Florida GFOA Webinar, July 2018

GASB Statement No. 87, *Leases*

Brian W. Caputo, Ph.D., C.P.A.
Vice President for Administrative Affairs & CFO, College of DuPage
and Board Member, Governmental Accounting Standards Board

The views expressed in this presentation are those of Dr. Caputo.
Official positions of the GASB are reached only after extensive due process and deliberations.

Overview

- Background
- Definition and scope
- Lease term
- Short-term leases
- Lessee accounting & reporting
- Lessor accounting & reporting
- Other provisions
- Effective date & transition
- Technology to manage leases
- GASB Update (time permitting)

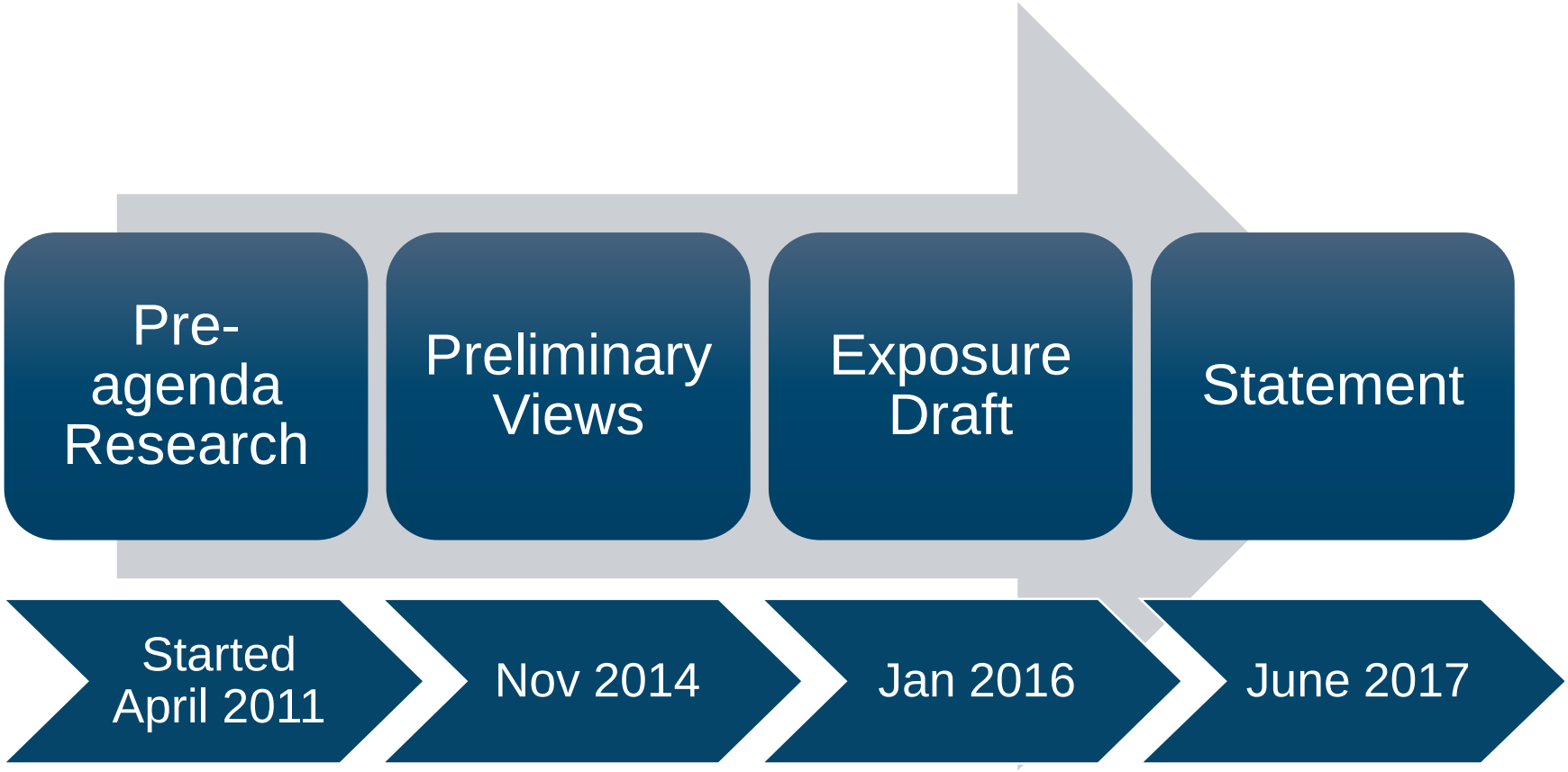
GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Background

- **What:** GASB Statement No. 87, *Leases,* revises existing standards on lease accounting and financial reporting (primarily Statement 62) based on public comments received on the November 2014 Preliminary Views and January 2016 Exposure Draft

- **When:**
  - Issued June 2017
  - Effective for periods beginning after December 15, 2019
  - Earlier application is encouraged

Background (continued)



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Background (continued)

- **Why:**
  - The existing standards had been in effect for decades without review to determine if they remain appropriate and continue to result in useful information; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers

