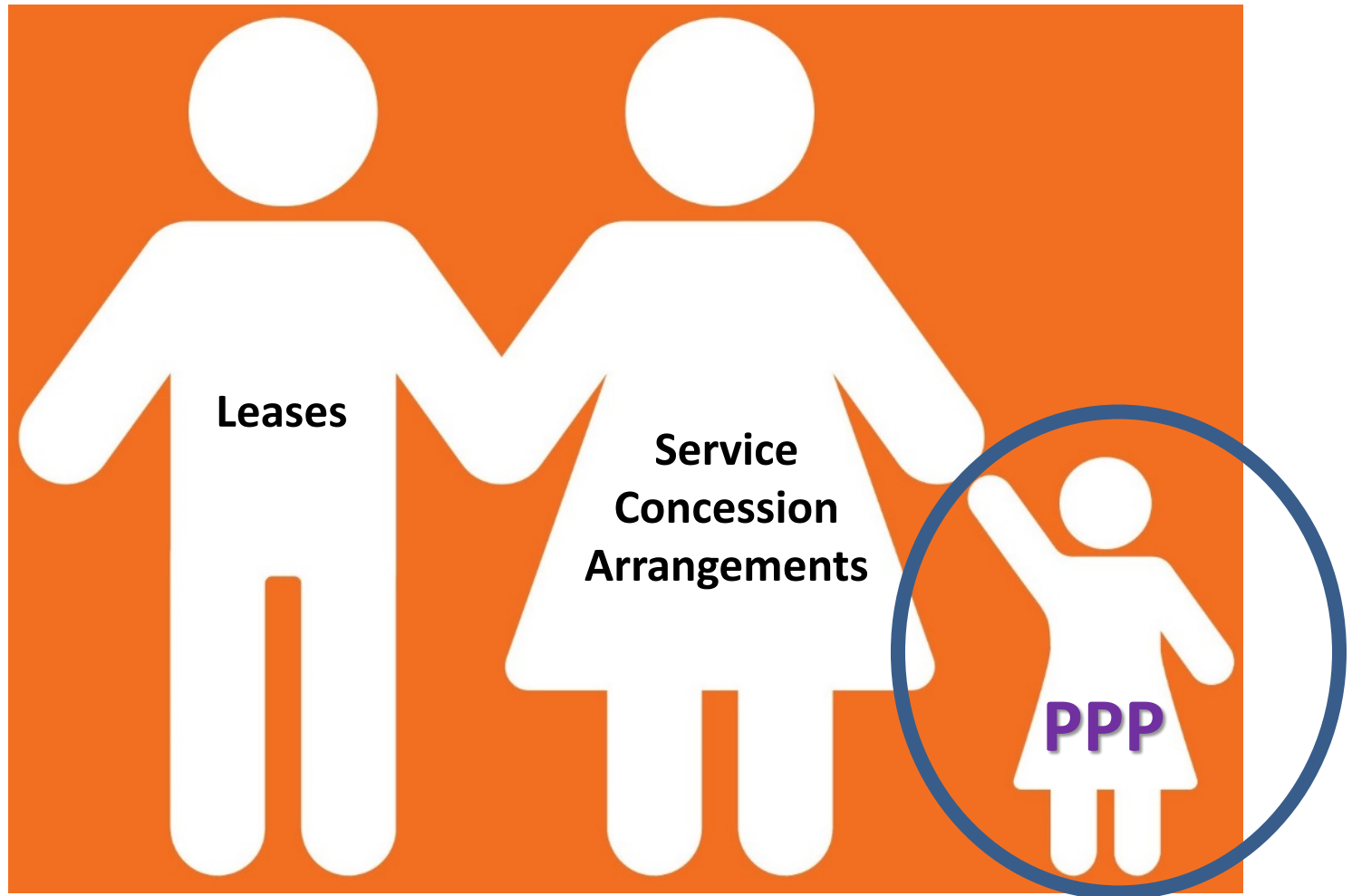
GASB Exposure Draft  
Proposed statement on  
**Public-Private and Public-Public  
Partnerships and Availability Payment  
Arrangements**

**ED Issued:** June 2019

**Comment period ends:** September 13, 2019

**Proposed Effective Date:** Fiscal years  
beginning after June 15, 2021, and reporting  
periods thereafter

# Public-Private / Public-Public Partnerships (P3s, or PPPs)







# PPP v. Lease

## PPP

An arrangement in which a government contracts with an *operator* to provide public services by conveying control of the right to operate or use an infrastructure or other nonfinancial asset, for a period of time in an exchange or exchange-like transaction.

