2019 SDASBO Fall Conference–GASB and DLA Updates

Rod Fortin—Director of Local Gov’t Assistance
Department of Legislative Audit
300 S. Sycamore Avenue, Suite 102
Sioux Falls, SD  57110-1323
ph. (605) 367-5810
rod.fortin@state.sd.us
http://legislativeaudit.sd.gov/home.htm
Agenda

• Thank you and welcome
• Please check your email for PowerPoint
• GASB Statement No. 88 Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (FY19)
• GASB Statement No. 84 Fiduciary Activities (FY20)
• GASB Statement No. 87 Leases (FY21)
GASB Statement No. 88
Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
Issued March 2018
Effective Date: Periods beginning after June 15, 2018 (FY19)
Debt Disclosures

• GASB 68 Disclosures:
  • This Statement is about disclosures, not accounting.
Debt Disclosures

• Definition of Debt for purposes of Disclosure
  • For purposes of disclosures in the notes to the financial statements, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

  • For disclosure purposes, debt does not include leases (GASB 87) except for contracts reported as a financed purchase of the underlying assets, or accounts payable.
Debt Disclosures

• Lease vs Financed Purchase
  • Leases defined and discussed in GASB 87
  • Financed Purchase Contracts included as debt defined in GASB 88

• What do you have?
Debt Disclosures

• GASB 88 Disclosures:
  • Additional Debt Disclosures under GASB 88
    • 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.
Debt Disclosures

• Additional Debt Disclosure under GASB 88
  • In notes to financial statements, a government should separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt.

• Direct borrowings (for example, a government entering into a loan agreement with a lender) and direct placements (for example, a government issuing a debt security directly to an investor) have terms negotiated directly with the investor or lender and are not offered for public sale.
Debt Disclosures

**Disclosure**

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

<table>
<thead>
<tr>
<th>Governmental activities:</th>
<th>Balance at July 1, 20X1</th>
<th>Increases</th>
<th>Decreases</th>
<th>Balance at June 30, 20X2</th>
<th>Due within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>General obligation bonds</td>
<td>$21,500,000</td>
<td>$</td>
<td>$8,970,000</td>
<td>$12,530,000</td>
<td>$7,050,000</td>
</tr>
<tr>
<td>Notes from direct borrowings and direct placements</td>
<td>1,412,877</td>
<td>-</td>
<td>470,959</td>
<td>941,918</td>
<td>470,959</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$22,912,877</strong></td>
<td><strong>$</strong></td>
<td><strong>$9,440,959</strong></td>
<td><strong>$13,471,918</strong></td>
<td><strong>$7,520,959</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business-type activities:</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes from direct borrowings</td>
<td>$76,800</td>
<td>$</td>
<td>$6,400</td>
<td>$70,400</td>
<td>$6,400</td>
</tr>
</tbody>
</table>
Debt Disclosures

The County’s outstanding notes from direct borrowings and direct placements related to governmental activities of $941,918 contain a provision that in an event of default, outstanding amounts become immediately due if the County is unable to make payment.

The County’s outstanding notes from direct borrowings related to business-type activities of $70,400 are secured with collateral of an undeveloped lot zoned for commercial use. The outstanding notes from direct borrowings related to business-type activities of $70,400 contain (1) a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if pledged revenues during the year are less than 120 percent of debt service coverage due in the following year and (2) a provision that if the County is unable to make payment, outstanding amounts are due immediately. The County’s outstanding notes from direct borrowings related to business-type activities of $70,400 contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principle amount to become immediately due if the lender determines that a material adverse change occurs.

The County also has an unused line of credit in the amount of $1,500,000.
The County’s outstanding notes from direct borrowings and direct placements related to governmental activities of $941,918 contain a provision that in an event of default, outstanding amounts become immediately due if the County is unable to make payment.

