



2022 Governmental GAAP Update

January 18, 2022
Webinar

Presented by:



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Session Outline

- Newly effective standards
- Newly issued standards
- Upcoming standards
- Exposure drafts and preliminary views

Newly Issued Standards

- GASB Pronouncements **effective** in 2021:

No.	Title	Effective
89	Accounting for Interest Cost Incurred before the End of a Construction Period	12/15/2021*
98	The Annual Comprehensive Financial Report	12/15/2021

Newly Issued Standards

- GASB Pronouncements **effective** in 2022:

No.	Title	Effective
87	Leases	06/15/2022*
91	Conduit Debt Obligations	12/15/2022*
92	Omnibus 2020	06/15/2022*
93	Replacement of Interbank Offered Rates	06/15/2022
97	Certain CU Criteria and IRC Section 457 DC Plans	06/15/2022

Newly Issued Standards

- GASB Pronouncements **effective** soon:

No.	Title	Effective
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	06/15/2023
96	Subscription-Based Information Technology Arrangements	06/15/2023

Newly Issued Standards

- GASB Pronouncements **issued** in 2021:

No.	Title	Effective
98	The Annual Comprehensive Financial Report	12/15/2021

Newly Issued Standards

- GASB Implementation Guides **issued** in 2021:

No.	Title	Effective
2021-1	Implementation Guidance Update—2021	06/15/2022- 06/15/2024

GASB Statement 87

Leases

- Summary
 - Defines “leases” as **financings** of the **right to use** an underlying asset
 - Establishes a single model for all leases (no more operating vs. capital)
 - Record lease assets and lease liabilities
 - Effective 06/15/2022*

GASB Statement 87

Leases

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

GASB Statement 87

Leases

- Control of the right to use
 - The right to obtain the present service capacity from use of the underlying asset as specified in the contract; *and*
 - The right to determine the nature and manner of use of the underlying asset as specified in the contract

GASB Statement 87

Leases

- Nonfinancial assets
 - Assets that are not “financial assets”, as defined by GASB 72, *Fair Value*
 - Examples: land, buildings, vehicles, and equipment

GASB Statement 87

Leases

- Lease definition
 - Includes contracts not explicitly defined as “leases” but that otherwise meet the definition
 - Excludes contracts for services (except those contracts that contain *both* a lease component and a service component)

GASB Statement 87

Leases

- Excluded from the scope of this statement
 - Leases of intangible assets (e.g., mineral rights, movie rights, computer software licenses*)
 - Leases of biological assets (e.g., timber, animals)
 - Leases of inventory
 - Service concession arrangements
 - Conduit debt arrangements
 - Supply contracts (e.g., purchased power)

* See GASB 96: SBITA

GASB Statement 87

Leases

- Excluded from the scope of this statement
 - Short-term leases
 - Contracts that transfer ownership

GASB Statement 87

Leases

- Short-term leases
 - If the *maximum possible* lease term is 12 months or less at inception:
 - Recognize expense (lessees) or revenue (lessors) in accordance with lease contract
 - No intangible lease asset or lease liability
 - For rolling (month-to-month/year-to-year) leases, the maximum possible lease term is the noncancelable portion (including notice period)

GASB Statement 87

Leases

- Contracts that transfer ownership
 - Transfer ownership of the underlying asset to the lessee at or before the end of the contract; *and*
 - Do not contain termination options (other than fiscal funding or cancelation clauses not reasonably certain of being exercised)
 - Report as a financed purchase, rather than as a lease

GASB Statement 87

Leases

- Contracts that transfer ownership

“At the end of such term LESSEE shall acquire legal title to the Vehicles and terminate this Lease with respect thereto by paying to LESSOR all amounts that are due and unpaid hereunder and the remaining principal balance with respect to such Vehicles as shown on the Schedule relating thereto.”

3. TERM AND RENT: The Lease term shall commence as of the date that the Vehicles are delivered to LESSEE, or LESSEE's Agent (the "Commencement Date") and shall continue for the term shown on the attached Schedule relating thereto, unless Lessee notifies LESSOR that an Event of Non-appropriation (described below) has occurred or LESSEE exercises its option under Section 18. At the end of such term LESSEE shall acquire legal title to the Vehicles and terminate this Lease with respect thereto by paying to LESSOR all amounts then due and unpaid hereunder and the remaining principal balance with respect to such Vehicles as shown on the Schedule relating thereto. In lieu of such payment LESSOR hereby grants LESSEE the option to renew this Lease with respect to such Vehicles for the additional period as shown on the Schedule relating thereto, provided that the rate of interest applicable to such additional period shall be mutually agreed upon by LESSOR and LESSEE. LESSEE shall give written notice to LESSOR at least ninety (90) days prior to the end of the Lease term as to whether it will terminate this Lease and acquire the Vehicles or exercise its option to renew in accordance with this Section 3. LESSOR shall endeavor to give written notice to LESSEE at least sixty (60) days prior to the end of the Lease term if no such notice has been received from LESSEE. The rent under this Lease shall be payable in lawful money of the United States of America, from any and all legally available funds, and at the times and in the amounts as indicated on each attached Schedule. In lieu of cash, LESSOR will accept payment by check or wire transfer of immediately available funds only. Each payment will consist of a principal and interest component.

