GASB updates: OPEB and leases

June 6, 2019

Agenda

01 Overview
02 GASB 75 – OPEB
03 GASB 87 – Leases
04 Other GASB standards
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
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

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.
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?

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
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

### Terminology changes
<table>
<thead>
<tr>
<th>Old OPEB standard (GASB 45)</th>
<th>New OPEB standard (GASB 75)</th>
<th>Pension standard for comparison (GASB 68)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal cost</td>
<td>Service cost</td>
<td>Service cost</td>
</tr>
<tr>
<td>Annual required contribution (ARC)</td>
<td>Actuarially determined contribution (ADC)</td>
<td>Actuarially determined contribution (ADC)</td>
</tr>
<tr>
<td>Annual OPEB cost</td>
<td>OPEB expense</td>
<td>Pension expense</td>
</tr>
<tr>
<td>Actuarially accrued liability</td>
<td>Total OPEB liability (TOL)</td>
<td>Total pension liability (NPL)</td>
</tr>
<tr>
<td>Actuarial value or market value of assets</td>
<td>Plan fiduciary net position</td>
<td>Plan fiduciary net position</td>
</tr>
<tr>
<td>Unfunded accrued liability</td>
<td>Net OPEB liability (NOL)</td>
<td>Net pension liability (NPL)</td>
</tr>
</tbody>
</table>
**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)

**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
GASB 75 vs. GASB 45 – Disclosures

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

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

<table>
<thead>
<tr>
<th>Actuarial information</th>
<th>GASB 45</th>
<th>GASB 75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded status of the plan (AAL, UAAL, ARC, etc.)</td>
<td>Yes</td>
<td>n/a</td>
</tr>
<tr>
<td>Discount rate</td>
<td>One rate</td>
<td>Based on plan investments or index if no investments or blended</td>
</tr>
<tr>
<td>Actuarial cost method</td>
<td>Had options</td>
<td>Entry age</td>
</tr>
<tr>
<td>Sensitivity measurement</td>
<td>None</td>
<td>Discount rate and healthcare trend rate</td>
</tr>
</tbody>
</table>

**Amortization periods**

<table>
<thead>
<tr>
<th></th>
<th>GASB 45</th>
<th>GASB 75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment gain/loss</td>
<td>Up to 30 years</td>
<td>5 years</td>
</tr>
<tr>
<td>Liability gain/loss</td>
<td>Up to 30 years</td>
<td>Average working lifetime</td>
</tr>
<tr>
<td>Assumption changes</td>
<td>Up to 30 years</td>
<td>Average working lifetime</td>
</tr>
<tr>
<td>Plan changes</td>
<td>Up to 30 years</td>
<td>Immediate</td>
</tr>
</tbody>
</table>
GASB 75 vs. GASB 45 – Disclosures (cont.)

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>GASB 45</th>
<th>GASB 75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation rate</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Healthcare cost trend rates</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Salary changes</td>
<td>Yes, if applicable</td>
<td>Yes</td>
</tr>
<tr>
<td>Postemployment benefit changes</td>
<td>Yes, if applicable</td>
<td>Yes</td>
</tr>
<tr>
<td>Mortality assumption and source</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Dates of experience studies on which significant assumptions are based</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**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
## Sample detail of liability change

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

### 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%):

<table>
<thead>
<tr>
<th>Net OPEB liability</th>
<th>1% decrease</th>
<th>Current discount rate</th>
<th>1% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>$37,428,880</td>
<td>$37,428,880</td>
<td>$21,989,336</td>
<td>$7,788,919</td>
</tr>
</tbody>
</table>

### 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%):

<table>
<thead>
<tr>
<th>Net OPEB liability</th>
<th>1% decrease</th>
<th>Healthcare cost trend rates</th>
<th>1% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,860,495</td>
<td>$6,860,495</td>
<td>$21,989,336</td>
<td>$38,978,628</td>
</tr>
</tbody>
</table>
GASB 75 differences from GASB 45

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

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
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

Example

Sample information

<table>
<thead>
<tr>
<th></th>
<th>January 1, 2018</th>
<th>December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing GASB 45 OPEB liability</td>
<td>$50,000</td>
<td>n/a</td>
</tr>
<tr>
<td>GASB 75 total OPEB liability</td>
<td>$250,000</td>
<td>$265,000</td>
</tr>
<tr>
<td>GASB 75 deferred outflows</td>
<td>$10,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>GASB 75 deferred inflows</td>
<td>$2,000</td>
<td>$3,000</td>
</tr>
</tbody>
</table>
Example (cont.)