The County’s outstanding notes from direct borrowings related to business-type activities of $70,400 are secured with collateral of an undeveloped lot zoned for commercial use. The outstanding notes from direct borrowings related to business-type activities of $70,400 contain (1) a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if pledged revenues during the year are less than 120 percent of debt service coverage due in the following year and (2) a provision that if the County is unable to make payment, outstanding amounts are due immediately. The County’s outstanding notes from direct borrowings related to business-type activities of $70,400 contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principle amount to become immediately due if the lender determines that a material adverse change occurs.

The County also has an unused line of credit in the amount of $1,500,000.
Debt service requirements on long-term debt at June 30, 20X2, are as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th>Governmental Activities</th>
<th>Business-Type Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bonds</td>
<td>Notes from Direct Borrowings and Direct Placements</td>
</tr>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>20X3</td>
<td>$ 7,050,000</td>
<td>$ 497,700</td>
</tr>
<tr>
<td>20X4</td>
<td>4,880,000</td>
<td>215,950</td>
</tr>
<tr>
<td>20X5</td>
<td>50,000</td>
<td>21,000</td>
</tr>
<tr>
<td>20X6</td>
<td>50,000</td>
<td>19,250</td>
</tr>
<tr>
<td>20X7</td>
<td>50,000</td>
<td>17,500</td>
</tr>
<tr>
<td>20X8–20Y2</td>
<td>250,000</td>
<td>52,500</td>
</tr>
<tr>
<td>20Y3–20Y7</td>
<td>200,000</td>
<td>17,500</td>
</tr>
<tr>
<td></td>
<td>$ 12,530,000</td>
<td>$ 841,400</td>
</tr>
</tbody>
</table>
GASB Statement No. 84
Fiduciary Activities

Issued January 2017
Effective Date: Periods beginning after December 15, 2018 (FY20)
Fiduciary Activities

• **What:** The Board issued Statement 84 in January 2017 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements

• **Why:** Existing standards require reporting of fiduciary activities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; and business-type activities are uncertain about how to report fiduciary activities

• **When:** Effective for reporting periods beginning after December 15, 2018 (FY20).
# Fiduciary Activities

<table>
<thead>
<tr>
<th>GASB 84</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiduciary Component Units</td>
</tr>
<tr>
<td>Pension and OPEB Arrangements That Are Not Component Units</td>
</tr>
<tr>
<td>Other Fiduciary Activities</td>
</tr>
</tbody>
</table>
Other Fiduciary Fund Types

- Four types of fiduciary funds

<table>
<thead>
<tr>
<th>Current Fiduciary Funds</th>
<th>GASB 87 Fiduciary Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension (and other employee benefit) trust funds</td>
<td>Pension (and other employee benefit) trust funds</td>
</tr>
<tr>
<td>Investment trust funds</td>
<td>Investment trust funds</td>
</tr>
<tr>
<td>Private-purpose trust funds</td>
<td>Private-purpose trust funds</td>
</tr>
<tr>
<td>Agency funds</td>
<td>Custodial funds</td>
</tr>
</tbody>
</table>

- Agency funds replaced with custodial funds
Other Fiduciary Activities

Key Issues of Statement 84

• Applying the fiduciary activities criteria to activities that are not pension or OPEB arrangements.

• Determining which fiduciary fund type should be used to report a fiduciary activity.

• Reporting fiduciary activities in fiduciary fund financial statements
Other Fiduciary Activities

Fiduciary if all three criteria met

1. Assets *controlled* by the government

2. Assets not derived from either:
   - Own-source revenue
   - Government-mandated nonexchange or voluntary nonexchange transactions
   - Except pass-through grants where government has no administrative or direct financial involvement

3. Assets have one or more characteristics:
   - Administered through a trust, government not a beneficiary; dedicated to provide benefits to recipients per benefit terms; legally protected from creditors of government [paragraph 11c(1)]
   - Benefit of individuals and government does not have administrative or direct financial involvement with the assets. Not derived from the government providing goods or services to those individuals
   - Benefit of organizations or other governments not part of reporting entity. Not derived from the government providing goods or services to those organizations or other governments
Control of Assets

• Two possibilities
  • The primary government holds the assets, or
  • Has the ability to direct the use, exchange, or employment of the assets