CPE Prompt 1 of 6

GASB Statement 87 Leases

- Old types
 - Operating lease
 - Capital lease
- New types
 - Short-term lease
just expense
 - Financed purchase
capital asset/long-term debt
 - Lease
record lease asset/liability

GASB Statement 87

Leases

- Valuing a lease asset / liability (lessees) and lease receivable / deferred inflow (lessors)
 - Present value of payments expected to be made for the **lease term**

GASB Statement 87

Leases

- Lease term
 - Period during which a lessee has a noncancelable right to use an underlying asset
 - Plus:
 - Periods covered by either the lessee's or lessor's option to extend (if reasonably certain to be exercised)
 - Periods covered by either the lessee's or lessor's option to terminate (if reasonably certain *not* to be exercised)

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Leases

- Lease term
 - Periods for which both the lessee *and* the lessor have an option to terminate the lease (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term
 - Examples: rolling month-to-month leases

GASB Statement 87

Leases

- Lease term
 - Fiscal funding or cancelation clauses only should affect the lease term when it is reasonably certain they will be exercised

GASB Statement 87

Leases

- Lease term
 - At the beginning of a lease, the lessor and the lessee should assess all factors relevant to the likelihood that the lessee or the lessor will exercise options
 - Examples: economic incentives/disincentives; lessee's history of exercising similar options; how essential the underlying asset is to the provision of governmental services

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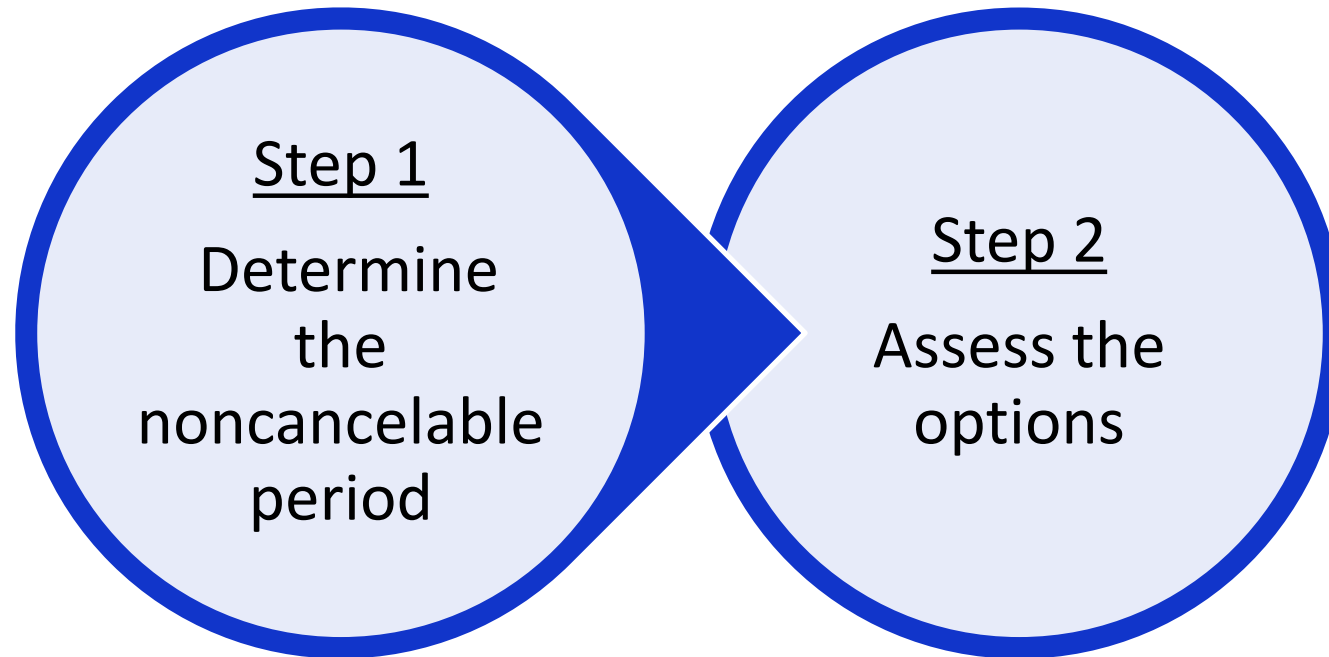
Leases

- Lease term
 - Reassess the term only if:
 - Lessee or lessor exercises an option not expected
 - Lessee or lessor fails to exercise an option expected
 - An event specified in the contract that requires an extension or termination of the lease actually occurs

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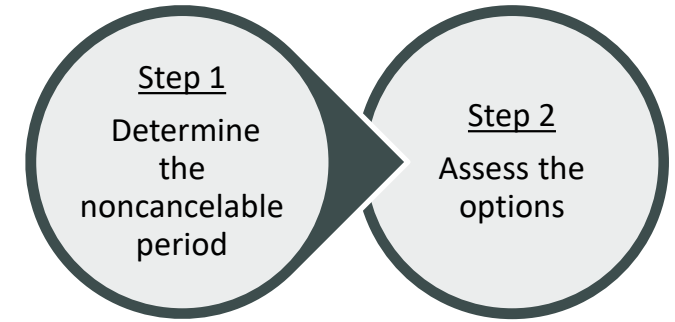
Leases

- Lease term example



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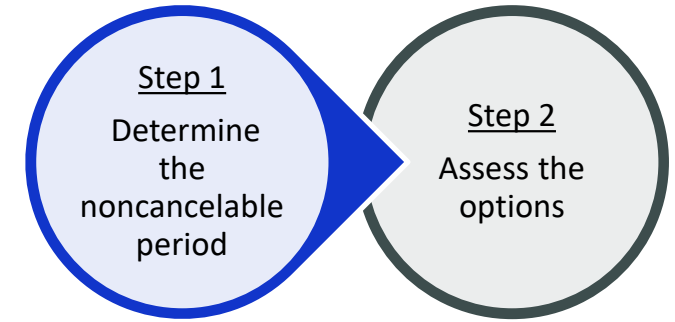
Leases