Sample entries – full accrual statements

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>January 1, 2018</strong></td>
<td></td>
</tr>
<tr>
<td>Existing GASB 45 OPEB liability</td>
<td>10,000</td>
</tr>
<tr>
<td>Deferred outflows – OPEB</td>
<td></td>
</tr>
<tr>
<td>GASB 75 OPEB liability</td>
<td>$ 250,000</td>
</tr>
<tr>
<td>Deferred inflows – OPEB</td>
<td>2,000</td>
</tr>
<tr>
<td>Equity</td>
<td>192,000</td>
</tr>
<tr>
<td><strong>December 31, 2018</strong></td>
<td></td>
</tr>
<tr>
<td>Deferred outflows – OPEB</td>
<td>$ 15,000</td>
</tr>
<tr>
<td>GASB 75 OPEB liability</td>
<td>1,000</td>
</tr>
<tr>
<td>Deferred inflows – OPEB</td>
<td></td>
</tr>
<tr>
<td>Pension and benefit expense</td>
<td>14,000</td>
</tr>
</tbody>
</table>

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
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

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)
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?

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
GASB 75 resources

**Statement No. 75** (complete standard, background and illustrative sample disclosures and RSI)

**Implementation Guide No. 2017-3, Accounting and Financial Reporting for OPEB** (addresses certain implementation questions)

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

---

GASB Statement No. 87

**Leases**

---
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

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
“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

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
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**

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)
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

Lease term: Overview

**Start** - Lease term Start with the noncancelable period identified in the lease (base lease term)

**Inclusions and exclusions**
- Account for periods covered by lessees’ and lessors’ options to:
  - Extend lease, if option is reasonably certain of being exercised
  - Terminate lease, if option is reasonably certain of NOT being exercised

**Clauses**
- 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
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

---

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
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

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
**Lease Term Example (cont.)**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncancelable period</td>
<td>Years 1-2</td>
</tr>
<tr>
<td>+ Period covered by options to terminate when it’s NOT certain to be exercised</td>
<td>Years 3</td>
</tr>
<tr>
<td>+ Period covered by <em>Option to Extend</em> when it’s reasonably certain to be exercised</td>
<td>Years 4-5</td>
</tr>
<tr>
<td><strong>Total lease term</strong></td>
<td><strong>5 Years</strong></td>
</tr>
</tbody>
</table>

**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

**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
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

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
Lessee accounting

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

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”
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

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
Lessee accounting overview

<table>
<thead>
<tr>
<th>Lessee</th>
<th>Assets</th>
<th>Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiation of lease</td>
<td>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</td>
<td>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</td>
</tr>
<tr>
<td>Subsequent recognition and measurement</td>
<td>Amortize over shorter of useful life or lease term</td>
<td>Reduce by lease payments (less amount of interest expense)</td>
</tr>
</tbody>
</table>

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
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