## Lease

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

## Contrasts

<u>Subject</u> : infrastructure or other ...	v.	nonfinancial
<u>Owner</u> : [none specified]	v.	another entity's
<u>Use</u> : to provide public services	v.	as specified in the contract
<u>Control</u> : of the right to operate or use	v.	of right to use



# PPP terminology

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## Terminology:

- Transferor ( $\approx$  lessor)
- Operator ( $\approx$  lessee)
  - May be a *governmental operator*
- Underlying PPP asset
  - Capital asset used in providing public services
- Right-to-use asset ( $\approx$  lease asset)
  - Intangible right-to-use asset



# Service Concession Arrangements (SCAs)

Transferor conveys right & obligation **to provide public services** through PPP asset for consideration.

Operator is compensated by collecting **fees from third parties**.

**SCAs**

Transferor **determines/modifies/approves services provided, to whom, and price ranges or rates charged** by operator.

Transferor **receives significant residual interest in service utility of the PPP asset** at end of arrangement.



# PPPs Might Not Be Leases

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- Operator may not have the *right to determine the nature and manner of use* of the underlying PPP asset (Transferor retains in an SCA).
- Underlying asset may not be owned by the transferor (yet).



# PPPs Might Not Be SCAs

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- Transferor may not have the *right to determine the services provided, to whom, or the prices that can be charged.*
- Transferor may not be *entitled to significant residual interest in PPP asset at end of arrangement.*

# ED Carve-out for PPPs that Are Leases and Are *Not* SCAs

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- For all PPPs that *are* leases and are *not* SCAs
  - Example: Minor league team will construct a new stadium that it will own until end of PPP, but stadium use (services to be provided) and fees to be charged are set by government transferor
  - Follow lease accounting and reporting requirements of GASB 87, *Leases*



# Recognition Based on Underlying PPP Asset

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Existing Asset of Transferor

New Asset or Improvement from Operator – SCA

New Asset from Operator – Non-SCA



# Underlying PPP Asset – Existing Asset of Transferor

## **Transferor** recognition

- Underlying asset –  
Continue:
  - To report underlying asset
  - To apply other capital asset requirements (depreciation,\* impairment), as applicable
- PPP arrangement - At inception of PPP recognize:
  - Up-front payments received
  - Receivable for any PPP installment payments
  - Deferred inflow of resources

## **Gov. operator** recognition at inception of PPP:

- An intangible right-to-use PPP asset
- Liability for any PPP installment payments to be made
- Up-front payments to transferor, if any

\* Unless operator is required to return underlying PPP asset in original or enhanced condition





# Underlying PPP Asset – New or Improved Asset – SCA

## **Transferor recognition**

- PPP arrangement - At inception of PPP:
  - Receivable for any PPP installment payments
  - Up-front payment from operator
  - Deferred inflow of resources
- Underlying PPP asset – When new underlying asset or improvements are placed into service:
  - New underlying PPP asset or improvement (acquisition value)
  - Addition to deferred inflow
  - On-going capital asset accounting thereafter

## **Gov. operator recognition**

- At inception of PPP:
  - An intangible right-to-use PPP asset
  - Liability for any PPP installment payments to be made
  - Up-front payment to transferor, if any
- When new underlying asset or improvements are placed into service recognize:
  - An addition to right-to-use asset



# Underlying PPP asset – Operator's New Asset – **Non-SCA**

## **Transferor** recognition

- Underlying asset –  
When acquired (or, as it is constructed) by operator:
  - *None*

## **Gov. operator** recognition

- Underlying asset –  
When acquired (or, as it is constructed), continuing *until ownership transfers to transferor*:
  - New asset
  - Other capital asset requirements, as applicable

# Underlying PPP asset – Operator's New Asset – Non-SCA (cont.)

## **Transferor** recognition

When new underlying PPP asset is placed into service, recognize:

- Receivable for the underlying PPP asset to be received from operator,\*
- Receivable for the PPP installment payments,
- Up-front payments from operator,
- Deferred inflow of resources.

