



**GASB updates:
OPEB and leases**

June 6, 2019



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Agenda

- 01 Overview**

- 02 GASB 75 – OPEB**

- 03 GASB 87 – Leases**

- 04 Other GASB standards**

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OVERVIEW

GASB statements

Effective calendar year 2018

- GASB 75 – Other Postemployment Benefits


Effective calendar year 2019

- GASB 83 – Certain Asset Retirement Obligations
- GASB 84 – Fiduciary Activities
- GASB 88 – Certain Disclosures Related to Debt
- GASB 90 – Majority Equity Interests

Effective calendar year 2020

- GASB 87 – Leases
- GASB 89 – Capitalized Interest


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GASB Statement No. 75

Accounting and Financial Reporting for
Postemployment Benefits Other Than Pensions



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GASB 75 – OPEB

GASB 75 overview

When

- Effective for 2018 calendar year end

Applicability – All types of OPEB

- Healthcare benefits – Medical, dental, vision, hearing and other health-related benefits even when provided through a pension plan
- Other forms of benefits – Death benefits, life insurance, disability and long-term care when provided separately from a pension

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GASB 75 – OPEB

GASB 75 overview (cont.)

Explicit Benefits

- Employer finances all or portion of retiree benefit

Implicit Benefits

- Retirees are allowed to continue to participate in employers plan at their own cost; however cost is the same as for active employees
- Since retirees are in the same risk pool as healthier, younger employees, they pay a lower premium than they would if experience rated as a separate pool.

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GASB 75 - OPEB

GASB 75 overview (cont.)

Replaces

- GASB Statement No. 45

If your community had an OPEB asset/liability under GASB 45

- Measurement of OPEB liability and related transactions has changed

If your community did not have an OPEB asset/liability under GASB 45

- Re-evaluate any OPEBs determined to be immaterial under GASB 45
- Does your community participate in ETF Life Insurance Plan?
- Does your community participate in ETF Local Government Health Insurance Program?

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GASB 75 - OPEB

GASB 75 definitions

- **Defined benefit:** OPEB that specifies benefits to be received
- **Defined contribution:** OPEB that specifies contribution requirements, provides individual accounts and participant benefits are dependent upon the contributions plus investment income
- **Single employer:** OPEB established for employees of one government (primary government and its component units are considered one employer)
- **Agent multi-employer:** Resources accumulated for employees of more than one employer, pooled for investment purposes only and tracked by employer
- **Cost sharing multi-employer:** Resources accumulated and available to pay benefits to employees of more than one employer

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GASB 75 - OPEB

GASB 75 definitions (cont.)

- **Trusted plan:** Plan administered through a trust that meets these three criteria:
 - Contributions from employer government and earnings on those contributions are irrevocable
 - Assets in the trust are dedicated to providing benefits to members
 - Assets are legally protected from creditors of employer, any other contributing entities, administrator and members
- **Untrusted plan:** Plan that does not have resources accumulated in a trust meeting the above criteria

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GASB 75 - OPEB

Terminology changes

Old OPEB standard (GASB 45)	New OPEB standard (GASB 75)	Pension standard for comparison (GASB 68)
Normal cost	Service cost	Service cost
Annual required contribution (ARC)	Actuarially determined contribution (ADC)	Actuarially determined contribution (ADC)
Annual OPEB cost	OPEB expense	Pension expense
Actuarially accrued liability	Total OPEB liability (TOL)	Total pension liability (NPL)
Actuarial value or market value of assets	Plan fiduciary net position	Plan fiduciary net position
Unfunded accrued liability	Net OPEB liability (NOL)	Net pension liability (NPL)



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GASB 75 - OPEB

GASB 75 overview (cont.)

Net OPEB liability

- Equal to actuarially determined total OPEB liability (TOL) less net position of OPEB trust fund
 - Non-trusted plans only report TOL
- TOL is calculated by actuary
- Recorded by employer (not plan)
- Recorded on statement of net position (full accrual statements)



GASB 75 - OPEB

GASB 75 overview (cont.)

Actuarial valuation date

- No more than 30 months and one day earlier than employer's year end
- Proper roll forward to measurement date
- Required every two years

Measurement date

- No earlier than prior year end

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GASB 75 – OPEB

GASB 75 vs. GASB 45 – Disclosures

OPEB plan description	GASB 45	GASB 75
Name, administrator and type of plan	Yes	Yes
Brief description of benefits	Yes	Yes
Number of employees covered by benefit terms	No	Yes
Issues a stand alone report	Yes	Yes
Authority contributions are established	Yes	Yes
Required contribution rates of plan members	Yes	Yes
Contribution rates (\$ or %)	Yes	Yes
Employer contributions	No	Yes

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GASB 75 – OPEB

GASB 75 vs. GASB 45 – Disclosures (cont.)