- Lease term example
 - A contract provides the government control of the right-to-use a bus for three years
 - After two years, the government can terminate the lease
 - After three years, there is an option to extend for two years

GASB Statement 87

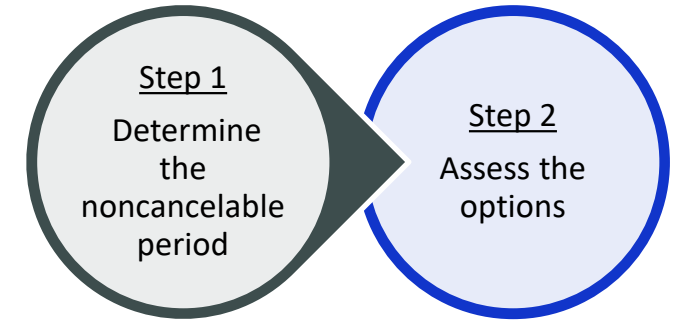
Leases



- Lease term example
 - A contract provides the government control of the right-to-use a bus for three years
 - **After two years**, the government can terminate the lease [noncancelable period]
 - After three years, there is an option to extend for two years

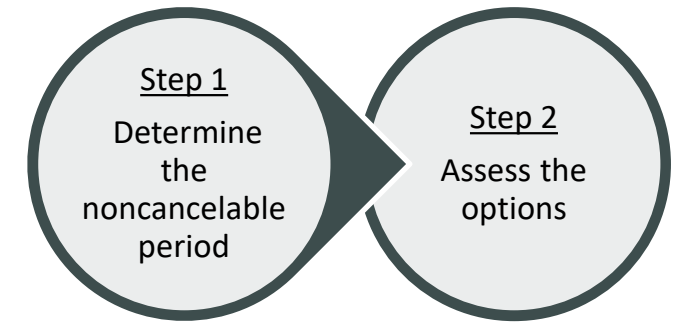
GASB Statement 87

Leases



- Lease term example
 - A contract provides the government control of the right-to-use a bus for three years
 - After two years, the government **can terminate** the lease [**not reasonably certain**]
 - After three years, there is an **option to extend** for two years [**reasonably certain**]

GASB Statement 87 Leases



- Lease term example

Noncancelable period	Years 1-2
+ Period covered by option to terminate, not reasonably certain to be exercised	Year 3
+ Period covered by option to extend, reasonably certain to be exercised	Years 4-5
Total lease term	5 Years

CPE Prompt 2 of 6

GASB Statement 87

Leases

- Lessee recognition and measurement
 - Lease liability
 - Intangible right-to-use asset (“lease asset”)
- Lessor recognition and measurement
 - Lease receivable
 - Deferred inflow of resources

GASB Statement 87

Leases

- Lease liability (lessee)
 - Present value of payments expected to be made for the lease term
 - Fixed payments
 - Variable payments (dependent on index/rate) using current rates at inception
 - Amounts that are reasonably certain of being paid (e.g., residual value guarantees, purchase options, termination penalties)

GASB Statement 87

Leases

- Lease liability (lessee)
 - Present value of payments expected to be made for the lease term
 - Discounted at the rate the lessor charges the lessee (implicit rate), or the lessee's incremental borrowing rate (if the implicit rate is not readily determinable)
 - In future periods, recognize an outflow (e.g., interest expense) for the amortization of the discount

GASB Statement 87

Leases

- Remeasuring the lease liability (lessee)
 - If one or more factors are expected to significantly affect the liability:
 - Change in lease term
 - Options have changed from being reasonably certain to not reasonably certain (or vice versa)
 - Change in the rate charged
 - Amounts previously contingent become reasonably certain

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Leases

- Remeasuring the lease liability (lessee)
 - If remeasuring for another reason (as required on the prior slide), then also update for any variable components
 - A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments

GASB Statement 87

Leases

- Remeasuring the lease liability (lessee)
 - If remeasuring for another reason (as required on the prior slide), then also update the discount rate if one or both factors are expected to significantly affect the liability:
 - There is a change in the lease term
 - Options have changed from being reasonably certain to not reasonably certain (or vice versa)

GASB Statement 87

Leases

- Remeasuring the lease liability (lessee)
 - A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the lessee's incremental borrowing rate

GASB Statement 87

Leases

- Lease asset (lessee)
 - Initially measured the same as the lease liability
 - Add: lease payments made to lessor at or before the beginning of the lease term; initial direct costs necessary to place the lease asset into service
 - Deduct: lease incentives received from the lessor

GASB Statement 87

Leases

- Lease asset (lessee)
 - Amortized (i.e., depreciated) in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset
 - If the lease includes a purchase option that is reasonably certain of being exercised, then amortize over the useful life of the asset (unless the underlying asset is nondepreciable, then do not amortize)

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Leases

- Remeasuring the lease asset (lessee)
 - Lease assets should generally be adjusted by the same amount as lease liabilities when they are remeasured
 - Do not reduce the lease asset below zero (recognize a gain)

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Leases

- Lease asset impairments (lessee)
 - If the underlying asset is impaired (see GASB 42), then the lease asset should be adjusted accordingly
 - First offset against any changes in the lease liability
 - Then recognize an impairment

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Leases

- Accounting in governmental funds (lessee)
 - Inception: debit expenditure (capital outlay); credit other financing source (proceeds from long-term debt)
 - Lease payments: debit expenditure (debt service); credit cash

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Leases

- Notes to financial statements (lessee)
 - Disclose:
 - General description (basis, terms, conditions)
 - Total lease assets and accumulated depreciation (separate from other capital assets)
 - Amount of lease assets by major class of underlying assets (separate from other capital assets)
 - Any current year outflows (expenses) for variable payments not previously included in the lease liability