## **Gov. operator** recognition

When new underlying PPP asset placed into service, recognize:

- Liability for the underlying PPP asset to be transferred to the transferor,\*
- Liability for PPP installment payments,
- Up-front payments to transferor,
- Deferred outflow of resources.

\* At estimate of operator's carrying value as of future date of transfer of asset



# Transferor Recognition

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- Unlike under current standards for SCAs, under the ED proposal the transferor *would not report an initial liability* for other contractual obligations (infrastructure improvements, public service levels) associated with the PPP,
  - Report capital outlays or expense/expenditures in the periods to which they relate.

# Like Leases

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- Determination of PPP term
- Transferor receivable for installment payments and deferred inflows of resources (measurement, remeasurement and amortization)
- Operator liability for installment payments and intangible right-to-use asset (measurement, remeasurement and amortization)
- Discount rate
- Impairment
- Multiple component PPPs
- Modifications and Terminations
- Note disclosures, with addition of information about rights of each party under PPP arrangement



# Availability payment arrangements (APA)

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## Definition:

An arrangement in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction



# Availability payment arrangements (APA)

## Additional Criteria

- The payments by the government are based entirely on the asset's availability for use rather than on tolls, fees, or similar revenues or other measures of demand.
- Availability for use may be based on specified criteria such as the physical condition of the asset, construction milestones, or the achievement of certain performance measures.



# APA accounting & financial reporting

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If multiple components, account for each separately:

- APAs (or components) related to design, construction or financing of nonfinancial assets, ownership of which will transfer to the government by end of contract
  - Report as a financed purchase of the assets
- APAs (or components) related to operation or maintenance of nonfinancial assets
  - Report as outflow (expense) of period to which they relate





# Proposed

## Effective Date and Transition

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- Fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- Early implementation is encouraged
- Measure PPP assets and liabilities using facts as of beginning of first year restated
- Standard retroactive implementation



## **GASB Exposure Draft**

Proposed statement on

***Internal Revenue Code Section 457***

***Deferred Compensation Plans That Meet***

***the Definition of a Pension Plan and***

***Supersession of GASB Statement 32***

**Issued: June 2019**

**Proposed Effective Date: Fiscal years**

**beginning after December 15, 2020**



# Background

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- IRC Section 457 deferred compensation plans:
  - Similar to 401(k) plans
  - Offered primarily to employees of state and local public governments
- Unique feature of IRC Section 457 plans required specialized guidance:
  - GASB Statement 32
    - Took effect periods starting after 12/15/1998



# GASB Statement 32

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- Board conclusion:
  - IRC Section 457 plans are *not* pension plans
    - No employer contributions
- Guidance provided:
  - How to account for the plan in the financial statements
  - How to value plan assets



# Subsequent Developments

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- Some IRC Section 457 plans now feature:
  - Employer contributions, and
  - Guaranteed minimum return or benefit
- If so, why not treat as a pension plan?



# Proposed Guidance

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- Does an IRC Section 457 plan that qualifies as a fiduciary activity (GASB 84) meet the definition of a pension plan?
  - Yes – Use regular GASB pension guidance
  - No – Use GASB Statement 84 guidance for other fiduciary activities
  - Eliminate specialized guidance on how to value investments



# Proposed Effective Date and Transition

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- Fiscal years beginning after December 15, 2020, and all reporting periods thereafter
- Early implementation is encouraged
- Standard retroactive implementation



GASB Exposure Draft  
Proposed statement on  
**Omnibus 20XX**

Issued: **June 2019**

Proposed Effective Dates: **Various**





# Change to Effective Date for GASB 87 Interim Reporting

“The requirements of Statement 87 are effective for fiscal years beginning after December 15, 2019, and all reporting periods thereafter”

- GASB 87 original language “...effective for *reporting periods* beginning after December 15, 2019”
- Effect: *Interim* reporting periods during first year are excluded

This proposal would become effective upon issuance of an omnibus statement.