• Clarifications
  • Use – expends or consumes an asset for benefit of individuals, organizations, or other governments
  • Direct – designate a third party to perform a government’s fiduciary duties without assuming them
    • Does not alter government's ability to direct the use, exchange, or employment of the assets
  • Unaffected by restrictions on use
Assets *Not* Derived from Certain Revenues

• Assets associated with activity *not* derived either:
  • Solely from gov’ts own-source revenues,
    a) Tuition, student activity fees, deposits, investment earnings, etc.
    b) The government cannot be a fiduciary of its own resources.
Assets *Not* Derived from Certain Revenues

- Government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the government does not have administrative involvement or direct financial involvement.
Student Activity Funds

- Are the resources for the benefit of the students or are part of the government’s provision for goods and services?

- Funds collected from parents for student field trip VS. resources used to buy uniforms or pay salaries??

- Student Activity Funds need to be evaluated individually.
Assets with Certain Characteristics

• Assets associated with activity have one or more of following circumstances:
  • Administered through a trust or equivalent arrangement
  • For the benefit of individuals
  • **Government does not have administrative or direct financial involvement**
  • Assets not derived from government’s provision of goods and services to those individuals
  • For the benefit of other entities
  • Not part of the financial reporting entity
  • Assets not derived from government’s provision of goods and services to other entity
Assets with Certain Characteristics

Government does not have administrative or direct financial involvement

- For the purpose of this provision, a government has administrative involvement with the asset if it
  - Monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive direct benefits of the activity,
Assets with Certain Characteristics

- Determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity, or
- Has the ability to exercise discretion over how assets are allocated.

- A government has direct financial involvement with the assets if, for example, it provides matching resources for the activities.
Student Activity Funds

- **Class of 2019 Fund**
  - Fundraising events
  - 4 Students determine how the funds are allocated and make the purchase
  - A teacher sponsor provides oversight and send to BM for payment
  - No policies or procedures regarding Board involvement or approval
  - District holds the money in an account on behalf of the club
Student Activity Funds

- **Football Team Fund**
  - Camp fees and Fundraising events
  - 4 Students determine how the funds are allocated and make the purchase
  - Athletic Director approval is required by governing board for all purchases from the football fund and sends to BM for payment
  - District holds the money in an account on behalf of the club
Student Activity Funds

- Student Activity Funds need to be evaluated individually.
Fiduciary Activities Flowchart

- Is entity a component unit?
  - No → Does the govt control the assets?
    - No → Assets held for pension or OPEB?
      - No → Activity not a fiduciary fund
      - Yes → Activity’s assets not derived from certain revenues?
        - No → Activity reported in a fiduciary fund
        - Yes → Do assets have certain characteristics?
          - Yes → Activity reported in a fiduciary fund
          - No → Assets held for pension or OPEB?
            - Yes → Activity reported in a fiduciary fund
            - No → Activity not a fiduciary fund
Other Fiduciary Fund Types

- Four types of fiduciary funds

<table>
<thead>
<tr>
<th>Current Fiduciary Funds</th>
<th>GASB 87 Fiduciary Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension (and other employee benefit) trust funds</td>
<td>Pension (and other employee benefit) trust funds</td>
</tr>
<tr>
<td>Investment trust funds</td>
<td>Investment trust funds</td>
</tr>
<tr>
<td>Private-purpose trust funds</td>
<td>Private-purpose trust funds</td>
</tr>
<tr>
<td>Agency funds</td>
<td>Custodial funds</td>
</tr>
</tbody>
</table>

- Agency funds replaced with custodial funds
Fiduciary Fund Types - Custodial

• Custodial Funds
  • All Other fiduciary activities not in a trust fund.
  • Have a measurement focus
    • Report all applicable financial statement elements
      • Assets, deferred outflows, liabilities, deferred inflows, net position, additions, and deductions
Statement of Fiduciary Net Position

• Used to report the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds.
Liability Recognition