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Leases

- Notes to financial statements (lessee)
 - Disclose:
 - Any current year outflows (expenses) for other payments not previously included in the lease liability
 - Principal and interest requirements to maturity (presented separately) for the lease liability for the first 5 years and in 5-year increments thereafter
 - Commitments under leases that have not yet begun
 - Components of any current year impairment loss

CPE Prompt 3 of 6

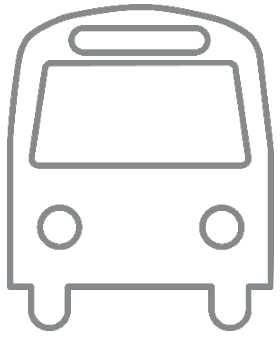
GASB Statement 87

Leases

- Notes to financial statements (lessee)
 - Disclose:
 - Sublease transactions
 - Sale-leaseback transactions
 - Lease-leaseback transactions

GASB Statement 87

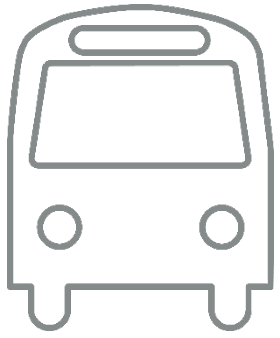
Lessee Example – Bus Lease



- The government has a long-standing process of leasing its buses
 - On January 1, 2021, the government enters into a contract for five buses. The contract states the term is 5 years, with monthly payments of \$2,000 due on the last day of the month. Lessor provided the borrowing rate of 6%.

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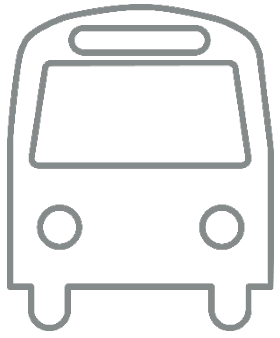
Lessee Example – Bus Lease



- The government has a long-standing process of leasing its buses
 - After three years, the government may cancel the contract.
 - After the fifth year, the purchase price for each bus is \$12,000.

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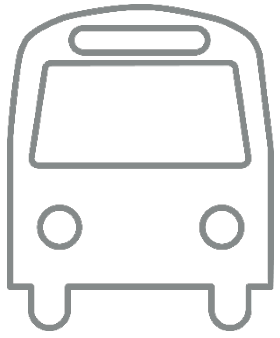
Lessee Example – Bus Lease



- The government has a long-standing process of leasing its buses
 - The government regularly leases buses and has historically utilized the buses for the full term of the contract and have never terminated early.
 - The contract does not provide the lessor an option to terminate.

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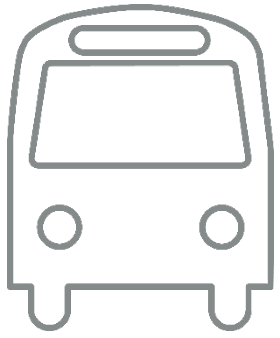
Lessee Example – Bus Lease



- The government has a long-standing process of leasing its buses
 - At the date of the contract, the government does not have any intent to terminate early.
 - At the end of the lease, the government intends to return the buses, there is no transfer of ownership provision.

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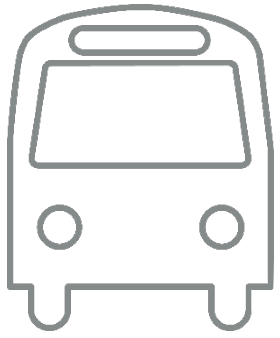
Lessee Example – Bus Lease



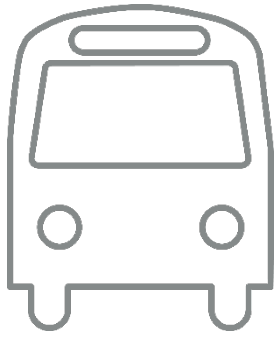
- The government has a long-standing process of leasing its buses
 - Does this meet the definition of a lease?

GASB Statement 87

Lessee Example – Bus Lease



- The government has a long-standing process of leasing its buses
 - Does this meet the definition of a lease? **Yes**
 - ✓ contract
 - ✓ five buses
 - ✓ 5 years term
 - ✓ monthly payments



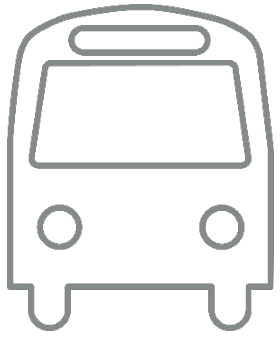
GASB Statement 87

Lessee Example – Bus Lease

- Identifying the Lease Term

	Lessee options		Lessor options	
	Terminate	Extend	Terminate	Extend
Year 1	N/A	N/A	N/A	N/A
Year 2	N/A	N/A	N/A	N/A
Year 3	N/A	N/A	N/A	N/A
Year 4	Reasonably certain will not exercise	N/A	N/A	N/A
Year 5	Reasonably certain will not exercise	N/A	N/A	N/A

- What is the term of the lease?
- Should the purchase price be considered in the lease liability?