# Employer Contributions to a Plan Within the Reporting Entity

- Apparent conflict:
  - Pension/OPEB guidance
    - Difference between carrying value and amount paid should be treated as an employer contribution
  - GASB Statement 48
    - Difference between carrying value and amount paid should be treated as a transfer or subsidy
- Proposed solution:
  - Apply Pension/OPEB guidance

Proposal would be effective for *fiscal years* beginning after June 15, 2020.



# Effect of GASB Statement 84 on Non-trusted Defined Benefit Plans

- Apparent conflict:
  - GASB Statement 84 indicates *control* is a factor only if not a component unit
  - GASB Codification could give the impression that this same limitation applies to non-trusted defined benefit plans
- Proposed solution:
  - Clarify that GASB Statement 84 limitation does not apply to guidance for non-trusted benefit plans

Proposal would be effective for *fiscal years* beginning after June 15, 2020.



# Liability Recognition for Non-trusted Plans

- Apparent conflict:
  - Pension/OPEB guidance
    - Liability for assets in excess of 1) benefits due and 2) accrued investment and administrative expenses
  - GASB Statement 84
    - Liability when an event has occurred that compels the government to disburse fiduciary resources
- Proposed solution:
  - Eliminate pre-GASB-Statement-84 guidance

Proposal would be effective for *reporting periods* beginning after June 15, 2020.



# Exception to Acquisition Value in a Government Acquisition

- In a government acquisition:
  - Acquiring governments value certain specific liabilities and related assets (PEB, compensated absences) based on applicable GAAP
    - All other assets and liabilities at acquisition value as of the acquisition date
- Proposal would add asset retirement obligations (AROs) to liabilities to be valued using applicable GAAP

Proposal would be effective for *government acquisitions* occurring in reporting periods beginning after June 15, 2020.



# Reinsurance Recoveries

- Apparent conflict:
  - Within GASB as to whether netting of reinsurance recoveries is required or permitted for public risk pools
- Proposed solution: netting would be optional
  - Amounts *recoverable* from reinsurers and excess insurers that relate to paid claims and claims adjustment expenses, net of any estimated uncollectable amounts, may be reported as an expense reduction

This proposal would become effective upon issuance of an omnibus statement.



# Nonrecurring Fair Value Measures

Proposal to move a PEB-related example of a nonrecurring fair value measure:

- From a GASB Codification Section specifically addressing non-PEB nonrecurring fair value measurement
- To a Cod. Sec. addressing PEB nonrecurring fair value measurement

Proposal would be effective for *reporting periods* beginning after June 15, 2020.



# Derivatives Terminology

Proposal to change references from “derivative(s)” to “derivative instrument(s)” throughout the GASB Codification

This proposal would become effective upon issuance of an omnibus statement.





# Proposed

## Effective Date and Transition

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- Individual topics have different effective dates, as indicated
- Early application encouraged, if related standards have been implemented
- Individual topics may be early implemented
- Standard retroactive implementation



GASB Exposure Draft  
Proposed Statement on  
**Replacement of Interbank Offering Rates**

ED Issued: **September 2019**

Comment Period Ends: **November 27, 2019**

Proposed Effective Date: **Reporting periods  
beginning after June 15, 2020\***

\*Elimination of LIBOR as an appropriate benchmark interest rate will be effective for reporting periods beginning after December 15, 2020.



# Background

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- The London Interbank Offering Rate (LIBOR) is used as a reference rate in calculating the variable payments for:
  - Derivative instruments,
  - Leases.
- LIBOR is referenced in several GASB standards and implementation guides.
- LIBOR will cease to exist in current form in 2021.



# Need for New Standard

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- **Problem:** Under current standards, the replacement of LIBOR as a reference rate,
  - In derivative instrument contracts would result in termination of hedge accounting – need to recognize deferred inflows and outflows of resources, and
  - In lease contracts would result in a lease modification – need to remeasure lease elements (liability, asset, receivable, deferred inflow).
- **Proposed solution:** Limited exceptions for amendments *solely* to replace an IBOR with an essentially equivalent rate.