Actuarial information	GASB 45	GASB 75
Funded status of the plan (AAL, UAAL, ARC, etc.)	Yes	n/a
Discount rate	One rate	Based on plan investments or index if no investments or blended
Actuarial cost method	Had options	Entry age
Sensitivity measurement	None	Discount rate and healthcare trend rate
Amortization periods		
Investment gain/loss	Up to 30 years	5 years
Liability gain/loss	Up to 30 years	Average working lifetime
Assumption changes	Up to 30 years	Average working lifetime
Plan changes	Up to 30 years	Immediate

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GASB 75 - OPEB

GASB 75 vs. GASB 45 – Disclosures (cont.)

Assumptions	GASB 45	GASB 75
Inflation rate	Yes	Yes
Healthcare cost trend rates	Yes	Yes
Salary changes	Yes, if applicable	Yes
Postemployment benefit changes	Yes, if applicable	Yes
Mortality assumption and source	No	Yes
Dates of experience studies on which significant assumptions are based	No	Yes

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GASB 75 - OPEB

GASB 75 note disclosures

Additional footnote disclosure – single employer and agent

- Detail of liability change
 - Schedule of changes in NOL/TOL
- Deferred outflows/inflows (O/I)
 - Summary by type and amortization table



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GASB 75 - OPEB

Sample detail of liability change

<i>(in thousands)</i>	Total OPEB liability	Trust net position	Net OPEB liability
Beginning of year	\$ 194,588	\$ 166,300	\$ 28,288
Service cost	3,130	-	3,130
Interest	14,226	-	14,226
Changes in benefit terms	-	-	-
Differences between expected & actual experience	5,281	-	5,281
Changes in assumptions	(2,027)	-	(2,027)
Benefit payments, including refunds	(9,574)	(9,574)	-
Contributions – employer	-	9,574	(9,574)
Contributions – member	-	-	-
Net investment income	-	18,040	(18,040)
Administrative expenses	-	(705)	705
Net change	11,036	17,335	(6,299)
End of year	\$ 205,624	\$ 183,635	\$ 21,989

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GASB 75 - OPEB

Sample sensitivity analysis

Sensitivity of net OPEB liability to changes in discount rate

Depicts net OPEB liability of employer *and* employer’s net OPEB liability if calculated using discount rate 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than current discount rate (7.5%):

	1% decrease	Current discount rate	1% increase
Net OPEB liability	\$37,428,880	\$21,989,336	\$7,788,919

Sensitivity of net OPEB liability to changes in healthcare cost trend rates

Depicts net OPEB liability of employer *and* employer’s net OPEB liability if calculated using healthcare cost trend rates 1-percentage-point lower (8.0% decreasing to 4.0%) or 1-percentage-point higher (10.0% decreasing to 6.0%) than current healthcare cost trend rates (9.0% decreasing to 5.0%):

	1% decrease	Healthcare cost trend rates	1% increase
Net OPEB liability	\$6,860,495	\$21,989,336	\$38,978,628

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GASB 75 - OPEB

GASB 75 differences from GASB 45

Required supplementary information (RSI)	GASB 45	GASB 75
Schedule of funding progress	Yes	n/a
Schedule of changes in net OPEB or total liability	No	Yes
Schedule of contributions	No	Yes
Timeframe	3 year	10 years
RSI notes	n/a	Yes

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GASB 75 - OPEB

GASB 75 cost sharing plans

Footnote disclosures and RSI – Cost sharing differences

- Do not disclose number covered employees
- Employers proportionate share of NOL
- RSI – Proportionate share of NOL

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GASB 75 - OPEB

Implementation

Accounting considerations

- Similar to pensions, initial journal entries will require:
 - A prior period adjustment to reverse previously recorded OPEB obligation and record beginning measurement date total OPEB liability with resulting restatement of beginning Net Position

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GASB 75 - OPEB

Example

Sample information

	January 1, 2018	December 31, 2018
Existing GASB 45 OPEB liability	\$50,000	n/a
GASB 75 total OPEB liability	\$250,000	\$265,000
GASB 75 deferred outflows	\$10,000	\$12,000
GASB 75 deferred inflows	\$2,000	\$3,000

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GASB 75 – OPEB

Example (cont.)

Sample entries – full accrual statements

	Debit	Credit
January 1, 2018	\$ 50,000	
Existing GASB 45 OPEB liability	10,000	
Deferred outflows – OPEB		
GASB 75 OPEB liability		\$ 250,000
Deferred inflows – OPEB		2,000
Equity	192,000	
December 31, 2018	\$ 2,000	
Deferred outflows – OPEB		\$ 15,000
GASB 75 OPEB liability		1,000
Deferred inflows – OPEB		
Pension and benefit expense	14,000	

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GASB 75 – OPEB

Implementation (cont.)

