

# MaherDuessel

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## GASB Updates

December 16, 2019

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## GASB Statements

| GASB Statement   | Issue Date | Periods Beginning After | Implement for FYE June 30 | Implement for FYE December 31 |
|--|------------|-------------------------|---------------------------|-------------------------------|
| 83, Certain Asset Retirement Obligations (AROs)  | 11/2016    | 06/15/2018              | 2019                      | 2019                          |
| 84, Fiduciary Activities<br><i>(Discussed in a separate afternoon session)</i>             | 01/2017    | 12/15/2018              | 2020                      | 2019                          |
| 87, Leases   | 06/2017    | 12/15/2019              | 2021                      | 2020                          |
| 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements | 04/2018    | 06/15/2018              | 2019                      | 2019                          |
| 89, Accounting for Interest Cost Incurred before the End of a Construction Period          | 06/2018    | 12/15/2019              | 2021                      | 2020                          |
| 90, Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61          | 08/2018    | 12/15/2018              | 2020                      | 2019                          |
| 91, Conduit Debt Obligations   | 05/2019    | 12/15/2020              | 2022                      | 2021                          |

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**GASB Statement No. 83**  
**Certain Asset Retirement Obligations (AROs)**

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**GASB Statement No. 83**  
**Certain Asset Retirement Obligations (AROs)**

- A government that has legal obligations for future asset retirement activities of a tangible capital asset, are required to record a liability on their financial statements.
  
- Examples of an ARO may include:
  - Decommissioning of a nuclear power plant
  - Closing a landfill
  - Reclamation or remediation of a mine
  - Contractually required land restoration, such as removal of wind turbines
  - Removal of x-ray equipment

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**GASB Statement No. 83  
Certain Asset Retirement Obligations (AROs)  
Recognition & Measurement**

**Initial Recognition**

- This Statement requires that recognition occur when the liability is both incurred and reasonably estimable.
  - Determining incurrence should be based on external laws, regulations, contracts, or court judgements, together with the occurrence of an internal event that obligates the government to perform asset retirement activities.
- Measurement of an ARO should be based on the best estimate of the current value of outlays expected to be incurred.

**Subsequent Recognition**

- At least annually, current value of the ARO is to be adjusted for the effects of general inflation or deflation and relevant factors are to be evaluated to determine if there are significant changes in the estimated outlays.

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**GASB Statement No. 83  
Certain Asset Retirement Obligations (AROs)  
Jointly Owned Capital Assets**

- Government has a minority share (less than 50%) of ownership
- Majority is owned by a nongovernmental entity or there is no majority owner, but a nongovernmental owner has operational responsibility
- The government should record their minority share based on the measurement produced by the nongovernmental entity
- Specific disclosure requirements would apply

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**GASB Statement No. 83  
Certain Asset Retirement Obligations (AROs)  
Disclosures**

Governments should disclose the following information about AROs:

- A general description of the AROs and associated tangible capital assets, as well as the source of the obligations (i.e. federal, state, or local laws or regulations, contracts, or court judgments)
- The methods and assumptions used to measure the liabilities
- The estimated remaining useful life of the associated tangible capital assets
- How any legally required funding and assurance provisions associated with AROs are being met; for example, surety bonds, insurance policies, letters of credit, guarantees by other entities, or trusts used for funding and assurance
- The amount of assets restricted for payment of the liabilities, if not separately displayed in the financial statements

Note: Governments should also disclose if an ARO has been incurred but is not yet recognized because a reasonable estimate cannot be determined.

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**GASB Statement No. 87  
Leases**

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### GASB Statement No. 87 Leases

- GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.
- The statement defines a lease as 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.
- A contract conveys control if the following two conditions are met:
  - Right to obtain the present service capacity from use of the underlying asset
  - Right to determine the nature and manner of use of the underlying asset

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### GASB Statement No. 87 Lease Exclusions

- Leases of intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset
- Leases of biological assets (timber, living plants, and living animals)
- Leases of inventory
- Contracts that meet the definition of a service concession arrangement (GASB Statement No. 60)
- Leases of assets financed with outstanding conduit debt (GASB Statement No. 91)
- Supply contracts (power purchase agreements that do not convey control of right to use)

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### GASB Statement No. 87 Lease Initial Reporting

#### Lessee

- Record an intangible lease **asset** for the value of lease liability plus prepayments and initial direct costs incurred to place asset in use.
- Record a **liability** equal to the present value of future lease payments

#### Lessor

- Record a lease **receivable** which generally includes same items as lessee's liability.
- Record a **deferred inflow** equal to the lease receivable plus any cash received up front that relates to future period.