• *Compelled* to disburse resources
  • Demand for the resources has been made, or
  • No further action or condition is required to be met to be entitled to receive the resources
    • Example, tax collections on behalf of other governments.
  • Applicable to investment trust funds, private-purpose trust funds and custodial funds.
Statement of Changes in Fiduciary Net Position

- Used to report additions to and deductions from pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds.
Statement of Changes in Fiduciary Net Position

• Except as noted on next slide, statement should disaggregate additions by source including, if applicable, separate display of:
  
  a) Investment earnings
  
  b) Investment costs (if separable from investment earnings and administrative costs)
  
  c) Net investment earnings

• Except as noted on next slide, statement should disaggregate deductions by type and, if applicable, should display administrative costs.
Statement of Change in Net Position—Additions and Deductions—Custodial Funds

If resources held for 3 months or less

• Option to report single aggregate totals for
  • Additions
  • Deductions
• Example—County collects and remits property taxes to other taxing bodies
  • Additions—Property taxes collected for other governments
  • Deductions—Property taxes remitted to other governments
GASB Implementation Guide No. 2019-2, *Fiduciary Activities*

- Issued June 2019

- The following slides include Q & A’s included in the Implementation Guide.
4.15. Q—A government uses a clearing account to accumulate resources from withholding of employee payroll deductions and accrued employer payroll taxes that will be submitted to the appropriate taxing bodies when due. Should the government report the clearing account in its fiduciary fund financial statements?

A—No. Although the government has control of the assets because it has custody of the cash withheld, the unremitted amounts in the clearing account are a liability of the government. When the deductions are withheld from an employee’s pay, the amounts withheld and accrued by the employer become a present obligation to sacrifice resources that the government has no discretion to avoid and, therefore, are liabilities of the government. As a result, the government is holding the amounts for its own benefit and the criteria in paragraph 11c of Statement 84 are not met.
4.16. Q—A chess club of a public high school is established in accordance with the school’s operating policies and is not legally separate from the high school. The club members organize and conduct fundraising activities to pay for the club’s annual tournament and other club activities during the school year. The proceeds from the fundraising activities are held in a separate bank account in the school’s name. In determining whether those resources controlled by the school are fiduciary, are the assets held for the benefit of individuals as addressed in paragraph 11c(2) of Statement 84 (and thus require evaluation of whether the school has administrative involvement or direct financial involvement), or do they benefit an organization as addressed in paragraph 11c(3) of Statement 84 (and thus require evaluation of whether the club is part of the primary government)?