Allocations

- Required allocations of OPEB amounts between funds and activities should be similar to that of pensions
 - Allocate if material and if liability is expected to be liquidated through resources of fund or activity
 - Utilize cost-sharing methodology
- However actuarially determined contributions may not be calculated by fund or department:
 - Consider basis for allocation and potentially consult actuary

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GASB 75 - OPEB

Audit implications

Provide auditor with understanding of plan(s)

- Type of plan and benefits provided
- Funds set aside – trusted or not?
- How benefits are paid; how activity is tracked or recorded

Management's responsibility

- Selecting actuary
- Review of actuary's report
- Key assumptions
 - Discount rate
 - Healthcare cost rate
 - Participation rate

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GASB 75 - OPEB

Audit implications (cont.)

Potential questions/testing

- Actuary qualifications and firm experience with healthcare-specific assumptions and GASB 75
- Condition/robustness of population data
- Testing of a sample of census data
- Are there any new plan changes that require specific assumptions? (i.e., you had to develop an assumption without benefit of plan-specific historic experience)

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GASB 75 - OPEB

Audit implications (cont.)

Potential questions/testing (cont.)

- Are any particularly complex plan provisions difficult to develop assumptions? If yes, what was your approach?
- Is there consistency in approach used to develop various assumptions?
- How do these assumptions compare to similar (benchmark) plans?
- Did actuary comply with Actuarial Standards of Practice (ASOP) No. 35 regarding disclosure of significant assumptions and underlying rationale?
- Does frequency of cost of living adjustments (COLAs) result in being considered substantively automatic?

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GASB 75 - OPEB

Audit implications (cont.)

Roll forward

- Restate asset values to measurement date (not applicable for non-trusted plans)
- Record investment return for the year (not applicable for non-trusted plans)
- Roll forward liability for current year service cost
- Roll forward liability for current year interest
- Roll forward liability for payments and refunds

Census data and controls

- Test active, inactive and new employees
- Reconcile to actuary report


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GASB 75 resources


Statement No. 75 *(complete standard, background and illustrative sample disclosures and RSI)*
gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176166144750

Implementation Guide No. 2017-3, Accounting and Financial Reporting for OPEB *(addresses certain implementation questions)*
gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176169688973

Baker Tilly on-demand webinar and Q&A
bakertilly.com/insights/what-you-should-know-about-the-new-other-postemployment-benefits-standard-g




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GASB Statement No. 87

Leases



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GASB 87 - LEASES

GASB 87 overview

What

Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset

When

Effective for fiscal years ending Dec. 31, 2020

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GASB 87 - LEASES

GASB 87 guidance


Existing guidance

- Capital leases
 - Capital asset and long-term liability reported
- Operating leases
 - Expense/expenditure recognized as payments made

New guidance

- Single model
 - **No split between capital and operating**
- Leases are financings
- Lessees: treat leases similar to existing capital lease guidance
 - Intangible asset (right to use) and lease liability reported
- Lessor: Lease receivable and deferred inflow of resources reported

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GASB 87 – LEASES

"Lease" defined

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

- **Contract:** In writing or verbal, if legally binding
- **Control:** Specific two-part definition (see next slide)
- **Non-financial asset:** Anything but a financial asset as defined in GASB 72 (cash, financial instruments, etc.)
- Non-exchange transactions are automatically excluded. Without the exchange, there is nothing to value the lease components

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GASB 87 – LEASES

Control

Control requires both the right to:

- Obtain the present service capacity from use of the underlying asset, *AND*
- Determine the nature and manner of use of the underlying asset

Control applied to the right-to-use lease asset (capital asset) "specified in the contract"

- Control criteria NOT limited to contracts that convey substantially all of the present service capacity from use of the underlying asset
- Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day

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GASB 87 – LEASES

Scope exclusions

- **Intangible assets** (mineral rights, patents, software, copyrights)
- Biological assets (timber, living plants, living animals)
- Service concession arrangements (see Statement No. 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- **Supply contracts** (i.e. power purchase agreements that do not convey control of the right to use underlying power generating facility)
- **Inventory**

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GASB 87 – LEASES

Special provisions under leases

- Exceptions for both lessors and lessees
 - Leases that **transfer ownership** and do not contain termination options
(additional slide on this)
 - **Short-term leases** *(additional slides on this)*
- Exceptions for lessors only
 - Leases of **assets that are investments**
 - **Certain regulated leases** (e.g., airport-airline agreements)

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GASB 87 - LEASES

Contracts that transfer ownership exception

- If a contract:
 - Transfers ownership of the underlying asset to the lessee by the end of the contract *AND*
 - Does not contain termination options (other than fiscal funding or cancellation clauses)
- Accounting treatment:
 - **GASB 87 requires this type of contract to be reported as a financed purchase (lessee) or financed sale (lessor)**
 - These contracts are not subject to the core recognition, measurement and financial reporting requirements of the Leases statement