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Lessee Example – Bus Lease

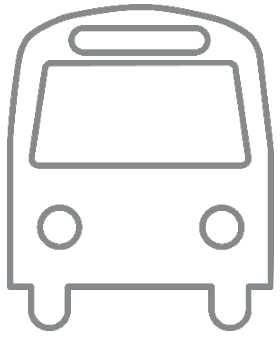
- Identifying the Lease Term

	Lessee options		Lessor options	
	Terminate	Extend	Terminate	Extend
Year 1	N/A	N/A	N/A	N/A
Year 2	N/A	N/A	N/A	N/A
Year 3	N/A	N/A	N/A	N/A
Year 4	Reasonably certain will not exercise	N/A	N/A	N/A
Year 5	Reasonably certain will not exercise	N/A	N/A	N/A

- What is the term of the lease? [5 years]
- Should the purchase price be considered in the lease liability? [No]

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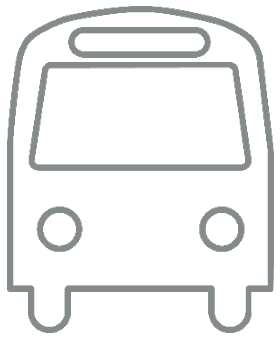
Lessee Example – Bus Lease



- Assumptions for lease liability calculation
 - Buses are delivered on January 1, 2021
 - First payment is due at month-end
 - Payment schedule 5 years (60 months)
 - 6% interest rate
 - Purchase price, not certain of being exercised (exclude)

GASB Statement 87

Lessee Example – Bus Lease



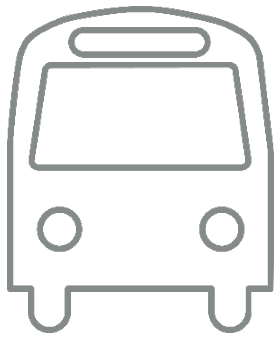
- Assumptions for lease liability calculation
 - Present value (in Excel):
 - rate = (6% per year / 12 months to get rate per month)
 - nper (number of payments) = 60
 - pmt (monthly payment) = 2,000
 - fv (future value) = 0
 - type = 0 (payments are made at end of period)

=PV(6%/12,60,-2000,0,0)

PV = \$103,451

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Lessee Example – Bus Lease

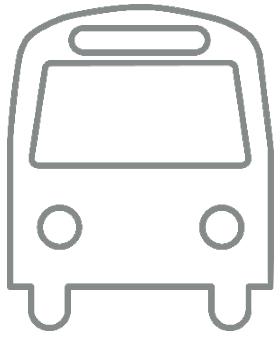


Annualized Payment Schedule			
	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2021	18,290	5,710	24,000
2022	19,419	4,581	24,000
2023	20,616	3,384	24,000
2024	21,888	2,112	24,000
2025	<u>23,238</u>	<u>762</u>	<u>24,000</u>
	103,451	16,549	120,000

Amortization	
2021	20,690
2022	20,690
2023	20,690
2024	20,690
2025	<u>20,691</u>
	103,451

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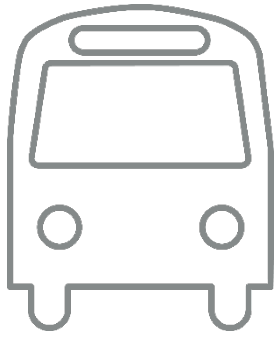
Lessee Example – Bus Lease



<u>Governmental Fund - Initial Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Capital outlay	103,451	
Other financing sources - lease proceeds		103,451
<i>To record capital expenditure and related proceeds from lease of buses</i>		
<u>Entity-wide - Initial Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Other financing sources - lease proceeds	103,451	
Lease liability – due within one year		18,290
Lease liability – due beyond one year		85,161
Intangible lease asset - vehicles	103,451	
Capital outlay		103,451
<i>To record intangible asset and related liability from lease of buses</i>		

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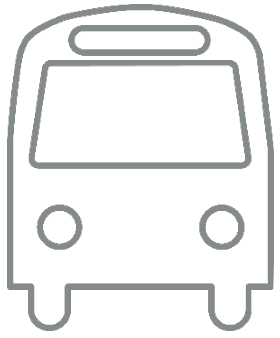
Lessee Example – Bus Lease



<u>Enterprise funds - Initial Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Intangible lease asset - vehicles	103,451	
Lease liability – due within one year		18,290
Lease liability – due beyond one year		85,161

GASB Statement 87

Lessee Example – Bus Lease



<u>Governmental Fund - Year 1 Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Interest expense	5,710	
Lease principal payment expenditure	18,290	
Cash		24,000
<i>To record 12 monthly lease payments for first year</i>		

<u>Entity-wide - Year 1 Journal Entries</u>	<u>Debit</u>	<u>Credit</u>
Lease liability – due within on year	18,290	
Lease principal payment expenditure		18,290
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To eliminate fund level activity for first year</i>		

GASB Statement 87

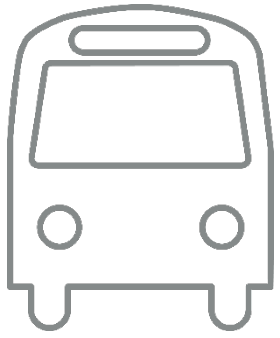
Lessee Example – Bus Lease



<u>Enterprise funds - Year 1 Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Lease liability – due within one year	18,290	
Interest expense	5,710	
Cash		24,000
<i>To record 12 monthly lease payments for first year</i>		
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To record annual amortization expense</i>		

GASB Statement 87

Lessee Example – Bus Lease



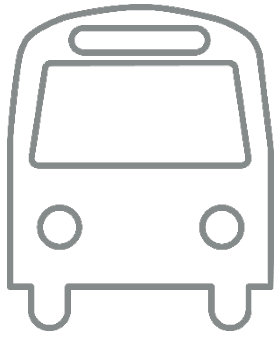
Enterprise funds and Entity-wide Year 1 Journal Entry	Debit	Credit
Lease liability – due beyond one year	19,419	
Lease liability – due within one year		19,419
<i>To adjust due within one year liability</i>		

Tip: Consider the need for accrued interest based on the payment schedule.

