

GASB Update

July 20, 2021

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Agenda

Effective Standards

Standards Coming Down the Pike

GASB Projects

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Effective Standards



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GASB 95, Postponement of the Effective Dates



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GASB 95

Postponement of the Effective Dates of Certain Authoritative Guidance

- Issued: May 2020

Background:

- COVID-19 Operational Issues
 - Airports



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Outcome

One Year Delay

- GASB 83, Certain Asset Retirement Obligations
- GASB 84, Fiduciary Activities
- GASB 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- GASB 90, Majority Equity Interests
- GASB 91, Conduit Debt Obligations
- GASB 92, Omnibus 2020
- GASB 93, Replacement of Interbank Offered Rates



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Outcome Cont'd

One Year Delay

- IG 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- IG 2018-1, Implementation Guidance Update—2018
- IG 2019-1, Implementation Guidance Update—2019
- IG 2019-2, Fiduciary Activities

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Outcome Cont'd

18 Month Delay

- GASB 87, Leases
- IG 2019-3, Leases

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Effective

- Effective Upon Issuance
 - Earlier application is encouraged and is permitted to the extent specified in each pronouncement as originally issued

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GASB 84, Fiduciary Activities



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GASB 84

Fiduciary Activities

- Issued: January 2017

- Improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes

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Fiduciary Fund Types

Pension (and other employee benefit) trust funds

Investment trust funds

Private-purpose trust funds

Custodial funds

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Criteria

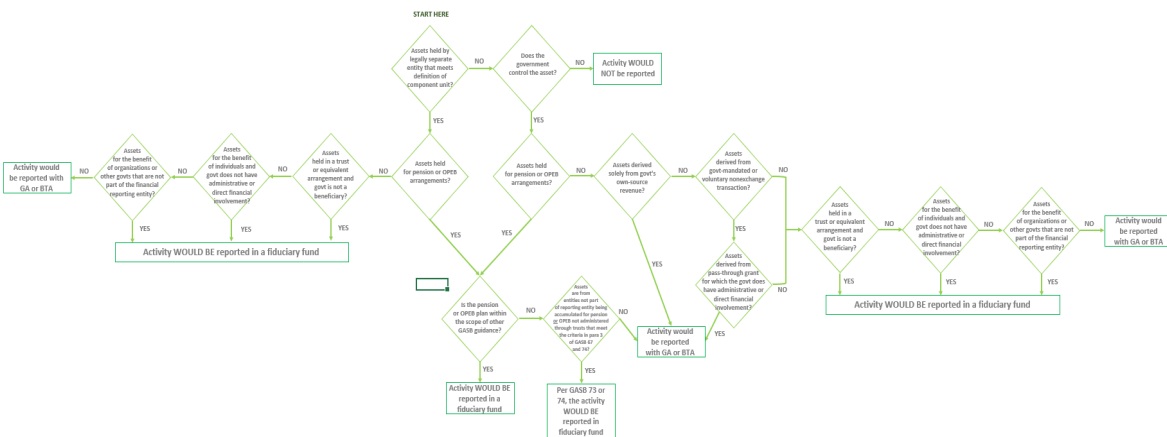
Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities

The focus of the criteria generally is on

- Whether a government is controlling the assets of the fiduciary activity; and
- The beneficiaries with whom a fiduciary relationship exists

GASB 84 Flow Chart

GASB 84 Flow Chart



Financial Statements

- Governments with activities meeting the criteria should present
 - A statement of fiduciary net position
 - A statement of changes in fiduciary net position

Exception:

- A BTA that normally expects to hold custodial assets for three months or less

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Effective Date

- For reporting periods beginning after December 15, 2019 (as amended)

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GASB 97, Certain Component Units



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GASB 97

Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

- Issued: June 2020

Background:

- Stakeholders had concerns about cost and complexity

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Component Units

- Requires that for purposes of determining whether a primary government is **financially accountable** for a potential component unit, the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically performs

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Exception

- Exception: A potential component unit that is:
 - A DC pension plan
 - A DC OPEB plan
 - An other EBP
 - i.e. a Section 457 plan to which only employees contribute

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Financial Burden

- Requires that the financial burden criterion in GASB 84 be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts

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457 Plan

- A Section 457 plan should be classified as either a pension plan or an other employee benefit plan, as follows:
 - A Section 457 plan that meets the definition of a pension plan in paragraph 51 of GASB 67 or paragraph 128 of GASB 73, is a pension plan for accounting and financial reporting purposes
 - A Section 457 plan that does not meet the definition of a pension plan is an other employee benefit plan for accounting and financial reporting purposes
- GASB 84 should be applied to determine whether an arrangement organized under IRC Section 457 should be reported as a fiduciary activity in a government's fiduciary fund financial statements

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457 Plan Cont'd

- If a Section 457 plan that meets the definition of a pension plan is included in the financial statements of another government or issues standalone financial statements, all accounting and financial reporting requirements that are relevant to pension plans should be applied

457 Plan Cont'd

- Supersedes the remaining provisions of GASB 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans regarding investment valuation requirements for Section 457 plans
 - Requires investments to be measured as of the end of the plan's reporting period in all circumstances

Effective Date

- Effective as follows:
 - Exclusion for defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and governing board criteria are effective immediately
 - 457 Plan Accounting is effective for fiscal years beginning after June 15, 2021
 - All other requirements are effective for reporting periods beginning after June 15, 2021

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



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GASB 89

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

- Issued: June 2018

Objective:

- Simplify the accounting for interest cost

Background

- Previously was accounted for under Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

Main Provisions

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred
 - Economic resources measurement focus
- Not included in the historical cost of a capital asset reported in a business-type activity or enterprise fund

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Main Provisions Cont'd

- Reiterates that in FS prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles

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Effective Date (as amended)

- Effective for reporting periods beginning after December 15, 2020
 - Earlier application is encouraged
- Applied prospectively

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GASB 90, Majority Equity Interests



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GASB 90

Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61

- Issued: August 2018

Background:

- Stakeholders requested that GASB clarify whether a government reporting a majority equity interest in a legally separate organization should apply the guidance for reporting component units in Statement 14, as amended, or the guidance for reporting investments in Statement 72



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Legally Separate

- Reporting a Majority Equity Interest in a Legally Separate Organization
 - If a government's holding of an equity interest meets the definition of an investment in GASB 72, the equity interest should be reported as an investment and measured using the equity method in accordance with GASB 62
 - Should not be reported as a component unit of the government



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Exception

- If a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund holds a majority equity interest in a legally separate organization that meets the definition of an investment, that majority equity interest should be measured at fair value under GASB 72

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Component Unit

- If a government's holding of a majority equity interest in a legally separate organization does NOT meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and, therefore, the government should report the legally separate organization as a component unit

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Effective Date (as amended)

- Effective for reporting periods beginning after December 15, 2019
 - Earlier application is encouraged

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GASB 92, Omnibus



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GASB 92

Omnibus 2020

- Issued: February 2020

Background:

- Addresses practice issues that have been identified during implementation and application of certain GASB Statements

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Change in Effective Dates for Leases

- GASB 87 is effective for fiscal years beginning after December 15, 2019, and all reporting periods thereafter
 - Earlier application is encouraged
- IG 2019-3 is effective for fiscal years beginning after December 15, 2019, and all reporting periods thereafter
 - Earlier application is encouraged if Statement 87 has been implemented

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Intra-Entity Transfers

- When transferring capital or financial assets between a governmental employer or nonemployer contributing entity and a defined benefit pension plan or a defined benefit OPEB plan that are within the same financial reporting entity, any difference between the amount paid by the pension plan or OPEB plan (exclusive of amounts that may be refundable) and the carrying value of the assets transferred should be reported as follows:

As an employer contribution or a nonemployer contributing entity contribution to the pension plan or OPEB plan in the separately issued statements of the employer or nonemployer contributing entity and in the financial statements of the reporting entity

GASB 68, 75

As an employer contribution or a nonemployer contributing entity contribution in the standalone statements of the pension plan or OPEB plan and in the financial statements of the reporting entity

GASB 67, 74

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84 vs. 73/74

- Paragraph 116 of GASB 73 or paragraph 59 of Statement 74 should be applied to circumstances in which GASB 84 requires the reporting of assets that are accumulated for purposes of providing pensions or OPEB through defined benefit pension plans or defined benefit OPEB plans that are not administered through trusts