- **Relevant Guidance Considered:**
  - GASB Statement 62 leases guidance (from FASB Statement 13)
  - GASB Conceptual Framework
  - FASB and IASB 2010 and 2013 Leases Exposure Drafts and Final Statements

Background (continued)

- **Why (continued):**
  - Governmental lessees
    - Over 89,000 state and local governments, including states, counties, cities, ports, hospitals, universities, and special-purpose governments
    - Over 500 federally recognized tribal governments
  - Governmental lessors
    - About 390 primary commercial airports
    - Sports stadiums
    - Tribal casinos
    - Ports and marinas
    - Utilities' power poles

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Definition of a Lease

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

Definition of a Lease (continued)

- Control requires both of the following:
  - (1) the right to obtain the present service capacity from use of the underlying asset, and
  - (2) the right to determine the nature and manner of use of the underlying asset
- Control applied to the right-to-use lease asset (a 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

Leases Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights)—except for the sublease of an intangible right-to-use asset
- Biological assets (including timber, living plants, and living animals)
- Inventory
- Service concession arrangements (see GASB Statement 60)

Leases Scope Exclusions (continued)

- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- Supply contracts (such as typical power purchase agreements, which do not convey control of the right to use the underlying power generating facility)

Unified Reporting Model for Leases

- No classification of leases into operating/capital or other categories
- Underlying assumption that leases are <u>financings</u>
- Exceptions (lessors and lessees)
  - Short-term leases
  - Leases that transfer ownership and do not contain termination options
- Exceptions for lessors
  - Leases of assets that are investments
  - Certain regulated leases (e.g., airport-airline agreements)

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Common Leased Assets

Lease Term

- For *financial reporting,* when does the lease start and end?
  - Starts with the noncancelable period, plus periods covered by lessees' and lessors' options to:
    - Extend the lease, if the option is *reasonably certain* of being exercised
    - Terminate the lease, if the option is *reasonably certain* of NOT being exercised
  - Excludes "cancelable" periods
    - Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend
      - Rolling month-to-month leases
  - Fiscal funding/cancelation clauses ignored unless *reasonably certain* of being exercised

Reassessment of Lease Term

- Reassess the lease term only if one or more of the following occurs:
  - Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would *not* exercise that option
  - Lessee or lessor elects to *not* exercise an option even though previously determined that the lessee or lessor would exercise that option
  - An event specified in the contract that requires an extension or termination of the lease takes place.

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Define the GASB 87 Lease Term

"The term of this Agreement begins on the date of delivery of the Equipment and ends on the later of the last day of the Minimum Lease Term ("Term") or the Extension Period (as herein defined). At the end of the Term, this Agreement is extended on a month-to-month basis until the Equipment is returned to the Lessor (the "Extension Period"). During the Extension Period the Lessor has the right to, on 30 days notice, increase the rate per month . . . . After the end of the Term either party can terminate this Agreement on 30 days written notice."

Define the GASB 87 Lease Term

Lease #1 – 9/14/2011

Silent on lease term, but provides monthly rental amount

Silent on terminating the lease

Lease #2 – 2/08/2013

"The lease shall be in effect for a term of 5 years."

Short-Term Lease Exception

- A *short-term* lease is one that, at the beginning of the lease, has a “maximum possible term” under the contract, including any options to extend, of 12 months or less
- Practicality exception for short-term leases
  - 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 noncancelable period including any notice period

Short-Term Lease Exception (continued)

- 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
  - 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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Leases Overview—Initial Reporting

	Assets	Liability	Deferred Inflow
LESSEE	Intangible asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
LESSOR	• Lease receivable (generally including same items as lessee liability) • Continue to report leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

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Leases Overview—Subsequent Reporting

	Assets	Liability	Deferred Inflow
LESSEE	Amortize the intangible asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
LESSOR	• 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)	NA	Recognize revenue over the lease term in a systematic and rational manner

LESSEE Accounting & Reporting

LESSEE—Recognition & Measurement

- Recognize a liability for future lease payments and an intangible capital asset for the right to use the underlying asset (the “lease asset”)
- In governmental funds:
  - Report payables when due
  - Don’t report capital assets

LESSEE—Initial Measurement

- Initial measurement of a lease liability includes:
  - Fixed payments (less any lease incentives receivable from the lessor)
  - Variable payments based on an index or rate (such as CPI), using the rate as of the beginning of lease
  - Variable payments that are fixed in substance
  - Residual value guarantees *reasonably certain* of being required
  - Purchase options *reasonably certain* of being exercised
  - Termination penalties, if lease term reflects lessee exercising termination options/fiscal funding clauses
  - Any other *reasonably certain* payments

LESSEE—Initial Measurement (continued)

- Lease liability does not include lease payments that are dependent on a lessee's performance or usage of an 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

LESSEE—Subsequent Recognition & Measurement

- Lease liability reduced for actual payments less amortization of discount on lease liability (interest expense)
- EXAMPLE:

Interest Expense		$4,000	
Lease Liability		$18,000	
	Cash		$22,000
(To record cash payment, interest expense, and reduction of liability.)			