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GASB 87 - LEASES

Lease term: Overview

Start	<ul style="list-style-type: none"> - Lease term Start with the noncancelable period identified in the lease (base lease term)
Inclusions and exclusions	<p>Account for periods covered by lessees' and lessors' options to:</p> <ul style="list-style-type: none"> - Extend lease, if option is reasonably certain of being exercised - Terminate lease, if option is reasonably certain of NOT being exercised
Clauses	<ul style="list-style-type: none"> - Excludes "cancelable" periods - Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend - Fiscal funding/cancellation clauses ignored unless reasonably certain of being exercised


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GASB 87: LEASES
Lease Term Example

Step 1 **Determine the noncancelable period**

Contract provides the government control of the right-to-use a bus for 3 years. Contract further provides:

- **After Year 2:** The government can terminate lease
- **After Year 3:** 2-year extension option



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GASB 87: LEASES
Lease Term Example (cont.)

Step 1 **Determine the noncancelable period**
2 years

Step 2 **Assess the options**
Is it reasonably certain the termination option will be exercised by the government?

Contract provides the government control of the right-to-use a bus for 3 years. Contract further provides:

- **After Year 2:** The government can terminate lease
- **After Year 3:** 2-year extension option



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GASB 87: LEASES
Lease Term Example (cont.)

Step 1 **Determine the noncancelable period**
2 years

Step 2 **Assess the options**
Is it reasonably certain the termination option will be exercised by the government?
NO
Is it reasonably certain the option to extend will be exercised by the government?

Contract provides the government control of the right-to-use a bus for 3 years. Contract further provides:

- **After Year 2:** The government can terminate lease
- **After Year 3:** 2-year extension option



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GASB 87: LEASES
Lease Term Example (cont.)

Step 1 **Determine the noncancelable period**
2 years

Step 2 **Assess the options**
Is it reasonably certain the termination option will be exercised by the government?
NO
Is it reasonably certain the option to extend will be exercised by the government?
YES

Contract provides the government control of the right-to-use a bus for 3 years. Contract further provides:

- **After Year 2:** The government can terminate lease
- **After Year 3:** 2-year extension option



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GASB 87: LEASES


Lease Term Example (cont.)

Factors	Years
Noncancelable period	Years 1-2
+ Period covered by options to terminate when it's NOT certain to be exercised	Years 3
+ Period covered by <i>Option to Extend</i> when it's reasonably certain to be exercised	Years 4-5
Total lease term	5 Years

Contract provides the government control of the right-to-use a bus for 3 years. Contract further provides:

- **After Year 2:**
The government can terminate lease
- **After Year 3:**
2-year extension option

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Lease term: Reassessment

Lease term should be reassessed only if ONE of the following occurs:

- Lessee or lessor elects to exercise an option even though originally determined that option would not be exercised
- Lessee or lessor elects to not exercise an option even though originally determined that option would be exercised
- An event specified in the contract that obligates lessee to extend or terminate lease occurs, resulting in change in lease term

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Short-term lease exception

- A short-term lease is one that, at the beginning of the lease, has “maximum possible term” under the contract, including any options to extend, of 12 months or less
- For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the non-cancelable period including any notice period
- Separate guidance is explicitly provided for how to account for these types of leases

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GASB 87 - LEASES

Short-term lease exception (cont.)

Accounting for short-term leases

- **Lessee:** Lease payments recognized as expenses/expenditures based on the payment provisions of the contract
 - No recognition of assets or liabilities associated with the right to use the underlying asset for short-term leases
 - No required disclosures
- **Lessor:** Lease payments recognized as revenue based on the payment provisions of the contract
 - No recognition of receivables or deferred inflows associated with the lease
 - No resource flows recognized during rent holiday periods
 - No required disclosures


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GASB 87 – LEASES

Lessee accounting


Lessee components

- Lease liability
- Lease asset
- Initial periods
- Subsequent periods
- Re-measurement
- Disclosures



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GASB 87 – LEASES



Lessee measurement

Lessee measurement at initiation – lease liability

- Lease liability
 - Measured as the present value of future lease payments (fixed payments, some variable payments, other known amounts)
 - Discount using rate lessor charges the lessee or incremental lessee borrowing rate (if lessor rate cannot be determined)
- Full Accrual accounting impact
- Modified accrual accounting impact
 - Liability is only reported in governmental fund when "past due"

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Lessee measurement (cont.)

Initial measurement of the lease liability includes:

- Fixed payments
- Variable payments that depend on an index or rate, initially measured using the index or rate as of the commencement of the lease term
- Variable payments that are fixed in substance
- Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees
- The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option
- Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) a fiscal funding or cancellation clause
- Any lease incentive receivable from the lessor
- Any other payments that are reasonably certain of being required based on an assessment of all relevant factors

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Lessee measurement (cont.)