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Applicability of GASB 84

- A government that reports a fiduciary activity for assets that are accumulated for purposes of providing pensions or OPEB through defined benefit pension plans or defined benefit OPEB plans that are not administered through trusts should apply the requirements in paragraph 21 of Statement 84 with regard to recognition of a liability to the beneficiary (employer)

Applicability of GASB 84 Cont'd

- If reported as a fiduciary activity, a defined contribution pension plan or a defined contribution OPEB plan should apply the financial statement presentation requirements in GASB 84
 - GASB 67 and 74 only provide note disclosure requirements

Acquisition Accounting & AROs

- Updates GASB 69 to require that the acquiring government to measure liabilities (and assets) related to the acquired entity's AROs under GASB 83 instead of acquisition value per GASB 69

Reinsurance Recoverables

- Amounts that are recoverable from reinsurers or excess insurers and relate to paid claims and claim adjustment expenses **may** be reported as reductions of expenses but are **not required** to be for risk financing and insurance-related activities of public entity risk pools

Typos!

- An example of nonrecurring fair value measurements of assets or liabilities is presented in paragraph 455 of GASB 62
 - Prior guidance indicated 453

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Terminology

- The terms derivative and derivatives should be replaced with derivative instrument and derivative instruments, respectively
 - Consistent with definition in GASB 53

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Effective Dates (as amended)

- GASB 87 and IG 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance
- Intra-entity transfers of assets and those related to the applicability of GASB 73 and 74 are effective for fiscal years beginning after June 15, 2021
- Application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021
- Measurement of liabilities associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021

GASB 93, Replacement of Interbank Offered Rates



GASB 93

Replacement of Interbank Offered Rates

- Issued: April 2020 (approved by board March)

Objective:

- Address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, relevance, consistency, and comparability of reported information

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Background

GASB 53

- Change in rate requires termination of hedge

GASB 87

- Change in rate requires revaluation

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Termination Exception

- An amendment of a hedged item to replace the reference rate with another reference rate (that is adjusted, as necessary, to essentially equate the replacement rate and the original rate) by either changing the reference rate or adding or changing fallback provisions related to the reference rate, is not a termination event

Appropriate Benchmark Interest Rates

- Appropriate benchmark interest rates for a derivative instrument that hedges the interest rate risk of taxable debt are an interest rate on direct Treasury obligations of the U.S. government, the Effective Federal Funds Rate (EFFR), and a SOFR
- LIBOR is not an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate risk of taxable debt

Reference Rate – OLD Definition

- The rate to which a derivative instrument's variable payment is linked. Common reference rates are LIBOR, the SIFMA swap index, the AAA general obligations index, and the pricing point of a commodity. For example, a commodity swap's variable payment may be linked to the price of No. 2 heating oil at the New York harbor pricing point. Other literature may refer to a reference rate as a reference index.

Reference Rate – NEW Definition

- A specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). A reference rate may be a price or rate of an asset or a liability but is not the asset or liability itself. A reference rate is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument. Other accounting literature may refer to a reference rate as a reference index or an underlying.

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Leases

- An amendment of the contract solely to replace the IBOR with another rate (that is adjusted, if necessary, to essentially equate the replacement rate and the original rate) by either changing the rate or adding or changing fallback provisions related to the rate, is not a lease modification

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Effective Date (as amended)

- Removal of LIBOR as an appropriate benchmark interest rate:
 - Reporting periods ending after December 15, 2021
- The modification for leases:
 - For fiscal years periods beginning after June 15, 2021
- All other requirements:
 - Reporting periods beginning after June 15, 2020
- Earlier application encouraged

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Standards Coming
Down the Pike



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Down the Pike

GASB 87,
Leases

GASB 91,
Conduit Debt

GASB 94,
PPP

GASB 96,
SBITA

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GASB Projects



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Current Agenda

Revenue & Expense Recognition

Conceptual Framework – Recognition

Financial Reporting Model

Compensated Absences

Note Disclosures

Renaming the Comprehensive Annual Financial Report



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What Questions Do You Have?



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