CPE Prompt 4 of 6

GASB Statement 87

Lessee Example – Bus Lease



<u>Governmental Fund - Year 2 Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Interest expense	4,581	
Lease principal payment expenditure	19,419	
Cash		24,000

To record 12 monthly lease payments for second year

<u>Entity-wide - Year 2 Journal Entries</u>	<u>Debit</u>	<u>Credit</u>
Lease liability – due within one year	19,419	
Lease principal payment expenditure		19,419
Amortization expense	20,690	
Accumulated amortization		20,690

To eliminate fund level activity for second year

GASB Statement 87

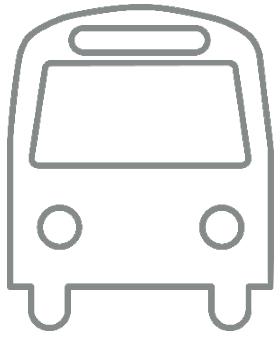
Lessee Example – Bus Lease



<u>Enterprise funds - Year 2 Journal Entry</u>	<u>Debit</u>	<u>Credit</u>
Interest expense	4,581	
Lease liability – due within one year	19,419	
Cash		24,000
<i>To record 12 monthly lease payments for second year</i>		
Amortization expense	20,690	
Accumulated amortization		20,690
<i>To record annual amortization expense</i>		

GASB Statement 87

Lessee Example – Bus Lease

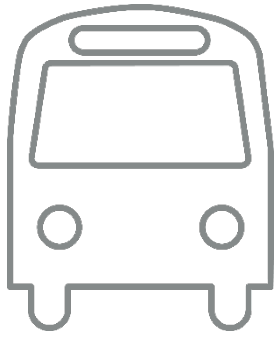


Enterprise funds and Entity-wide Year 2 Journal Entry	Debit	Credit
Lease liability – due beyond one year	20,616	
Lease liability – due within one year		20,616
<i>To adjust due within one year liability</i>		

Tip: Consider the need for accrued interest based on the payment schedule.

GASB Statement 87

Lessee Example – Bus Lease

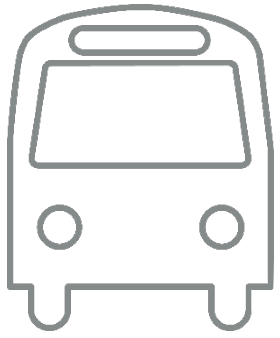


End of year 2 balances (three years remaining on bus lease)

Lease liability – due within one year	\$ 20,616
Lease liability – due beyond one year	<u>45,126</u>
Total	65,742
Vehicle - leased asset	\$ 103,451
Accumulated amortization - Vehicle - leased asset	<u>(41,380)</u>
Vehicle NBV	62,071

GASB Statement 87

Lessee Example – Bus Lease



- Disclosure:

“The government is leasing five buses for five years, starting January 1, 2021, with monthly payments of \$2,000 and an interest rate of 6%.”

GASB Statement 87

Lessee Example – Bus Lease

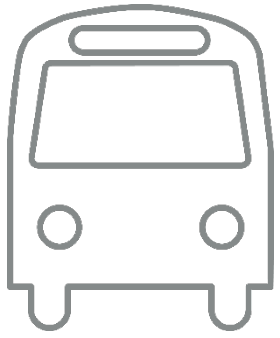


- Disclosure:

<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 1,000,000	\$ -	\$ -	\$1,000,000
Total Capital Assets not being depreciated	1,000,000	-	-	1,000,000
Capital assets being depreciated / amortized				
Building	5,000,000	500,000	-	5,500,000
Equipment	400,000	36,000	10,000	426,000
Leased Building (Intangible asset)	500,000	100,000	-	600,000
Leased Vehicles (Intangible asset)	103,451	-	-	103,451
Total capital assets being depreciated / amortized	6,003,451	636,000	10,000	6,629,451
Less: Accumulated depreciation for				
Building	3,300,000	110,000	-	3,410,000
Equipment	340,800	28,400	10,000	359,200
Less: Accumulated amortization for				-
Leased building	20,000	20,000	-	40,000
Leased vehicles	20,690	20,690	-	41,380
Total depreciation and amortization	3,681,490	179,090	10,000	3,850,580
Net capital assets being depreciated and amortized	2,321,961	456,910	-	2,778,871
Total, net of accumulated depreciation	\$ 3,321,961	\$ 456,910	\$ -	\$3,778,871

GASB Statement 87

Lessee Example – Bus Lease



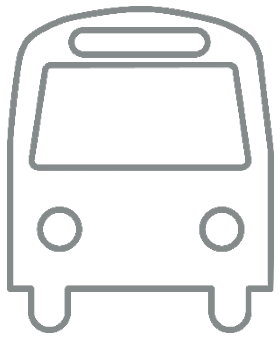
- Disclosure:

Future Lease Payment Maturity Schedule

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2023	\$ 20,616	\$ 3,384	\$ 24,000
2024	21,888	2,112	24,000
2025	23,238	762	24,000
2026	-	-	-
2027	-	-	-
2028 - 2032	-	-	-
	<u>\$ 65,742</u>	<u>\$ 6,258</u>	<u>\$ 72,000</u>

GASB Statement 87

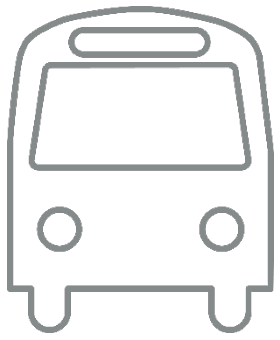
Lessee Example – Bus Lease



- Multiple components:
 - What if the lease agreement requires the government to pay an additional \$500 per quarter for maintenance, including oil change, tune ups, etc. for each bus?
 - Should that be included in the lease liability? [No]