Lessee measurement at initiation – lease asset

- Intangible right-to-use lease asset (included in capital assets)
 - **Start** with value of initial lease liability
 - **Plus** prepayments at or before beginning of lease
 - **Less** any incentives received from lessor at or before beginning of lease
 - **Plus** initial direct costs if ancillary charges to place leased asset in use
 - **Equals** initial measurement of the lease asset

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Lessee accounting overview

Lessee	Assets	Liability
Initiation of lease	Intangible asset (right to use underlying asset) equals value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (include fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.) Offset with any lease incentives
Subsequent recognition and measurement	Amortize over shorter of useful life or lease term	Reduce by lease payments (less amount of interest expense)

- Lease liability does not include lease payments that are dependent on lessee's performance or usage of underlying asset
- Lease liability payments discounted using the rate the lessor charges the lessee (may be implicit) or, if that rate cannot be readily determined, the lessee's incremental borrowing rate

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Lessee measurement (cont.)

Lessee re-measurement at subsequent financial reporting dates

- Only when certain judgments change AND are expected to significantly affect the amount of the lease liability
 - Change in lease term (we saw the requirements for this earlier)
 - Likelihood of a residual value guarantee being paid has changed from reasonably certain to not reasonably certain, or vice versa
 - Likelihood of a purchase option being exercised has changed from reasonably certain to not reasonably certain, or vice versa
 - Change in estimated amounts for payments already included in the liability
 - Change in the rate the lessor charges the lessee, if used as the initial discount rate

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Lessee measurement (cont.)

What's the accounting when a lessee's lease is re-measured?

- Adjustment to the lease liability generally should adjust the lease asset by same amount
- Exception: If impairment occurs or adjustment is greater than carrying value of asset, difference is recognized as a flows item

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GASB 87 - LEASES

Lessee disclosures

- General description, including basis, terms, and conditions on which lease payments are determined and of residual value guarantees provided by lessee (if any)
- Total amount of assets recorded and related accumulated amortization, separate from other capital assets
- Lease assets disaggregated by major classes of underlying assets, separate from other capital assets (*see example*)
- Variable lease payments and other payments (such as residual value guarantees or penalties) recognized during the period but not previously included in lease liability


To be continued....

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Lessee disclosures (cont.): Example of capital asset note

Capital Assets – Year 2	Beginning Balance	Additions	Deletions	Ending Balance
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)	97,678	-	-	97,678
Total capital assets being depreciated / amortized	5,997,678	636,000	10,000	6,623,678
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	19,536	19,536	-	39,072
Total depreciation and amortization	3,680,336	177,936	10,000	3,848,272
Net capital assets being depreciated and amortized				
	2,317,342	458,064	-	2,775,406
Total, net of accumulated depreciation	\$ 3,317,342	\$ 458,064	\$ -	\$3,775,406



Lessee disclosures (cont.)

GASB 87 – LEASES

- Maturity analysis of all future lease payments – P&I are separated
 - Payments for each of the first 5 years
 - Payments in 5-year increments thereafter
- Lease commitments for which the lease term has not yet begun
- Components of any net impairment loss

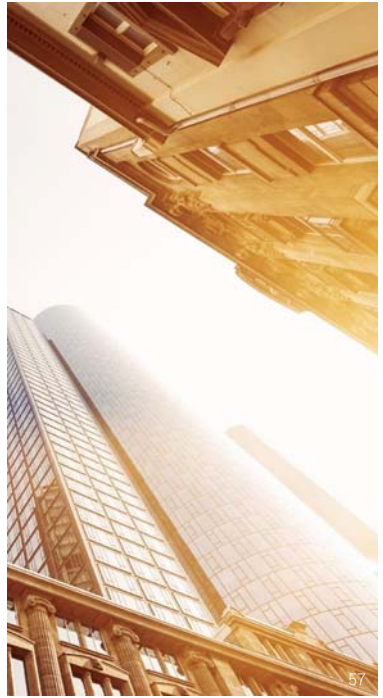
	Principal	Interest	Total Payment
2023	\$ 19,466	\$ 4,534	\$ 24,000
2024	20,666	3,334	24,000
2025	21,941	2,059	24,000
2026	-	-	-
2027	-	-	-
2028-2032	-	-	-
	\$ 62,073	\$ 9,927	\$ 72,000

GASB 87 - LEASES


Lessor accounting

Lessor components

- Lease receivable
- Deferred inflow
- Initial periods
- Subsequent periods
- Re-measurement
- Disclosures



GASB 87 - LEASES




Lessor measurement

Lessor measurement at initiation

- Lease receivable
 - Generally equals lessee liability (i.e., principal value of lease)
- Deferred inflow of resources
 - **Start** with initial value of receivable amount
 - **Less** any provisions for uncollectible amount
 - **Plus** any cash received up front that related to future periods (i.e., final month's rent)
 - **Equals** initial measurement of the lease deferred inflow of resources
- Lease receivable and deferred inflow of resources reported in governmental funds

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GASB 87 - LEASES

Lessor measurement (cont.)