LESSEE—Subsequent Recognition & Measurement (continued)

- Remeasure lease liability when certain changes occur (if expected to significantly affect liability measurement)
- If liability remeasured
  - Adjust liability for change in variable payments index/rate
  - Update discount rate when certain other judgments change
- Adjustments to the lease liability generally should adjust the lease asset by the same amount
  - Exception if adjustment is greater than carrying value of asset, difference is recognized in the flows statement

LESSEE—Lease Asset

- Lessee's right-to-use lease asset
  - Initially measure lease asset as the sum of:
    a. Initial lease liability
    b. Any prepayments (amounts paid for the lease prior to measuring the lease liability)
       - Less any incentives *received* from the lessor
    c. Initial direct costs that are necessary ancillary charges to place the leased asset into use
       - Other initial direct costs (e.g., insurance, legal, administrative) should be expensed

LESSEE—Lease Asset (continued)

- Lease asset subsequent recognition and measurement
  - Lease asset amortized (e.g., amortization expense) using a systematic and rational manner over the shorter of the useful life of the underlying asset or the lease term
    - Lease asset amortization *may* be combined with depreciation expense for other capital assets
    - If the lease has a purchase option which is reasonably certain of being exercised, amortize over the useful life of the underlying asset as if the lessee owns the underlying asset, using the lessee's depreciation policy, unless non-depreciable.

LESSEE—Lease Asset (continued)

- Lease asset subsequent recognition and measurement (continued)
  - Lease asset generally adjusted by the same amount as lease liability.
    - If this change reduces the carrying value of the lease asset to zero, any remaining amount is a gain
  - If the underlying asset becomes impaired, apply capital asset impairment guidance of Statement 42 to the right-to-use lease asset

Example: Temporary Building Lease

- Lease starts 1/01/21 for 60 months; $1,000 monthly payment due 1st of each month
- After 60 months, on month-to-month basis until building is returned
- During month-to-month period rate can be adjusted upward based on CPI with 30 days' notice to Lessee
- If building is declared a total loss Lessee will pay $39,000 equipment value, at which time Lessee will become the owner
- Lessee pays Lessor $2,000 initial set-up cost ($400 freight, $1,600 block and level labor) and will pay $1,700 dismantle cost ($400 freight, $1,300 labor to knock down) at end of lease
- Discount rate (provided by Lessor) is 3%

Calculations

Present value of $1,000 monthly payments for 5 years (60 months):

= PV Rate = .0025 (3% per year / 12 months to get rate per month)

NPer (number of periods) = 60

Pmt (monthly payment) = $1,000

FV (future value) = 0

Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period

= $55,791

Total (for both the intangible asset and lease liability)

$55,791 + $2,000 set-up cost = $57,791

What about $1,700 dismantle fee?

Journal Entries – January 1

<u>Governmental funds</u>

Debit Building rental expenditure $57,791

Credit Other financing sources $57,791

To record capital expenditure and related financing from lease of temporary building

Debit Redemption of principal $2,000

Credit Cash $2,000

To record payment of set-up cost for leased temporary building

Journal Entries – January 1

<u>Government-wide and proprietary funds</u>

Debit Leased buildings	$57,791	
Credit Lease liability		$57,791

To record capital asset and related liability from lease of temporary building

Debit Lease liability	$2,000	
Credit Cash		$2,000

To record payment of set-up cost for leased temporary building

Total of First Twelve Monthly Payments

Set up an interest amortization schedule for each month

Divide the $1,000 monthly payment into interest and principal (Debit redemption of principal and interest expenditure and credit cash)

Total amounts for the first year:

Redemption of principal	$10,613
Interest	1,387
Total	$12,000

(excluding $2,000 set-up cost payment)

Total of First Twelve Monthly Payments

Governmental funds

Debit Redemption of principal	$10,613	
Debit Interest expenditure	1,387	
Credit Cash		$12,000

To record 12 monthly lease payments for first year

Government-wide and proprietary funds

Debit Leases payable	$10,613	
Debit Interest expense	1,387	
Credit Cash		$12,000

To record 12 monthly lease payments for first year

Journal Entries to Convert Governmental Funds to Government-wide

Debit Other financing sources	$57,791	
Credit Lease liability		$57,791
To reclassify building lease payable		

Debit Leased buildings	$57,791	
Credit Building rental expenditure		$57,791
To reclassify right to use leased building		

Debit Redemption of principal	$12,613	
Credit Lease liability		$12,613
To reclassify monthly lease payments and set-up cost		

Journal Entry – December 31

<u>Government-wide and proprietary funds</u>

Debit Amortization expense	$11,558	
Credit Accumulated amortization		$11,558

To record amortization of right to use leased building (57,791 / 5)

Debit Interest expense	$113	
Credit Interest payable		$113

To accrue December interest on leased temporary building

LESSEE—Disclosures

1. A general description of leasing arrangements, including
   a. Basis, terms, and conditions, on which variable lease payments are determined
   b. Existence, terms, and conditions, of residual value guarantees provided by the lessee
2. Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets
3. Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets
4. Variable lease payments recognized during the period but not previously included in the lease liability