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### GASB Statement No. 87 Lease Subsequent Reporting

#### Lessee

- Amortize the intangible lease asset for the useful life or lease term, whichever is shorter.
- Reduce the liability by lease principal payments.

#### Lessor

- Depreciate leased asset unless indefinite life or asset is required to be returned in its original or enhanced condition.
- Recognize revenue over the lease term in a systematic and rational manner.

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| <b>GASB Statement No. 87<br/>Lease Exercise</b> |   |
|---|---|
| Commencement Date                               | 1/1/2021 (Delivery Date of Truck)   |
| Lease Amount                                    | \$103,451   |
| Term  | 5 years   |
| Options   | After 3 years, government may cancel the contract. Lessor does not have an option to terminate.   |
| Lessee Intention                                | At contract date, the Government does not plan to terminate early.  |
| Monthly Lease Payment                           | \$2,000   |
| Due Date  | 1st of Month  |
| Borrowing Rate                                  | 6.00%   |
| Purchase Price (Residual)                       | \$12,000 (after year 5)   |
| Considerations                                  | Government has a long-standing practice of leasing trucks. Historically the trucks are utilized for the full term of the contract and have never been terminated early. |

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| <b>GASB Statement No. 88<br/>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</b> |  |
|---|--|
|---|--|

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### GASB Statement No. 88 Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

- Objective is to improve the information that is disclosed in notes for debt
- Definition of debt for disclosure purposes
  - A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

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### GASB Statement No. 88 Disclosure Requirements

- Governments should disclose in the notes of financial statements summarized information about the following:
  - Amount of unused lines of credit
  - Assets pledged as collateral for debt
  - Terms specified in debt agreements related to significant
    - (1) events of default with finance-related consequences
    - (2) termination events with finance-related consequences, and
    - (3) subjective acceleration clauses.

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**GASB Statement No. 89**  
**Accounting for Interest Cost Incurred before the End of a Construction Period**

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**Statement No. 89**  
**Accounting for Interest Cost Incurred before the End of a Construction Period**

- Objectives of the Statement
  1. Enhance relevance and comparability of information about capital assets and the cost of borrowing for a reporting period
  2. Simplify accounting for interest cost incurred before the end of a construction period
- This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.
- As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.
- For financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure

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**GASB Statement No. 90**  
**Majority Equity Interests - an amendment of GASB**  
**Statements No. 14 and No. 61**

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**GASB Statement No. 90**  
**Majority Equity Interests**

- Objectives of the Statement
  1. Improve consistency and comparability of reporting a government's majority equity interest in a legally separate organization
  2. Improve the relevance of financial statement information for certain component units
- The Statement defines a majority equity interest and specifies that a government should report the interest as investment, if the government's holding of equity interest meets the definition of investment.

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**GASB Statement No. 90  
Majority Equity Interests**

- Definition of Equity Interest as it applies to this Statement
  - An equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization’s stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of finance or capital resources by a government.
- Equity interest is explicit and measurable if the government has a present or future claim to the net resources and the method for measuring is determinable.