Lessor measurement at initiation (cont.)

- Do not derecognize the underlying asset
 - Depreciate as normal, unless leased asset required to be returned in its original or enhanced condition or has an indefinite useful life

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GASB 87 - LEASES

Lessor accounting overview

Lessor	Assets	Deferred inflow
Initiation of lease	Lease receivable (generally including same items as lessee liability) Continue to report leased asset	Equal to lease receivable plus any cash received up front that relates to a future period
Subsequent recognition and measurement	Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) Reduce receivable by lease payments (less payment needed to cover accrued interest)	Recognize revenue over the lease term on a systematic and rational basis

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GASB 87 – LEASES

Lessor remeasurement (cont.)

Remeasure the lease receivable and update the discount rate when one or more of the following occur and are expected to significantly affect the receivable amount:

1	2	3
Change in lease term	Change in the rate the lessor charges the lessee	Contingency is resolved making variable payments fixed

- If remeasured, also remeasure for changes in an index/rate used to determine variable lease payments
- If the discount rate is updated, the receivable should be adjusted using the revised rate
- The deferred inflow of resources generally adjusted by the same amount as the lease receivable

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GASB 87 – LEASES

Lessor disclosures

- Lease activities may be grouped
- General description of leasing arrangements
 - Basis, terms and conditions on which variable lease payments not included in the lease receivable are determined
- Carrying amount of assets on lease or held for leasing by major classes of assets and the amount of accumulated depreciation
- Total amount of inflows recognized in the reporting period related to leases if not displayed on face of financials
 - Lease revenue
 - Interest revenue
 - Any other lease-related inflow

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GASB 87 - LEASES

Lessor disclosures (cont.)

- Lease inflows related to variable lease payments and other payments not previously included in lease receivable
 - Includes inflows related to residual value guarantees and termination penalties
- If lease payments secure lessor's debt:
 - Existence, terms, and conditions of options by the lessee to terminate a lease or abate lease payments
- Similar disclosures required for certain regulated leases (airport-airline agreements)

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GASB 87 - LEASES

Other guidance

Leases with multiple components

- Separate contracts into lease and non-lease components or multiple lease components
- Allocate consideration to multiple underlying assets if:
 - Differing lease terms, or
 - Are in differing major asset classes for disclosure

How do you split the consideration between the various components?



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GASB 87 – LEASES

Other guidance (cont.)

Subleases

- Subleases should be accounted for as transactions separate from the original lease
- Do not offset original lease liability and sublease receivable

Related party leases

- Recognized on the substance of the transaction, when substance is significantly different from legal form

Leases with/between blended component units

- Eliminations for internal leasing activity take place before the financial statement are aggregated

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GASB 87 – LEASES

Transition provisions

- Apply retroactively by restating financial statements, if practicable, for all prior periods presented.
- Lease recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation
- Lessors would not restate the assets underlying their existing sales-type or direct financing leases
 - Any residual assets for those leases would become the carrying values of the underlying assets

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GASB 87 – LEASES

Implementation considerations

Preparatory steps

- Start a catalog of lease inventory, both lessee and lessor contracts
- Review lease agreements to determine nature of lease
 - Determine if financing agreements qualify as leases or purchase loans
- Evaluate lease provisions to determine lease terms or other provisions of the arrangement requiring disclosure
- Establish thresholds for which leases to consider (similar to how thresholds are applied to capital assets)
 - Provisions of the statement need not be applied to immaterial items
- Consider impact on capital asset software and other tracking systems
- Review implementation guide with helpful Q&As

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GASB 87 resources

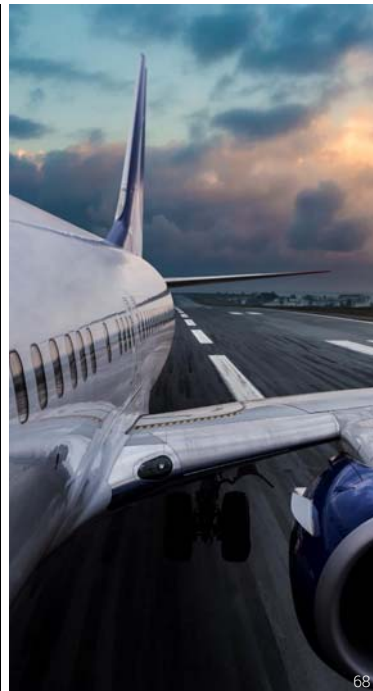
Statement No. 87

[gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176169170145](https://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176169170145)

Baker Tilly on-demand webinar and podcasts

[bakertilly.com/insights/tag/gasb+87](https://www.bakertilly.com/insights/tag/gasb+87)

- GASB 87 countdown
- Lease term: Overview, calculation and importance
- Lessee accounting : Bus lease example
- Lessor accounting: Building lease example



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This slide has a white background with a green horizontal bar on the left. The bakertilly logo is in the top right corner. Below the bar, the text "OTHER GASB STANDARDS" is written in small, bold, black letters. The main title "GASB 83 – Certain Asset Retirement Obligations" is centered in a large, black font. Underneath, the section "Fast facts" is followed by a bulleted list of key points. A small number "70" is located in the bottom right corner.