LESSEE—Disclosures (continued)

5. Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties)

6. A maturity analysis of all future lease payments
   a. Payments for each of the first five years
   b. Payments in five-year increments thereafter
   c. Show principal and interest separately

7. Lease commitments, other than short-term leases, for which the lease term has not yet begun

8. Components of any net impairment loss (gross impairment loss less change in lease liability)

Capital Asset Note Disclosure

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 12,038,276	$ -	$ (4,280)	$ 12,033,996
Construction in progress	31,222,996	12,890,833	(30,025,559)	14,088,270
Total capital assets not being depreciated	43,261,272	12,890,833	(30,029,839)	26,122,266
Other capital assets				
Buildings and improvements	240,126,741	30,072,509	(1,949,759)	268,249,491
Equipment and fixtures	26,200,540	2,239,879	(31,254)	28,409,165
Leased buildings	636,731	57,791	-	694,522
Leased equipment and fixtures	5,005,414	-	-	5,005,414
Total other capital assets at historical cost	271,969,426	32,370,179	(1,981,013)	302,358,592
Less accumulated depreciation for				
Buildings and improvements	(67,806,215)	(7,317,012)	1,579,277	(73,543,950)
Equipment and fixtures	(18,380,429)	(2,365,552)	31,254	(20,714,727)
Less accumulated amortization for Leased assets	(1,938,346)	(1,105,860)	-	(3,044,206)
Total accumulated depreciation and amortization	(88,124,990)	(10,788,424)	1,610,531	(97,302,883)
Other capital assets, net	183,844,436	21,581,755	(370,482)	205,055,709
Capital assets, net	$ 227,105,708	$ 34,472,588	$ (30,400,321)	$231,177,975

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Lease Liability Note Disclosure

Year Ending Dec. 31	Principal Payments	Interest Payments	Total
2022	$1,522,550	$141,188	$ 1,663,738
2023	1,343,745	111,951	1,455,696
2024	1,375,985	81,825	1,457,810
2025	1,421,848	50,151	1,472,000
2026	11,807	163	11,970
2027-2031	XXX	XXX	XXX
	$5,675,936	$385,278	$ 6,061,214

LESSOR Accounting & Reporting

LESSOR—Recognition & Measurement

- Recognize a lease receivable and deferred inflow of resources
- Do not derecognize the underlying asset and do not recognize a residual asset
  - Depreciate underlying asset as normal, unless required to be returned in its original or enhanced condition or has an indefinite useful life
- In governmental funds, report lease receivable and deferred inflow of resources
  - Recognize deferred inflow of resources as revenue when “available”

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LESSOR—Initial Measurement

- Initial measurement of a lease receivable includes:
  - Fixed payments
  - Variable payments that depend on an index or rate (such as CPI)
    - Use the rate as of beginning of lease
  - Variable payments that are fixed in substance
    - Exclude variable lease payments that are dependent on a lessee's performance or usage of an underlying asset
  - Residual value guarantees that are fixed in substance
  - Less provision for uncollectible amounts

LESSOR—Initial Measurement (continued)

- Discount the lease receivable using the rate the lessor charges the lessee
  - Interest rate may be implicit in the lease
- Initially excludes the following
  - Residual value guarantees that are not fixed in substance should be recognized as a receivable when:
    a. Payment is required, and
    b. Amount can be reasonably estimated
  - Purchase option payments or termination penalties
    - Recognized when exercised

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LESSOR—Deferred Inflow of Resources

- Deferred Inflow of Resources — Initial Measurement
  - Receivable amount, plus
  - Any cash received up front that relates to future periods (e.g., final month's rent)
- Recognize revenue in a systematic and rational manner over the term of the lease

LESSOR—Subsequent Recognition & Measurement

- Recognize amortization of the discount on the lease receivable (interest revenue) to produce a constant periodic rate of return on the receivable
- Lease payments allocated first to accrued interest receivable and then to the lease receivable
- 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:
  a. There is a change in lease term, or
  b. There is a change in the rate the lessor charges the lessee
  c. A contingency is resolved making variable payments fixed

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LESSOR—Subsequent Recognition & Measurement (continued)

- 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

LESSOR—Exceptions

- The following transactions do not apply to general lessor recognition and measurement guidance (but still required to provide certain disclosures)
  - Leases of tangible assets that are investments
    - No lease receivable reported for leased investment assets because investments are reported at fair value
  - Certain regulated leases (e.g., airport-airline agreements)
    - Airport-airline agreements have features that don't operate like financings

LESSOR Journal Entries

January 1

Debit Lease receivable	$57,791	
Credit Deferred inflow of resources		$57,791

To record receivable and related deferred inflow from leasing

Debit Cash	$2,000	
Credit Lease receivable		$2,000

To record receipt of set-up fees

For first twelve monthly payments

Debit Cash	$12,000	
Credit Lease receivable		$10,613
Credit Interest income		1,387

To record receipt of first 12 monthly lease payments

LESSOR Journal Entries

December 31

Debit Deferred inflow of resources	$11,558	
Credit Lease income		$11,558
To record lease income		