A—Assets are for the benefit of an organization if the benefits accrue to the organization as an institution, rather than to the individuals that constitute the organization. However, in that scenario, because the club is not legally separate from the primary government, it is not itself an institution. As a result, the provisions in paragraph 11c(2) of Statement 84 should be applied and thus require evaluation of whether the school has administrative involvement or direct financial involvement. (See also Question 4.28.)
4.17. Q—A school board is responsible for establishing the fees charged by student clubs to their members. The clubs are not legally separate from the school district. Assuming that the school board has no other policies in place related to the disbursement of funds for various student clubs, does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. Footnote 1 of Statement 84 provides examples to consider in determining whether a government has administrative involvement. The establishment of fees related to the generation of funds is analogous from a revenue standpoint to the example provided regarding determining eligible expenditures. In other words, establishing specific guidelines on how the resources can be spent is analogous to establishing guidelines on the amount at which fees are set. In that scenario, the school board is establishing the amount at which fees are set, and, therefore, the school district does have administrative involvement and the criterion in paragraph 11c(2) of Statement 84 is not met.
4.18. Q—A student club is established in accordance with the school district’s operating policies. The club is not legally separate from the school district. The students of the club conduct fundraising events, the proceeds of which are deposited into a savings account held by the school district. The student club president, with the members of the club, establishes how the resources can be spent and approves disbursements from the account. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. Footnote 1 of Statement 84 provides examples to consider when determining whether a government has administrative involvement. In assessing whether a government has administrative involvement, a “substance versus form” consideration is appropriate. For example, the government’s role would have substance if the school board, school administrator, or faculty advisor (who is representing the school district) establishes how the resources can be spent through approved policies. In that scenario, the students (the beneficiaries) are establishing how the resources can be spent, and, therefore, the school district does not have administrative involvement and the criterion in paragraph 11c(2) of Statement 84 is met.
4.19. Q—Assume the same facts as in Question 4.18, except that the parents of the club members establish how the resources can be spent. In that scenario, does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. The school district does not have administrative involvement. The parents of the students (representatives of the beneficiaries) and not the school board, school administrator, or faculty advisor are establishing how the resources can be spent.
4.20. Q—A school district holds the funds raised by various student clubs, which are not legally separate from the school district. The funds are used to pay for various club activities during the year. There is no school board or school administration policy related to how the resources of the club can be spent. The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club. Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school district representative) has the ability to reject, modify, or approve how the resources are spent. The faculty advisor’s approval is more than just a formality and is analogous to the example provided in footnote 1 of Statement 84 regarding the determination of eligible expenditures that are established by the government.
4.21. Q—A school board establishes and approves a policy related to the disbursement of funds for various student clubs that are not legally separate from the school district. The policy includes specific guidelines related to how the funds raised by the clubs can be spent. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because the school has established specific guidelines on how the resources can be spent in an approved policy.
4.22. Q—Assume the same facts as in Question 4.21, except that the policy that applies to all clubs only addresses issues such as the authorized account signers and the prohibition of spending for illegal activities. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. The school district does not have administrative involvement. The school district’s role is not considered to be substantive because the school has not established specific guidelines regarding how the resources of the clubs can be spent.
4.23. Q—Assume the same facts as in Question 4.21, except that the state establishes specific guidelines on how the resources can be spent through administrative policy. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because the school district is required to follow the specific guidelines established by the state, through legislation or policy, regarding how the resources can be spent.
4.26. Q—A school district traditionally matches all student clubs’ funds when a disbursement is approved. In that scenario, does the school district have direct financial involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The matching of funds provided by the school is a manifestation of direct financial involvement.
GASB Statement No. 87 *Leases*

Issued June 2017
Effective Date: Periods beginning after December 15, 2019 *(FY21)*
Leases

• **What**: In June 2017, the GASB issued Statement 87, which establishes revised standards on lease accounting and financial reporting.

• **Why**: The previous standards had been in effect for decades without review; FASB/IASB joint project updated their lease standards; opportunity to increase comparability, usefulness of information, and reduce complexity

• **When**: New standards are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
Current Lease Accounting

- Lessee - determines type of lease – Capital or Operating

<table>
<thead>
<tr>
<th>Lease Type</th>
<th>Accounting – accrual basis</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>Debit: capital assets</td>
<td>Disclose future minimum payments</td>
</tr>
<tr>
<td></td>
<td>Credit: long-term debt for PV of future minimum payments</td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>Expense payments as made</td>
<td>Disclose future minimum payments (if noncancelable)</td>
</tr>
</tbody>
</table>
Scope

• Definition of a “lease”
  • A contract that conveys 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
• Contract – legally enforceable (written or verbal)
• Right to use underlying asset
  • Obtain present service capacity
  • Determine nature and manner of use
• Nonfinancial asset – (i.e. Land, buildings, vehicles)
  • Not securities lending (financial asset)
Scope

• No more capital or operating leases
• Excluded from scope of GASB 87
  • Leases for intangibles (including computer software)
    • Exception - Sublease of intangible right-to-use leased tangible asset
  • Leases for biological assets
  • Leases for inventory
Scope

• Leases where underlying asset financed with conduit debt
  • Exception - underlying asset and conduit debt reported by lessor

• Service concession agreements

• Supply contracts – power purchase agreements

• Other exclusions
  • Short-term leases *(slides 54-55)*
  • Contracts that ultimately transfer ownership of the underlying asset to the lessee *(slide 56)*
Short-Term Leases

• At beginning of lease, maximum possible term under the contract is 12 months or less, including any options to extend, regardless of their probability of being exercised.