OTHER GASB STANDARDS

GASB 83 – Certain Asset Retirement Obligations

Fast facts

- Establishes accounting and financial reporting for legal obligations to retire certain capital assets, such as decommissioning nuclear power plants and removing sewage treatment plants
- Effective for December 31, 2019 calendar year end
- Scope of asset retirements include:
 - Nuclear power plant decommissioning
 - Coal ash point closure
 - Contractually required land restoration such as removal of wind turbines
 - Environmental remediation associated with a requirement of tangible capital assets that results from the normal operations of those assets



OTHER GASB STANDARDS

GASB 84 – Fiduciary Activities

Fast facts





- Establishes specific criteria for assessing whether activities should be reported as fiduciary activities
- Fund classifications may change as a result of the assessments
- Effective for December 31, 2019 calendar year end
- Agency fund terminology changed to Custodial funds
- New statement of flows is required for fiduciary funds
- Changes to liability recognition may lead to reporting fund balances
- Fiduciary activities apply to Business Type Activities
 - Exception for assets held less than 3 months

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OTHER GASB STANDARDS

GASB 84 impact on financial reporting

Overview of fiduciary fund types

-  Pension and other employee benefit trust funds
-  Investment trust funds
-  Private-purpose trust funds
-  Custodial funds



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OTHER GASB STATEMENTS

GASB 84 impact on financial reporting (cont.)



Pension and other employee benefit trust funds

- Postemployment arrangements administered through trusts that meet criteria in Statements 67 or 74
- Other employee benefit plans would also be reported in a pension trust fund if both of the following are true:
 - The assets are (a) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government (Paragraph 11c(1))
 - Contributions to the trust and earnings on those contributions are irrevocable

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OTHER GASB STATEMENTS

GASB 84 impact on financial reporting (cont.)



Investment trust funds

- Report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust that meets the criteria in paragraph 11c(1)



Private-purpose trust funds

- Report all fiduciary activities that (a) are not required to be reported in pension and OPEB trust funds or investment trust funds and (b) are held in a trust that meets the criteria in paragraph 11(c)1



Custodial funds

- Report fiduciary activities that are not required to be reported in the other three trust funds

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OTHER GASB STATEMENTS

GASB 84 impact on financial reporting (cont.)

Statement of changes in fiduciary net position

- Required for all fiduciary funds, including custodial funds
- Additions will be presented disaggregated by source
 - Separate display of investment earnings, investment costs, and net investment earnings is required
- Deductions will be presented disaggregated by type
 - Separate display of administrative costs is required
- Exception – Custodial funds when assets are held for three months or less
 - For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows
- Pension and OPEB plans should report changes in accordance with Statements 67 or 74


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OTHER GASB STATEMENTS

GASB 84 action steps



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GASB 84 resources

Statement No. 84
gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176168786182

Implementation Guidance – Project pages
gasb.org/jsp/GASB/GASBContent_C/ProjectPage?cid=1176169865219

Baker Tilly on-demand webinar and tool
bakertilly.com/insights/understanding-the-new-requirements-for-reporting-fiduciary-activities-gasb



OTHER GASB STATEMENTS

GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Fast facts

- Effective for December 31, 2019 year ends
- Improves disclosure requirements related to debt, including direct borrowings and direct placements, and clarifies which liabilities should be included in debt-related disclosures
- Disclosures should include:
 - Amount of unused lines of credit
 - Assets pledged as collateral for debt
 - Terms specified in debt agreements related to (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses
 - Debt disclosures should separate direct borrowings/direct placements from other debt

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OTHER GASB STATEMENTS

GASB 89 – Accounting for Interest Cost Incurred before the End of a Construction Period

Fast facts

- Effective for December 31, 2020 year ends
- Financial statements prepared using economic resources measurement focus
 - Interest cost incurred before end of construction period = expense in period incurred
 - Should not be capitalized as part of historical cost of capital asset
- Financial statements prepared using the current financial resources measurement focus
 - Interest cost incurred before end of construction period = expenditure consistent with governmental fund accounting principles
- Prospective application only (i.e. no restatement)