Debit Depreciation expense	$5,000	
Credit Accumulated depreciation		$5,000
To record annual depreciation on underlying asset		

Debit Interest receivable	$113	
Credit Interest income		$113
To accrue December interest on lease receivable		

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LESSOR—Disclosures

Lease activities may be grouped for disclosure purposes

1. A general description of leasing arrangements
   - The basis, terms, and conditions on which variable lease payments not included in the lease receivable are determined
2. The total amount of inflows recognized in the reporting period related to leases, if not displayed on face of financials

LESSOR—Disclosures (continued)

3. The lease inflows related to variable lease payments and other payments not previously included in the lease receivable
   - Include inflows related to residual value guarantees and termination penalties

4. If lease payments secure lessor's debt:
   - The 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)

LESSOR—Disclosures (continued)

- If government's *principal ongoing operations* consist of leasing to other entities:
  - Disclose maturity analysis of all future lease payments included in lease receivable
    - Payments for each of the first five years
    - Payments in five-year increments thereafter
    - Show principal and interest separately

Start Planning NOW! for GASB 87

1. Analyze existing lease contracts and gather information for reporting and disclosure requirements
2. Implement internal controls
3. Update information technology systems
4. Work with grant providers to address changes in lease reporting
5. Address potential changes in statutes and policies, debt limits, and compliance with debt covenants

Other Accounting & Reporting Provisions

Lease Incentives

- Lease Incentives—reduce the amount lessee has to pay
  a) Payments made to, or on behalf of, the lessee, for which there is a right of offset
  b) Other concessions
- Payments provided at or before inception of lease reported as
  - Direct reductions of lessee's lease asset
- Payments provided after inception of lease reported as
  - Reductions of payments for period provided
  - Reduces PV of lease liability (and lessor's receivable)

Contracts with Multiple Components

- Separate contracts into lease and nonlease components or multiple lease components
- Allocate consideration to multiple underlying assets if:
  - Differing lease terms, or
  - Are in differing major asset classes for disclosure
- Allocation process:
  - First — use any prices for individual components if price allocation not unreasonable based on contract terms and professional judgment (maximizing observable information)
  - If no prices or if not reasonable, use best estimate based on professional judgment (maximizing observable information)
  - If not practicable to determine best estimate, may account for components as single lease unit

Contract Combinations

- Contracts entered into at or near the same time with the same counterparty should be considered part of the same lease contract if either of the following criteria is met:
  a. The contracts are negotiated as a package with a single objective
  b. The amount of consideration to be paid in one contract depends on the price or performance of the other contract
- Combined contract then subject to multiple components guidance

Lease Modifications & Terminations

- Result from ***amendments*** to lease contract, not from exercising options in that contract

MODIFICATIONS

- Considered lease modification unless lessee's right to use underlying asset decreases

TERMINATIONS

- Considered partial or full lease termination if lessee's right to use underlying asset *decreases*

Lease Modifications

- Report as **new lease** by both lessor and lessee *if*
  - New assets are added and
  - Not unreasonably priced
- Otherwise, **remeasure** as discussed on following slides

Lease Modifications for LESSEES

- Remeasure the lease liability on the effective date of modification
  - Assess the need for an updated discount rate
- Adjust the right-of-use asset by the difference between the modified liability and the liability immediately before the modification
  - If asset reduced to $0, any additional reduction is reported as a gain
- If change results from the lessor refunding related debt and passing savings on to the lessee, see remeasurement guidance in paragraph 74

Lease Modifications for LESSORS

- Remeasure the lease receivable on the effective date of modification
  - Assess the need for an updated discount rate
- Adjust the deferred inflow of resources by the difference between the modified receivable and the receivable immediately before the modification
  - However, to the extent any change relates to payments for the current period, recognize in current period flows statement (for example, revenue)
- If change results from refunding related debt and passing savings on to the lessee, see remeasurement guidance in paragraph 76

Lease Terminations for LESSEES

- For partial/full lease terminations (other than purchases), lessees reduce/remove the lease asset and obligation
- Recognize the difference as a gain or loss
- If the lessee purchases the underlying asset, reclassify to the appropriate asset class
  - Adjust lease liability to reflect the payments yet to be made; reflect adjustment in cost of the purchased asset

Lease Terminations for LESSORS

- For partial/full lease terminations (other than sales), lessors reduce/remove the lease receivable and related deferred inflow of resources
- Recognize the difference as a gain or loss
- If the lessor sells the underlying asset, derecognize underlying asset
  - Include in the calculation of any gain or loss

Subleases

- Accounted for as transactions separate from the original lease
  - Do not offset original lease liability and sublease receivable
- Disclosures for original lessee (now the lessor)
  - Include subleases in the general description of lease arrangements
  - *Lessor* transactions related to subleases should be disclosed separately from the original lessee transactions

Sale-Leasebacks

- Qualifying sale required (otherwise it is a borrowing)
- Accounted for as two separate transactions—a sale transaction and a lease transaction—except that
  - Any gain or loss on sale portion deferred and recognized over term of leaseback (but immediately recognize if leaseback is short-term lease)
- If terms are significantly off-market, report based on the substance of the transaction, for example:
  - Borrowing, Nonexchange transaction, Advance lease payment
- Disclose terms and conditions of sale-leaseback

Lease-Leasebacks

Example: A school district leases land to a developer. The developer builds a school and leases the school and land back to the school district.