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

<table>
<thead>
<tr>
<th>Capital Assets – Year 2</th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Deletions</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$1,000,000</td>
<td></td>
<td></td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Total Capital Assets not being depreciated</td>
<td>$1,000,000</td>
<td></td>
<td></td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Capital assets being depreciated / amortized</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>$5,000,000</td>
<td>500,000</td>
<td></td>
<td>$5,500,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>400,000</td>
<td>36,000</td>
<td>10,000</td>
<td>426,000</td>
</tr>
<tr>
<td>Leased Building (intangible asset)</td>
<td>600,000</td>
<td>100,000</td>
<td></td>
<td>600,000</td>
</tr>
<tr>
<td>Leased Vehicles (intangible asset)</td>
<td>97,678</td>
<td></td>
<td></td>
<td>97,678</td>
</tr>
<tr>
<td>Total capital assets being depreciated / amortized</td>
<td>$5,907,678</td>
<td>636,000</td>
<td>10,000</td>
<td>$6,623,678</td>
</tr>
<tr>
<td>Less: Accumulated depreciation for Building</td>
<td>3,300,000</td>
<td>110,000</td>
<td></td>
<td>3,410,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>340,800</td>
<td>28,400</td>
<td>10,000</td>
<td>359,200</td>
</tr>
<tr>
<td>Less: Accumulated amortization for Leased building</td>
<td>20,000</td>
<td>20,000</td>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td>Leased vehicles</td>
<td>19,926</td>
<td>19,926</td>
<td></td>
<td>39,852</td>
</tr>
<tr>
<td>Total depreciation and amortization</td>
<td>3,680,136</td>
<td>177,326</td>
<td>10,000</td>
<td>3,868,482</td>
</tr>
<tr>
<td>Net capital assets being depreciated and amortized</td>
<td>$2,317,542</td>
<td>458,084</td>
<td></td>
<td>2,775,626</td>
</tr>
</tbody>
</table>

- 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

Future lease payment maturity schedule

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>$19,466</td>
<td>$4,534</td>
<td>$24,000</td>
</tr>
<tr>
<td>2024</td>
<td>20,666</td>
<td>3,334</td>
<td>24,000</td>
</tr>
<tr>
<td>2025</td>
<td>21,941</td>
<td>2,059</td>
<td>24,000</td>
</tr>
<tr>
<td>2026</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2027</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2028-2032</td>
<td></td>
<td></td>
<td>$62,073 $9,927 $72,000</td>
</tr>
</tbody>
</table>
Lessor accounting

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

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
### 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

### Lessor measurement (cont.)

### Lessor accounting overview

<table>
<thead>
<tr>
<th>Lessor</th>
<th>Assets</th>
<th>Deferred inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Initiation of lease</strong></td>
<td>Lease receivable (generally including same items as lessee liability)</td>
<td>Equal to lease receivable plus any cash received up front that relates to a future period</td>
</tr>
<tr>
<td></td>
<td>Continue to report leased asset</td>
<td></td>
</tr>
<tr>
<td><strong>Subsequent recognition and measurement</strong></td>
<td>Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)</td>
<td>Recognize revenue over the lease term on a systematic and rational basis</td>
</tr>
<tr>
<td></td>
<td>Reduce receivable by lease payments (less payment needed to cover accrued interest)</td>
<td></td>
</tr>
</tbody>
</table>
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. Change in lease term
2. Change in the rate the lessor charges the lessee
3. 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

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
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)

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?
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

Leases with/between blended component units
- Eliminations for internal leasing activity take place before the financial statement are aggregated

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

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
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

GASB 87 resources

Statement No. 87

Baker Tilly on-demand webinar and podcasts
bakertilly.com/insights/tag/gasb87
- GASB 87 countdown
- Lease term: Overview, calculation and importance
- Lessee accounting: Bus lease example
- Lessor accounting: Building lease example
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
**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

**Overview of fiduciary fund types**

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

**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)

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

GASB 84 action steps
- Identify potential fiduciary activities
- Assess whether those potential activities meet the fiduciary activity reporting criteria
- Determine activities that should be reported as a part of the governmental activities or business type activities (budget considerations)
- Audit considerations
GASB 84 resources

Statement No. 84

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

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
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)

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
QUESTIONS?
Connect with us

Kimberly Shult, CPA
Partner
Baker Tilly Virchow Krause, LLP
3410 Oakwood Mall Drive, Suite 200
Eau Claire, WI 54701
+1 (715) 828 3409
kimberly.shult@bakertilly.com

Disclosure

The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought.

Baker Tilly Virchow Krause, LLP trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. © 2019 Baker Tilly Virchow Krause, LLP.