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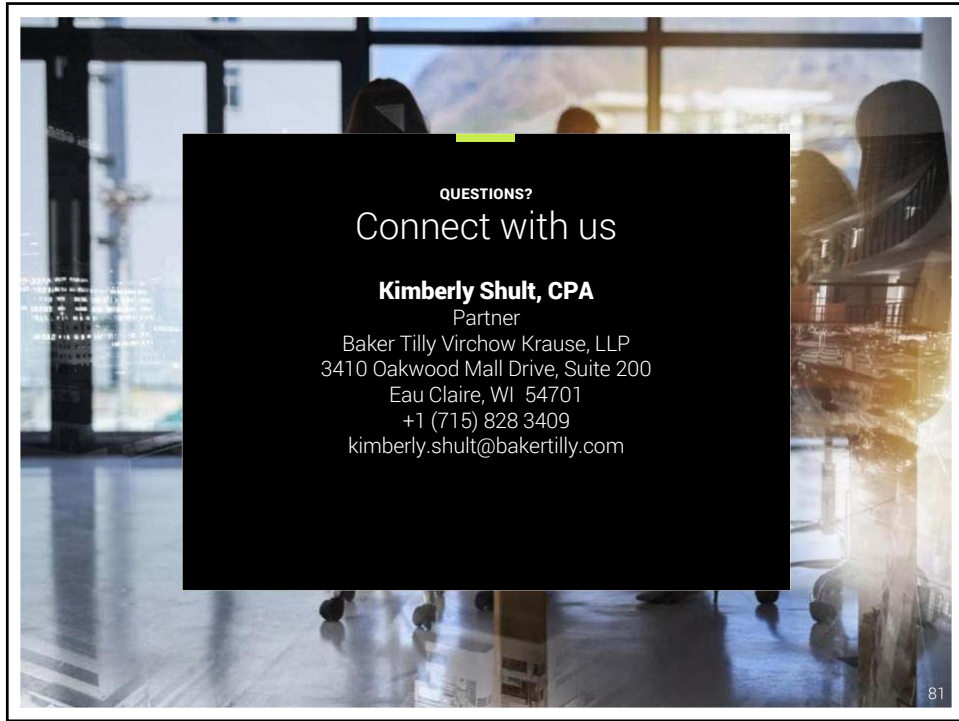
OTHER GASB STATEMENTS

GASB 90 – Majority Equity Ownership (amendment of GASB No. 14 and No. 61)

Fast facts

- Effective for December 31, 2019 year ends
- Address certain issues related to the reporting of majority equity ownership in legally separate entities
- Overview of new guidance
 - Additional guidance to Statement No. 14 on the presentation of ownership interest in a legally separate entity
 - Additional recognition and measurement guidance for wholly-owned legally separate entities presented as component units

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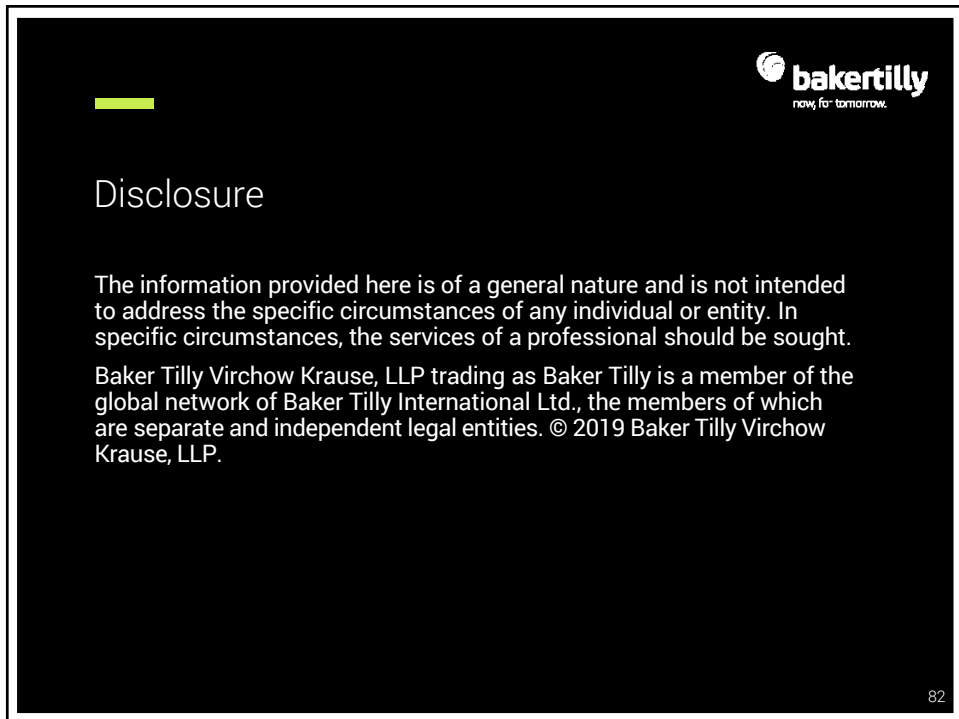



QUESTIONS?

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