GASB Statement 87

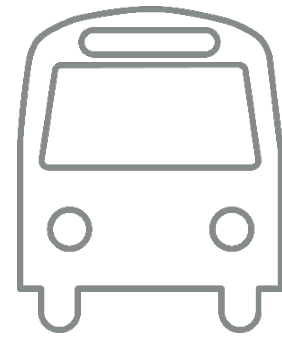
Lessee Example – Bus Lease



- Multiple components:
 - What if the lease agreement requires the government to pay \$50 per month per bus for mileage, plus \$1 dollar per mile for every mile over 500 miles each month.
 - What should be included in the lease liability?
 - Is a piece of the contract “fixed in substance”? [Yes]
 - Is a piece of the contract excluded from the lease liability? [Yes]

GASB Statement 87

Lessee Example – Bus Lease



- Multiple components:

Payments		Annualized Payment Schedule			
			<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
Monthly payment	2,000	2021	18,748	5,852	24,600
Fixed in substance	50	2022	19,904	4,696	24,600
Variable mileage*	<u>0</u>	2023	21,132	3,468	24,600
	2,050	2024	22,435	2,165	24,600
12 months	<u>12</u>	2025	<u>23,819</u>	<u>781</u>	<u>24,600</u>
Annual payment	24,600		106,038	16,962	123,000

* Expense monthly, as incurred

GASB Statement 87

Developing a Plan for Implementation

- Determine an implementation timeline
 - Effective date is FYE ~~12/15/2020~~ 06/15/2022
 - Earlier implementation is encouraged
 - Base calculations on:
 - Remaining payments (prospective application)
 - The government's plans today (no need to recreate initial intent)

GASB Statement 87

Developing a Plan for Implementation

- Potential for prior period restatements
 - Existing capital leases with automatic transfers of ownership:
 - No change
 - Existing capital leases without automatic transfers of ownership:
 - Lease liability may not change, but lease asset likely will
 - If the government expects to exercise a purchase option, that will increase the lease liability and change the amortization period

GASB Statement 87

Other Observations

- Never forget the 12 most important words of any GASB Statement:

The provisions of this Statement need not be applied to immaterial items.

- Capitalization thresholds could (should?) be set and applied to leases, as well

GASB Statement 87

Other Observations

- Negotiating lease terms
 - Consider making the terms more obvious/explicit in the lease contract
 - Length of agreement
 - Interest rate applied

GASB Statement 87

Other Observations

- Leases are multi-year contracts with implications on future budget periods
 - The information that will have to be gathered in order to implement this standard is probably worth knowing, even for managerial purposes

GASB Statement 87

Other Observations

- Consider impact on capitalization policy
- Consider effects of reporting lease liabilities on:
 - Debt limitations
 - Bond covenants
 - Grant agreements

CPE Prompt 5 of 6

GASB Statement 89

Interest Cost Incurred During Construction

- Summary
 - Eliminates interest capitalization for enterprise funds
 - Applied prospectively (no need to go back and remove already capitalized interest)
 - Effective 12/15/2021* (early implementation is encouraged)

GASB Statement 91

Conduit Debt Obligations

- Effective 12/15/2022*
- Clarifies the definition of a conduit debt obligation
 - States that CDOs are not a liability of the issuer
 - Revises disclosure requirements

GASB Statement 91

Conduit Debt Obligations

- Definition of a CDO:
 - At least 3 parties are involved (issuer, third-party obligor, and debt holder/trustee)
 - The issuer and third-party obligor are not within the same financial reporting entity
 - The debt is not a “parity bond” or “cross-collateralized” with other debt of the issuer (*these effectively make the issuer the obligor*)

GASB Statement 91

Conduit Debt Obligations

- Definition of a CDO (cont.):
 - Debt proceeds ultimately go to the third-party obligor (not the issuer)
 - The third-party obligor (not the issuer) is primarily obligated for the repayment of the debt

GASB Statement 91

Conduit Debt Obligations

- Issuer
 - Makes a *limited commitment* to maintain the issue's tax exempt status
 - Assumes no responsibility to make debt service payments beyond any resources provided by the third-party obligor
 - May include **additional commitments**, or **voluntary commitments** of its own resources

GASB Statement 91

Conduit Debt Obligations

- Issuer
 - Additional commitments
 - Moral obligation pledge
 - Appropriation pledge
 - Financial guarantee
 - Pledging assets or revenue as security
 - Voluntary commitments
 - Decide, on a voluntary basis, to make payments in the event the third-party obligor is unable to do so

GASB Statement 91

Conduit Debt Obligations

- Issuer
 - Liability recognition
 - No liability is required unless an additional or voluntary commitment is made
 - If an additional or voluntary commitment is made, annually evaluate the likelihood that a debt service payment will be made by the issuer
 - Book a liability (NPV) if such a payment is *more likely than not*

GASB Statement 91

Conduit Debt Obligations

- Arrangements associated with CDOs
 - Construction/acquisition of the capital asset financed by the CDO
 - Issuer retains title to the capital asset
 - Payments from the third-party obligor are to cover the debt service
 - The payment schedule coincides with the debt service repayment schedule

GASB Statement 91

Conduit Debt Obligations

- Arrangements associated with CDOs
 - Even those these may be styled as leases, they are not leases for GAAP
 - May be service concession arrangements (see GASB 60)

GASB Statement 91

Conduit Debt Obligations

- Arrangements associated with CDOs
 - Issuer releases title at end of arrangement
 - Record no capital asset, debt, or receivable
 - Issuer retains title at end of arrangement
 - Record no capital asset, debt, or receivable
 - Record capital asset at acquisition value (i.e., donation) at end of arrangement