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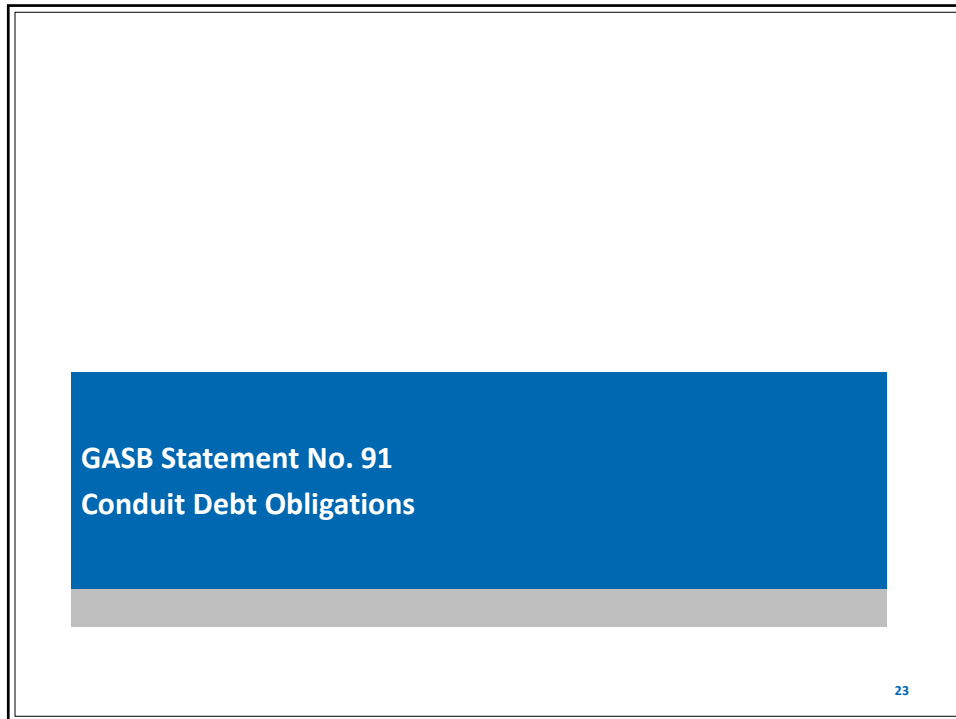
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**GASB Statement No. 90  
Does the Majority Equity Interest Meet  
the Definition of an Investment?**

| YES   | NO   |
|---|--|
| Report as an investment   | Report as a component unit   |
| Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205-209<br><br>Exception: the following should apply fair value in accordance with GASB Statement No. 72, paragraph 64: <ul style="list-style-type: none"> <li>• Special-purpose governments engaged only in fiduciary activities</li> <li>• Fiduciary funds</li> <li>• Endowments (including permanent and term endowments) and permanent funds</li> </ul> | Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in GASB Statement No. 62, paragraph 205-209 |
| Applied prospectively only  |  |

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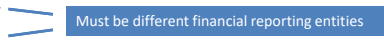
A slide with a blue header containing the text "GASB Statement No. 91" and "Conduit Debt Obligations". Below the header is a bulleted list. The slide number "24" is in the bottom right corner.

- Purpose is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with:
  - (1) commitments extended by issuers
  - (2) arrangements associated with conduit debt obligations
  - (3) related note disclosure
- Conduit debt is an instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor)

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### GASB Statement No. 91 Conduit Debt Obligations Characteristics

- Conduit Debt Obligation is a debt instrument that has all the following characteristics:
  - a. There are at least three parties involved:
    1. A government issuer
    2. a third-party obligor
    3. a debt holder or a debt trustee


  - b. The issuer and the third-party obligor are not within the same financial reporting entity
  - c. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
  - d. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance
  - e. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments)

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### GASB Statement No. 91 Conduit Debt Obligations Issuer's Limited, Additional & Voluntary Commitments

- Generally, issuers' commitments are limited to the resources provided by the third-party obligor.
- An issuer may extend an additional commitment to support debt service in the event of the third-party obligor's default.
  - 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 do so.

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### GASB Statement No. 91 Conduit Debt Obligations Recognition by the Issuer

- Should 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

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### GASB Statement No. 91 Disclosure Requirements

#### Conduit Debt Obligations

- General description of the issuer's conduit debt obligation(s)
- General description of the issuer's limited commitment(s)
- General description of the issuer's voluntary commitment(s)
- General description of the issuer's additional commitment(s), including:
  - The legal authority and limits for extending the commitment(s)
  - The length of time of the commitment(s)
  - Arrangements, if any, for recovering payments from the third-party obligor(s)
- Aggregate outstanding principal amount of all conduit debt obligations that share the same type of commitment(s) at the end of the reporting period.

#### Issuer with Recognized Liability

- Brief description of the timing of recognition and measurement of the liability and information about the changes in the recognized liability, including the following:
  - Beginning-of-period balances
  - Increases, including initial recognition and adjustments increasing estimates
  - Decreases, including payments made and adjustments decreasing estimates
  - End-of-period balances
- Cumulative amounts of payments that have been made on the recognized liability at the reporting date, if any
- Amounts expected to be recovered from those payments, if any.

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## GASB Update Sources

- GASB. (2019). *GASB Statements No. 83, 87, 88, 89, 90, and 91*. Norwalk, CT: Governmental Accounting Standards Board.
- AICPA, GASB Update. Lisa Parker, CPA, and Frank Crawford, CPA  
October 2019

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## Questions? Contact Me!



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