# Hedge Termination Exception

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If the reference rate of a hedged item is an IBOR or an adjusted\* IBOR:

- An amendment of the hedged item (1) to replace the reference rate or (2) to add or change fallback provisions with another rate, that is adjusted\* if necessary, *to essentially equate the replacement and the original rate*, is not a termination event.

\*An adjusted reference rate is one: (a) that is multiplied by a coefficient or (b) to or from which a constant value is added or subtracted.



# Hedge Termination Exception (cont.)

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Continue hedge accounting for a derivative instrument that is an effective hedge at year end if the following five conditions are true:

1. The instrument is amended or replaced to change the IBOR reference rate or fallback provisions,
2. Adjustments to replacement reference rate are limited to those necessary to essentially equate to the original reference rate,
3. All terms other than those making the new and old reference rates equivalent are identical,



# Hedge Termination Exception (cont.)

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4. If the replacement is made by ending the original hedging instrument and replacing it with a new one, both occur on the same day, and
5. Term changes are limited to:
  - a) Frequency of rate resets,
  - b) Dates of rate resets,
  - c) Methodology of rate resets, and
  - d) Dates periodic payments are made.



# Additional Hedging Proposals

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- Assumes the probability of occurrence of an expected transaction that is based on an IBOR is not affected by the sustainability or replacement of the IBOR
- Changes the list of appropriate benchmark interest rates for derivative instrument hedges
  - Adds: (1) Effective Federal Funds Rate (EFFR) and (2) Secured Overnight Financing Rate (SOFR)
  - Excludes LIBOR (*Proposed effective date for this provision is December 15, 2020*)
- Changes glossary definition of a reference rate
  - Removes names of specific rates
  - Indicates also called “reference index” or “underlying”





# Lease Modification Exception

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If variable payments of a lease contract depend on an IBOR:

- An amendment of the contract solely to replace the IBOR with another rate, that is adjusted if necessary, *to essentially equate the replacement and the original rate*, is not a termination event.

This applies to both lessees and lessors (for which lease “payments” are actually receipts).



# Proposed

## Effective Date and Transition

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- All provisions other than the exclusion of LIBOR as an appropriate benchmark interest rate are proposed to become effective for reporting periods beginning after June 15, 2020.
- The exclusion of LIBOR is proposed to become effective for reporting periods beginning after December 15, 2020.
- Standard retroactive implementation.



# **III. Summaries of Upcoming Implementations**

# Summary of Implementations – Statements

New Statement		Implement for Fiscal Year Ending			
Statement #	Periods beginning after	March 31	June 30	September 30 / October 31	December 31
83 AROs	June 15, 2018	2020	2019	2019	2019
84 Fiduciary	December 15, 2018	2020	2020	2020	2019
87 Leases	December 15, 2019	2021	2021	2021	2020
88 Debt	June 15, 2018	2020	2019	2019	2019
89 Interest Capitalization	December 15, 2019	2021	2021	2021	2020
90 MEI	December 15, 2018	2020	2020	2020	2019
91 Conduit	December 15, 2020	2022	2022	2022	2021

# Summary of Implementations – Implementation Guides

New Implementation Guide		Implement for Fiscal Year Ending			
Guide #	Periods beginning after	March 31	June 30	September 30 / October 31	December 31
2018-1 Update	June 15, 2018	2020	2019	2019	2019
2019-1 Update	December 15, 2018	2020	2020	2020	2019
2019-2 Fiduciary Activities	December 15, 2018	2020	2020	2020	2019
2019-3 Leases	December 15, 2019	2021	2021	2021	2020

# Summary of Implementations – Proposed Statements

Exposure Draft Proposal		As Proposed, Implement for Fiscal Year Ending			
Topic	Effective for periods beginning after	September 30 /			
		March 31	June 30	October 31	December 31
SBITA ED	June 15, 2021	2023	2022	2022	2022
PPP and APA ED	June 15, 2021	2023	2022	2022	2022
Deferred Comp/457	December 15, 2020	2022	2022	2022	2021
IBOR Replacement	June 15, 2020 except for:	2022	2021	2021	2020
	LIBOR exclusion December 15, 2020	2022	2022	2022	2021
Omnibus	VARIOUS IMPLEMENTATION DATES				



# Thank you

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