GASB Statement 91

Conduit Debt Obligations

- Arrangements associated with CDOs
 - Issuer retains title at end of arrangement, and third-party obligor only has exclusive use of portions of the capital asset
 - Record entire capital asset, but no debt or receivable
 - Record capital asset at acquisition value (i.e., donation), and deferred inflow to be amortized over the agreement

GASB Statement 91

Conduit Debt Obligations

- Note disclosures
 - General description of the CDO, and the issuer's limited commitments
 - Balance of CDOs outstanding
 - If applicable:
 - Additional or voluntary commitments made
 - Description of liability recognized (beginning balance, increases, decreases, and ending balance)
 - Amounts paid and expected to be recovered

GASB Statement 92

Omnibus 2020

- Provided various small technical corrections to existing GASB Statements and Implementation Guides
- Effective 06/15/2022*

GASB Statement 93

Replacement of Interbank Offered Rates

- Allows derivative instruments that were considered *effective hedges* under GASB 53 to continue to be reported that way when contracts are updated for the elimination of LIBOR in 2021
- Effective 06/15/2022*

GASB Statement 94

Public-Private Partnership and APAs

- Builds on GASB 60, Service Concession Arrangements
- Defines Public-Private Partnerships, Public-Public Partnerships (**PPPs**), and Availability Payment Arrangements (**APAs**)
- Effective 06/15/2023

GASB Statement 94

Public-Private Partnership and APAs

- Public-private and public-public partnerships (PPPs)
 - Government (**transferor**) contracts with an **operator** to provide public services by conveying **control of the right to operate or use** a nonfinancial asset for a period of time in an exchange or exchange-like transaction
 - Includes service concession arrangements (large up-front payment, installment payments, or a new/improved facility)
 - May meet the definition of a lease (see GASB Statement 87)

Public-Private Partnership and APAs

- Availability payment arrangements (APAs)
 - Government compensates an **operator** for services that include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction
 - Designing, constructing, and financing costs should be treated as a financed purchase
 - Maintaining and operating should be expensed as incurred

CPE Prompt 6 of 6

GASB Statement 96

Subscription-Based IT Arrangements

- GASB Statement 87, *Leases*, initially excluded software
- Merges the guidance from
 - GASB 51, Accounting and Reporting for Intangible Assets
 - GASB Statement 87, Leases
- Record a **subscription asset** and **subscription liability**
- Effective 06/15/2023

GASB Statement 96

Subscription-Based IT Arrangements

- Stages of SBITA
 - Preliminary project stage
 - Evaluating alternatives, vendor selection
 - Initial implementation stage
 - Charges necessary to place the subscription asset into service
 - Operation and additional implementation stage
 - Subsequent activities, maintenance, ongoing operations

GASB Statement 96

Subscription-Based IT Arrangements

- Expense as incurred
 - Preliminary project stage
 - Evaluating alternatives, vendor selection
 - Initial implementation stage
 - Charges necessary to place the subscription asset into service
 - Operation and additional implementation stage
 - Subsequent activities, maintenance, ongoing operations
 - Training

GASB Statement 96

Subscription-Based IT Arrangements

- Capitalize as part of the subscription asset
 - Preliminary project stage
 - Evaluating alternatives, vendor selection
 - Initial implementation stage
 - Charges necessary to place the subscription asset into service
 - Operation and additional implementation stage
 - Subsequent activities, maintenance, ongoing operations
 - Training

GASB Statement 96

Subscription-Based IT Arrangements

- Notes to financial statements
 - General description of SBITAs
 - Total amount of subscription assets / amortization
 - Principal and interest requirements to maturity
 - Subscription liabilities are not considered “debt” under GASB 88

GASB Statement 97

Certain CU Criteria and IRC §457 DC Plans

- Technical amendment to GASBs 14/84
- Important for determining fiduciary component units
- Effective 06/15/2022

GASB Statement 97

Certain CU Criteria and IRC §457 DC Plans

- Not all legally separate organizations have a governing board
 - If the PG performs board duties, treat it as if the PG appoints a voting majority (except for defined contribution plans and noncontributory 457 plans)

GASB Statement 97

Certain CU Criteria and IRC §457 DC Plans

- GASB 84 financial burden criteria only applies to DB plans
- Section 457 plans may be pension plans or other employee benefit plans, depending on employer contributions
 - If a pension plan, follow GASB 67/68, as amended

GASB Statement 98

The Annual Comprehensive Financial Report

- Establishes a new name and acronym for a complete set of financial statements and supplementary information
 - ACFR (*AK-fer*)
- Effective 12/15/2021

GASB Implementation Guide 2021-1

Implementation Guidance Update—2021

- Annual update of questions and answers
- Now Level B GAAP
 - 23 new Q&A (derivative instruments, fiduciary activities, leases, nonexchange transactions)
 - 4 amended Q&A (technical clarifications)

Upcoming Standards

- GASB Pronouncements expected soon:
 - Compensated absences (ED 1Q21, Final 2Q22)
 - Conceptual Framework: Disclosures (ED 2Q21, CS 2Q22)
 - Omnibus (ED 2Q21, Final 2Q22)
 - Prior Period Adjustments (ED 2Q21, Final 2Q22)
 - Risks and Uncertainties Disclosures (ED 2Q22, Final 2Q23)

Looking Further Ahead

- Other GASB projects:
 - Financial Reporting Model (Final 2Q23)
 - Conceptual Framework: Recognition (ED 2Q23)
 - Going Concern (ITC 4Q23)
 - Classification of Nonfinancial Assets (ED 2Q23)
 - Revenue and Expense Recognition (ED 1Q25)

Questions?



For more information...



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