- Accounted for as a *net* transaction (because of right of setoff)
- Disclose (both parties)
  - Gross amounts of the lease and the leaseback

Intra-Entity Leases

- Leases with/between blended component units
  - Eliminations for internal leasing activity take place before the financial statements are aggregated
- Leases with/between discretely-presented component units
  - Treat like normal leases, but
    - Present receivables and payables separately

Leases between Related Parties

- Recognize substance of the transaction, when substance is significantly different from legal form
  - For example, a short-term lease is long-term if parties have an understanding that lease will be extended several years
- Use equity method for investments in stock
- Disclose the nature and extent of related-party leases

Effective Date & Transition

- Effective for periods beginning after December 15, 2019
  - Earlier application encouraged
- Transition
  - Apply retroactively
    - Restate if practicable, cumulative effect if not
  - Leases recognized and measured *using the facts and circumstances that exist at the beginning of the period of implementation* (hindsight)
  - Lessors should *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

Technology to Manage Leases

- Spreadsheets, especially to amortize the lease asset and schedule the principal and interest payments
- Save lease documents as OCR (searchable) .pdf files and bookmark key lease provisions
- Document imaging software
  - Scan and index lease documents in one central place
- Debt management software
  - Automatically generates amortization schedules
  - CAFR reporting
  - Automatically creates journal entries

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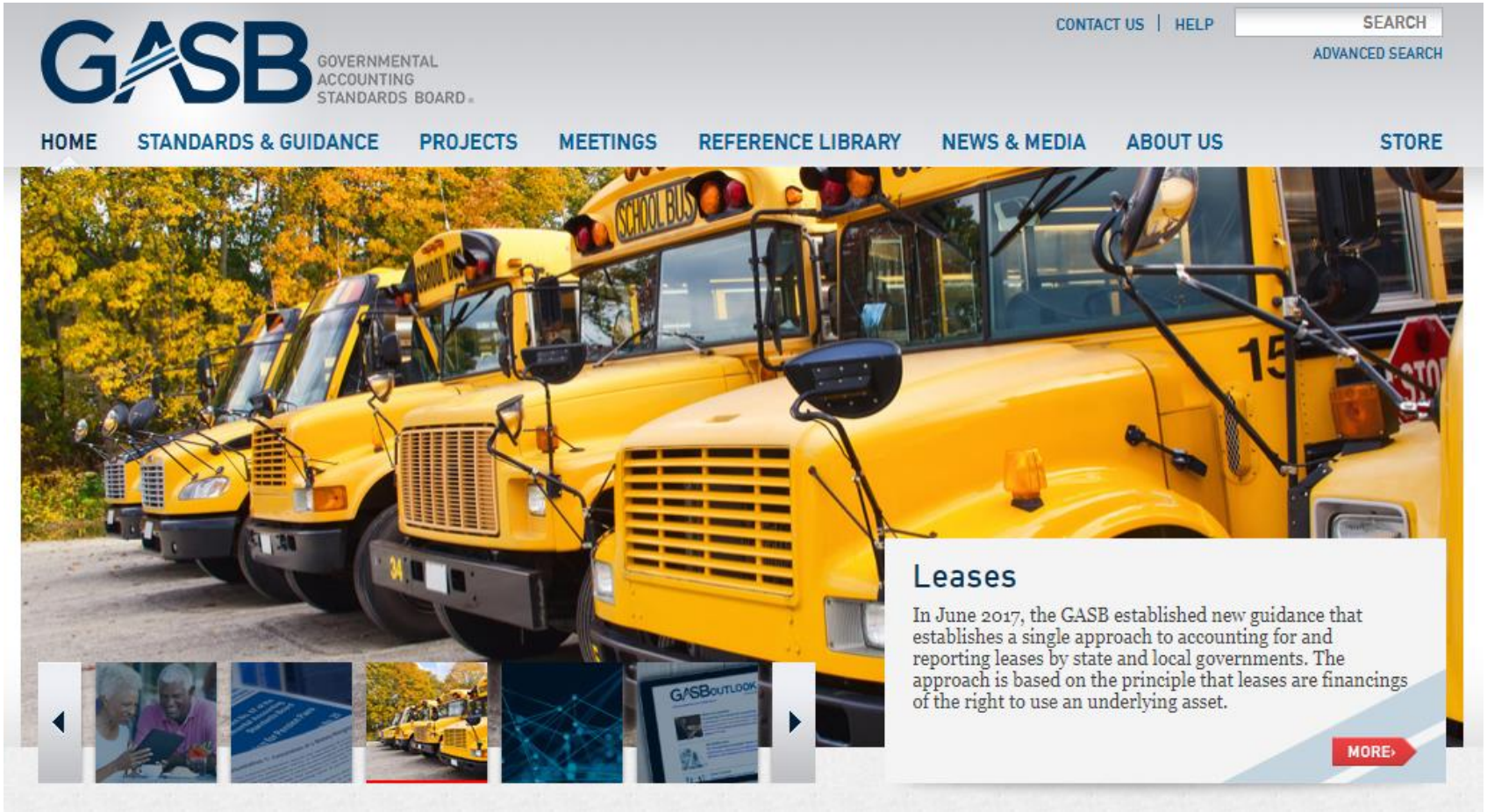