• Lease that is cancelable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods.
Short-Term Leases

• Lessees recognize expense/expenditures based on the terms of the contract
  • Do not recognize assets or liabilities associated with the right to use the underlying asset for short term leases.

• Lessors recognize lease payments as revenue based on the payment provisions of the contact
  • Do not recognize receivables or deferred inflows associated with lease.
Contracts that Transfer Ownership

- A contract with the following characteristics should be reported as a *financed purchase* of the underlying asset by the lessee or *sale* of the asset by the lessor
  
  a) Transfers ownership of the underlying asset to the lessee by the end of the contract, and
  
  b) No termination options.

  • May contain fiscal funding or cancellation clause not reasonably certain of being exercised.
Lease Term

• Period during which lessee has
  • Noncancelable right to use underlying asset
  • Plus periods where
    • Lessee or Lessor option to extend (if exercise is reasonably certain)
    • Lessee or Lessor option to terminate (if not exercising is reasonably certain)
    • Fiscal funding or cancellation clause should affect the lease term only if is reasonably certain that the clause will be exercised.
Lease Term

• Periods for which the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term.
Lease Accounting

• Lessee Accounting vs. Lessor Accounting

• Economic Resource Measurement (Government-Wide Statements and Proprietary Fund Types) vs. Current Financial Resources Measurement (Governmental Funds)
Lessee Accounting—economic resource measurement

• Initial recognition
  • **Lease Asset**—Intangible right-to-use capital asset
  • **Lease Liability**

• Subsequent accounting
  • Amortization of lease asset
    • Shorter of lease term or useful life of underlying asset.
    • **Amortization Expense**—may be combined with depreciation expense related to other capital assets for financial reporting purpose.
Measurement—Lessee

- Lease liability:
  - Present value (PV) of payments over lease term
    - Interest rate charged by lessor, or
    - Lessee’s borrowing rate
Measurement—Lessee

• Lease Asset:
  • PV of payments over lease term (lease liability)
  • Add: Payments made at or before the beginning of the term to lessor
  • Less: Lease incentives received from lessor beginning of the term
  • Add: Certain direct costs to put asset into service.
Lessee Accounting—current financial resources measurement

• Initial recognition (same as current guidance)
  • Expenditure – capital outlay
  • Other financing source

• Subsequent accounting (same as current guidance)
  • Lease payments – debt service expenditures
Note Disclosure—Lessee

- Description of leasing arrangements
- Amount of lease assets
- Schedule of future lease payments
  - Principal and interest listed separately
Lessor Accounting—economic resources measurement

- Initial recognition
  - Lease receivable
    - Continue to report underlying asset
  - Deferred inflow of resources
Lessor Accounting—economic resources measurement

• Subsequent reporting
  • Lease payments
    • Reduction of receivable
    • Interest Revenue
  • Reduction of deferred inflow of resources—revenue
    • Over term of the lease
    • Systematic and rational manner
Measurement—Lessor

• Lease receivable:
  • PV of lease payments over lease term
• Deferred inflow of resources
  • PV of lease payments over lease term
  • Add: Payments received at or prior to the beginning of the lease that relate to future periods.
Lessor Accounting—current financial resources measurement

• Initial recognition
  • Lease receivable at PV of payments
  • Deferred inflow of resources

• Subsequent reporting
  • Lease payments
    • Reduction of receivable
    • Interest revenue
  • Reduction of deferred inflow of resources—revenue
    • Over term of the lease
    • Systematic and rational manner, if available
Note Disclosure—Lessor

- Description of leasing arrangements
- Total amount of lease revenue for current year.
Other Topics Covered by Statement 87

- Contracts with multiple components
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks
Effective Date

• Periods beginning after December 15, 2019 (FY21)
• Apply retroactively
  • Facts and circumstances of the lease in period of implementation GASB 87 (not inception of lease)
    • Use remaining lease payments at beginning of period
  • Restate beginning net position in period of implementation
• Begin analysis now