Website Resources

- Free download of Statements, Implementation Guides, Concepts Statements and other pronouncements
- Free access to the basic view of Governmental Accounting Research System (GARS)
- Free copies of proposals
- Up-to-date information on current projects
- Articles and Fact Sheets about proposed and final pronouncements
- Form for submitting technical questions
- Educational materials, including podcasts

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Plain-Language Materials

- The GASB is committed to communicating in plain language with constituents about its standards and standards-setting activities.
- Newly revised version of “Why Governmental Accounting Is—and Should Be—Different” (October 2017)
- Fact Sheets are prepared for complex projects to answer commonly raised questions
  - Series of 8 fact sheets on Statements 67 & 68 on pensions
- Series of 7 brief videos developed regarding the Invitation to Comment on governmental fund financial statements

Questions

Contact information:
Brian Caputo
E-mail: caputob@cod.edu
Phone: (630) 942-2218

Website information:
www.gasb.org

Florida GFOA Webinar, July 2018

GASB Update

Brian W. Caputo, Ph.D., C.P.A.
Vice President for Administrative Affairs & CFO, College of DuPage
and Board Member, Governmental Accounting Standards Board

The views expressed in this presentation are those of Dr. Caputo.
Official positions of the GASB are reached only after extensive due process and deliberations.

Presentation Overview

- Statement 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*
- Statement 89, *Accounting for Interest Cost Before the End of a Construction Period*
- Current technical agenda projects

Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Statement No. 88

Debt Disclosures

- **What:** The Board issued Statement 88 to improve existing standards for disclosure of debt
- **Why:** A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made
- **When:** Effective date is periods beginning after June 15, 2018

Definition of Debt for Disclosure Purposes

- "A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established"
  - For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.

New Disclosure Requirements

- Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures
- In addition to existing debt disclosures, governments should disclose the following about all types of debt:
  - Amount of unused lines of credit
  - Assets pledged as collateral for debt
  - Terms specified in debt agreements related to significant:
    - Events of default with finance-related consequences
    - Termination events with finance-related consequences
    - Subjective acceleration clauses.

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

Statement No. 89

Interest Cost Incurred before the End of a Construction Period

- **What:** The Board issued Statement 89, with the goal of enhancing the relevance of capital asset information and potentially simplifying financial reporting
- **Why:** Accounting guidance historically has been based upon FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of the definitions of financial statement elements in GASB Concepts Statement 4
- **When:** Effective date is periods beginning after December 15, 2019, with earlier application encouraged

Recognizing Interest Cost

- Financial statements prepared using the economic resources measurement focus:
  - Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.
- Financial statements prepared using the current financial resources measurement focus:
  - Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.
- Prospective application at transition

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Accounting and Financial Reporting for Majority Equity Interests

Equity Interest Ownership Issues

- **What:** The Board proposed revisions to Statement 14 to address ownership of an equity interest in a legally separate entity; final Statement is expected in August 2018
- **Why:** Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance
- **When:** The comment deadline was January 19, 2018

Background

- Current reporting is based on whether the intent of ownership is as an investment or to provide service; however, the intent of ownership is not always clear or may have multiple purposes.
  - How should the majority equity ownership in a legally separate entity be reported in the financial statements?
- Acquisition of an entity that ceases to exist is measured differently from the 100 percent acquisition of a legally separate entity that is reported as a component unit.
  - How should a government report the assets, deferred inflows of resources, liabilities, and deferred outflows of resources of a component unit when it is wholly acquired?

Tentative Decisions

- A majority equity interest in a legally-separate entity that meets the definition of an investment should be reported as an investment.
  - Measure by applying the equity method prescribed in Statement 62, paragraphs 205–209, except the following should apply fair value in accordance with Statement 72, paragraph 64:
    - Special-purpose governments engaged only in fiduciary activities
    - Fiduciary funds
    - Endowments (including permanent and term endowments) and permanent funds

Tentative Decisions (continued)

- A majority equity interest in a legally-separate entity that does *not* meet the definition of an investment should measure the majority equity interest by applying the equity method prescribed in Statement 62, paragraphs 205—209.
  - This provision would be applied prospectively only.
- A 100 percent equity interest in a legally-separate entity that continues to exist should be reported using acquisition value
  - This provision would be applied prospectively only.

Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	December 2016
Exposure Draft Approved	November 2017
Comment Deadline	January 19, 2018
Final Statement Expected	August 2018

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conduit Debt: Reexamination of Interpretation 2

Conduit Debt

- **What:** The Board is considering improvements to the existing standards related to conduit debt; an Exposure Draft is expected in July 2018
- **Why:** Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, the Board believes improvements are needed
- **When:** The Board added the project to the current technical agenda in August 2017

Tentative Decisions: Definition of Conduit Debt

- There are at least three participants:
  - The government-issuer
  - The third-party obligor (borrower)
  - The debt holder or debt trustee.
- It is **not** a conduit debt obligation if the third-party obligor and the issuer are within the same financial reporting entity.
- When evaluating whether a financing is a conduit debt obligation, the terms *revenue bonds, limited obligation*, and *limited-obligation revenue bonds* are confusing and should not enter into that evaluation.

Tentative Decisions: Issuer Commitments

- For debt service payments, issuers generally make no commitment beyond the resources to be provided by the third-party obligor.
- "Additional commitments" – Occasionally, an issuer may agree to support debt service. For example:
  - Extending a moral obligation pledge
  - Agreeing to seek an appropriation
  - Guaranteeing payments
  - Making voluntary payments

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Financial Reporting of Conduit Debt

- A conduit debt obligation—the total financing—should not be reported as a liability of the issuer.
- The issuer, however, may have a liability arising out of an additional commitment.
- The issuer should report a liability only when a payment by the issuer is more likely than not.

Tentative Decisions: Disclosures

- A description of the issuer's conduit debt obligation
  - Amount issued
  - Commitments extended by the issuer
- If the issuer recognizes a liability:
  - Beginning balances, increases, decreases, ending balances
  - Cumulative payments that have been made
  - Amounts, if any, expected to be recovered for those payments

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Arrangements and Capital Assets

- Some conduit debt obligations include "arrangements“ that involve capital assets.
  - Arrangements involve capital assets to be used by the third-party obligor but owned by the issuer.
  - Payments from the third-party obligor to the debt holder may be characterized as lease payments.
  - Ownership (title) of the capital asset may:
    - Pass to the third-party obligor at the end of the arrangement
    - Remain with issuer, never passing to the third-party obligor.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Arrangements and Capital Assets (continued)

- Financial reporting by the issuer
  - If title passes to third-party obligor at the end of the arrangement, issuer would *not* report a receivable, lease payments, or capital asset during the term of the arrangement nor at the end of the arrangement.
  - If title never passes pass to the third-party obligor:
    - And the third-party obligor *does not* have exclusive use, or has exclusive use of only *portions* of the capital asset, the issuer would recognize a capital asset and a deferred inflow of resources. The deferred inflow of resources would be recognized as revenue in a systematic and rational manner over the term of the arrangement.
    - And the third-party obligor has exclusive use of the capital asset, the issuer would *not* recognize a capital asset or a deferred inflow of resources.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Added to Current Technical Agenda	August 2017
Exposure Draft Expected	July 2018

Information Technology Arrangements, including Cloud Computing

Information Technology Arrangements

- **What:** The Board is considering establishing standards related to reporting cloud computing contracts and similar information technology (IT) arrangements
- **Why:** Stakeholders are concerned that these transactions may not be covered by the guidance in Statements 51 or 87
- **When:** Deliberations are scheduled to begin September 2018

Topics to Be Considered

- Do CCAs or a particular stage(s) of CCAs meet the definition of an asset in Concepts Statement 4? If so, do CCAs meet the Statement 51 definition of an intangible asset?
- What are the similarities and differences between CCAs and on-premise software arrangements?
- How should governments account for fees paid for CCAs?
- If the contract for a CCA is separate from the contract for the initial implementation of that CCA, how should governments account for outlays incurred during the initial implementation of CCAs?

Topics to Be Considered (continued)

- Should outlays associated with CCAs be grouped into three stages, similar to the three stages described for developing and installing internally generated computer software in Statement 51?
- Some CCAs have multiple components that may go into service at different times. Should governments account for these components separately?

Project Timeline

Pre-Agenda Research Approved	April 2017
Added to Current Technical Agenda	April 2018
Exposure Draft Expected	April 2019

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Public-Private Partnerships, including Reexamination of Statement 60

Public-Private Partnerships

- **What:** The Board is considering (1) establishing standards for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87 and (2) making certain improvements to Statement 60
- **Why:** The GASB routinely reviews whether existing standards are meeting their intended objectives; GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60's guidance for service concession arrangements
- **When:** Deliberations began in May 2018

Tentative Decisions

- For Statement 60 on service concession arrangements (SCAs), the project will look at providing or improving guidance on:
  - The definition of SCAs
  - Assessing the term of SCAs
  - Initial measurement, including variable payments, the discount rate, and amortization of the discount
  - Remeasurement
  - Asset classification and application of impairment guidance
  - Payments for construction and other revenue recognition
  - Disclosures
  - Public-public partnerships

Other Topics to Be Considered

- Should Statement 60 be amended to address differences with Statement 87?
- What is the definition of a public-private partnership?
- Should recognition and measurement guidance for P3s be based on Statement 60, Statement 87, or some other model?
- What disclosures should be required for P3s, if any?

Project Timeline

Pre-Agenda Research Approved	April 2017
Added to Current Technical Agenda	April 2018
Exposure Draft Expected	June 2019

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD