SIKICH®
ACCOUNTING TECHNOLOGY ADVISORY

GASB **UPDATE**

IMTA 2021 INSTITUTE

SIKICH.COM

TODAY'S **PRESENTERS**

FRED LANTZ
CPA
DIRECTOR
fred.lantz@sikich.com
630.566.8557

LINDSEY FISH
CPA
SENIOR MANAGER
lindsey.fish@sikich.com
630.566.8400

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ABOUT **SIKICH**

- **MULTI-DISCIPLINARY:** We are a professional services firm specializing in auditing, accounting, technology and advisory services with clients in the U.S. and around the world.
- **EXCELLENT REPUTATION:** With a reputation for professional excellence, Sikich provides unsurpassed client service as well as timely and cost-effective services.
- **STRONG TALENT:** We employ more than 1,000 talented people including over 100 partners, all of whom devote their careers to a focused area.
- **AWARD-WINNING:** Sikich has been ranked as the country's 28th largest accounting firm, as well as the seventh-largest value-added technology provider nationally, both by Accounting Today.

BY **THE NUMBERS**

1000+
Total personnel

100
Total Partners

50
States served, with clients nationwide

35
Years serving clients, as a firm

1
Collaborative and positive culture

SIKICH **SERVICE LINES**

AUDIT, ACCOUNTING & TAX

Assurance & Accounting Services

Employee Benefits Plan & Retirement Plan Audits

Tax Compliance & Planning

International Tax

TECHNOLOGY

ERP & CRM Software and Consulting

IT Services

Cloud & Hosting Services

IT Security Services

Technology Consulting & Projects

Security & Compliance

Cybersecurity

ADVISORY

Forensic & Valuation Services

General Business Consulting

Human Capital Management & Payroll Consulting

Insurance Services

Investment Banking

Marketing & Design

Private Equity

Public Relations

Retirement Services

Risk Advisory

Succession Planning

Supply Chain

Transaction Advisory

Wealth Management

GASB S-95 **Postponement of the Effective Dates of Certain Authoritative Guidance**

- **What:**
  - GASB issued Statement No. 95 in May 2020 providing governments the ***option*** to delay the required implementation date of certain statements and implementation guides
- **Why:**
  - Statement No. 95 was issued to provide relief to governments during the pandemic based on requests by various stakeholders
- **When:**
  - Effective upon issuance
- Can choose to defer all, one, some or none

EFFECTIVE DATES **ARE POSTPONED ONE YEAR FOR THESE PRONOUNCEMENTS IN THEIR ENTIRETY**

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*
- Statement No. 91, *Conduit Debt Obligations*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

EFFECTIVE DATES **ARE POSTPONED ONE YEAR FOR CERTAIN PROVISIONS OF THESE PRONOUNCEMENTS**

- Statement No. 92, *Omnibus 2020*, paragraphs 6–10 and 12
- Statement No. 93, *Replacement of Interbank Offered Rates*, pars. 13 and 14
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*, Questions 4.85, 4.103, 4.108, 4.109, 4.225, 4.239, 4.244, 4.245, 4.484, 4.491 and 5.1–5.4

EFFECTIVE DATES **ARE POSTPONED 18 MONTHS FOR THESE PRONOUNCEMENTS**

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

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EFFECTIVE DATES **AFTER STATEMENT 95**

JUNE 30: **FISCAL YEAR 2020**

- Statement 83 – asset retirement obligations
- Statement 88 – debt disclosures
- IG 2018-1 – Update

JUNE 30: **FISCAL YEAR 2021**

- Statement 84 – fiduciary activities
- Statement 90 – majority equity interests
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update
- IG 2019-2 – fiduciary activities

JUNE 30: **FISCAL YEAR 2022**

- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update (except 4.6–4.17 and 4.19–4.21)

JUNE 30: **FISCAL YEAR 2023**

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)

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EFFECTIVE DATES **AFTER STATEMENT 95**

DECEMBER 31: **FISCAL YEAR 2020**

- Statement 83 – asset retirement obligations
- Statement 84 – fiduciary activities
- Statement 88 – debt disclosures
- Statement 90 – majority equity interests
- IG 2018-1 – Update
- IG 2019-2 – fiduciary activities

DECEMBER 31: **FISCAL YEAR 2021**

- Statement 89 – construction-period interest
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update

DECEMBER 31: **FISCAL YEAR 2022**

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update

DECEMBER 31: **FISCAL YEAR 2023**

- Statement 94 – public-private partnerships
- Statement 96 – SBITAs

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EFFECTIVE DATES **AFTER STATEMENT 95**

APRIL 30: **FISCAL YEAR 2021**

- Statement 84 – fiduciary activities
- Statement 88 - certain debt disclosures
- Statement 90 – majority equity interests
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-2 – fiduciary activities

APRIL 30: **FISCAL YEAR 2022**

- Statement 89 – construction-period interest
- IG 2019-1 – update

APRIL 30: **FISCAL YEAR 2023**

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update

GASB Technical Bulletin (TB) **2020-1 ACCOUNTING AND FINANCIAL REPORTING ISSUES RELATED TO THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (Cares act) and coronavirus diseases**

- **What:**
  - GASB issued TB 2020-1 in June 2020 to clarify how existing guidance applies to resources received from programs established by the CARES ACT
- **Why:**
  - GASB staff received a number of questions regarding accounting and financial reporting issues related to CARES ACT funding. This TB was issued to provide guidance on how to apply existing standards to the funding.
- **When:**
  - Effective immediately

GASB TB **2020-1**

- **Question 1:**
  - Are resources received from the Coronavirus Relief Fund (CRF) subject to eligibility requirements or to purpose restrictions? When should those resources be accounted for as revenue?
- **Response:**
  - CRF funds are subject to eligibility requirements as defined by the U.S. Treasury. While not "grants", GASB S-33 would apply. Funds received should be reported as liabilities until eligibility requirements are met at which time revenue would be recognized. A receivable/revenue would be accrued when qualifying costs have been incurred if not yet reimbursed, subject to the government's revenue recognition criteria.

GASB TB **2020-1**

- **Question 2:**
  - Certain CARES ACT programs provide resources to address a government's loss of revenue attributable to COVID-19. Should this be considered an eligibility requirement for purposes of revenue recognition?
- **Response:**
  - Yes, revenue would be recognized in the period when all eligibility requirements are met.

GASB TB **2020-1**

- **Question 3:**
  - If amendments are enacted to the CARES ACT after the statement of net position date but prior to the issuance of financial statements should the government, consider those amendments as the basis for recognition in financial statement for the period reported?
- **Response:**
  - No, any amendment to the CARES ACT enacted after the statement of net position date should be considered a nonrecognizable subsequent event pursuant to paragraphs 8-12 of GASB S-56.

GASB TB **2020-1**

- **Question 4:**
  - If a governmental entity received a forgivable loan pursuant to the Paycheck Protection Program and the government determines that the loan will be forgiven in a subsequent period, should the government continue to report the loan as a liability at year end?
- **Response:**
  - Yes, in accordance with GASB S-70, paragraph 12, the government continues to report the loan as a liability until the government is legally released from the debt.

GASB TB **2020-1**

- **Question 5:**
  - Should CARES ACT resources to a business-type activity or enterprise fund be reported as nonoperating revenues?
- **Response:**
  - Generally, resources provided pursuant to the CARES ACT are subsidies and should be reported as non-operating revenue. Resources provided through the Provider Relief Fund's Uninsured Program constitute payment for care or treatment of uninsured individuals testing positive for COVID-19 and should be reported as operating revenues.

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GASB TB **2020-1**

- **Question 6:**
  - Should outflows of resources incurred in response to the coronavirus disease be reported as extraordinary items or special items?
- **Response:**
  - No, extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items meet the same definition but are within the control of management. Outflows for this do not meet either definition.

GASB S-98 **THE ANNUAL COMPREHENSIVE FINANCIAL REPORT**

- **What:**
  - GASB issued Statement 98 to replace references in authoritative literature to the term comprehensive annual financial report
- **Why:**
  - The acronym for the term comprehensive annual financial report sounds like a profoundly offensive term directed at certain South Africans.
- **When:**
  - Effective for fiscal years ending after December 15, 2021 (FYE December 31, 2021, and thereafter). Early application is encouraged.
- **Implementation Guide**:
  - None

GASB S-98 **THE ANNUAL COMPREHENSIVE FINANCIAL REPORT**

- This Statement replaces an existing term but does not otherwise establish new accounting and financial reporting requirements
- The requirements of this Statement apply to all state and local governments
- The terms comprehensive annual financial report and comprehensive annual financial reports in NCGA and GASB pronouncements are replaced with **annual comprehensive financial report** and **annual comprehensive financial reports, respectively**.
  - The associated acronyms in NCGA and GASB pronouncements are replaced with **ACFR** and **ACFRs**.

GASB S-83 **CERTAIN ASSET RETIREMENT OBLIGATIONS**

- **What:**
  - GASB issued Statement 83 to establish accounting and financial reporting standards for legal obligations to retire certain capital assets, such as decommissioning nuclear power plants and removing sewage treatment plants
- **Why:**
  - Statement 18 addressed only municipal landfills but governments have retirement obligations for other types of capital assets. Diversity exists in practice.
- **When:**
  - Effective for fiscal years beginning after June 15, 2018 (June 30, 2019). Earlier application is encouraged.

DEFINITIONS **AND SCOPE**

- Asset retirement obligation—**Legally** enforceable liability associated with the retirement of a tangible capital asset
- Retirement of a tangible capital asset—The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)
- Includes:
  - Nuclear power plant decommissioning
  - Capping and removing wells in Illinois
  - Removing water intakes in waterways in Illinois
  - Contractually required land restoration, such as removal of wind turbines
  - Other similar obligations

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RECOGNITION & **MEASUREMENT**

Initial Recognition	ARO liability when incurred and reasonably estimable. Incurrence manifested by both external (legal requirement) and internal obligating events (asset placed in service). Measured based on the best estimate of the current value of outlays expected to be incurred.	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	• At least annually, adjust for general inflation or deflation • At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant	An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned.

GASB S-83 **DISCLOSURES**

- General description of ARO and associated tangible capital assets
  - Include source of AROs (federal, state, or local laws and regulations, contracts, or court judgments)
- Methods and assumptions used to measure ARO liabilities
- Estimated remaining useful life of tangible capital assets
- How financial assurance requirements, if any, are being met
- Amount of assets restricted for payment of ARO liabilities, if not separately displayed in financial statements
- If a government has an ARO (or portions of an ARO) that is incurred but not yet recognized because it cannot be reasonably estimated, that fact and the reasons therefore

Capital Asset descriptic	ARO descriptior	ARO amount	Source of obligatior	How liability measure	Life of capital asse	Funds set asid
Well 1, located at 2 N Slade Avenue, approximately 50 feet east of the North corner of the building	Well must be filled with disinfected pea gravel or limestone chips. Neat cement grout or a bentonite product manufacturered for water well sealing must be used to seal the well. Casings must be removed to two feet below grade.	$100,000	Illinois Administrative Code Title 77: Chapter I, Subchapter r, Part 920, Section 920.120 Abandoned Wells	Cost estimate based on abandonement of Well 6, completed in 2013	100 years	0
Well 2, located at 2 N Slade Avenue, approximately 250 feet northeast of the North corner of the building	Well must be filled with disinfected pea gravel or limestone chips. Neat cement grout or a bentonite product manufacturered for water well sealing must be used to seal the well. Casings must be removed to two feet below grade.	$100,000	Illinois Administrative Code Title 77: Chapter I, Subchapter r, Part 920, Section 920.120 Abandoned Wells	Cost estimate based on abandonement of Well 6, completed in 2013	100 years	0
Well 2 motor, located in the Well 2 well hole	The motor seal shall be balanced and the seal and motor shall be dewatered in accordance with all required procedures for shipping the motor. These procedures shall be performed by a factory authorized service technician. As a result of the new July 1, 2012 IEPA guidelines the motor/bowl disconnection and seal servicing shall not be conducted over the well, but shall be conducted in a sealed motor service containment module that has been transported to t site. The motor shall then be shipped to a USEPA certified mercury decontamination facility for proper decommissioning of the mercury seal. THe City will obtain a certificate stating that 99.9% of the mercury from the motor has been disposed of properly with the USEPA ID number of the facility shown above the certifier's signature.	$20,000	410 ILCS 46/27	Cost estimate based on disposal of motor from W 3A, completed in 2019	10 years	0

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CITY OF ELGIN, ILLINOIS
WATER FUND ASSET RETIREMENT OBLIGATION

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

December 31, 2019

	Business-Type Activities				Governmental Activities
	Water	Sewer	Nonmajor Enterprise Fund	Total	Internal Service Funds
CURRENT ASSETS					
Cash and investments	$ 27,630,605	$ 12,552,007	$ 216,466	$ 40,399,078	$ 25,657,874
Receivables					
Accounts	2,953,878	799,825	33,342	3,787,045	-
Accrued interest	193,158	97,002	-	290,160	86,086
Other	20,095	21	-	20,116	13,270
Prepaid expenses	-	-	2,000	2,000	490,258
Inventories	935,999	-	70,380	1,006,379	73,726
Due from other funds	2,088	6,806	-	8,894	33,327
Total current assets	31,735,823	13,455,661	322,188	45,513,672	26,354,541
NONCURRENT ASSETS					
Capital assets					
Nondepreciable	2,843,479	80,900	7,260	2,931,639	-
Depreciable, net of accumulated depreciation	174,399,552	99,574,974	21,292,499	295,267,025	5,320,713
Net capital assets	177,243,031	99,655,874	21,299,759	298,198,664	5,320,713
IMRF net pension asset	-	-	-	-	-
Advance to other funds	3,116,777	576,825	-	3,693,602	-
Total noncurrent assets	180,359,808	100,232,699	21,299,759	301,892,266	5,320,713
Total assets	212,095,631	113,688,360	21,621,947	347,405,938	31,675,254
DEFERRED OUTFLOWS OF RESOURCES					
Unamortized loss on refunding	1,265,390	456,963	-	1,722,353	-
Asset retirement obligation items	1,026,000	-	-	1,026,000	-
Pension items - IMRF	3,097,790	752,771	459,151	4,309,712	-
OPEB items	-	-	-	-	-
Total deferred outflows of resources	5,389,180	1,209,734	459,151	7,058,065	-
Total assets and deferred outflows of resources	217,484,811	114,898,094	22,081,098	354,464,003	31,675,254

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14. TAX ABATEMENTS

The City rebates home rule sales tax and property taxes to encourage economic development in the City. The terms of these rebate arrangements are specified within written agreements with the business concerned through the City's economic development program. Certain rebates may be recaptured if the business fails to meet or maintain the criteria established in the written agreements. These agreements are authorized through resolutions approved by the City Council. The City rebated $17,904 in property taxes during the year ended December 31, 2019. The City rebated $594,675 of home rule sales tax during the year ended December 31, 2019.

15. ASSET RETIREMENT OBLIGATIONS

The City has recognized an asset retirement obligation (ARO) and related deferred outflow of resources in connection with its obligation to seal and abandon various water wells at the end of their estimated useful lives in accordance with federal, state and/or local requirements. The ARO was measured using actual historical costs for similar abandonments, adjusted for inflation through the end of the year. The estimated remaining useful lives of the water wells range from 10 to 100 years.

GASB S-84 **FIDUCIARY ACTIVITIES**

- **What:**
  - GASB issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements
- **Why:**
  - Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; business-type activities are uncertain about how to report fiduciary activities
- **When:**
  - Effective for fiscal years beginning after December 15, 2019 (FYE December 31, 2020 and thereafter)

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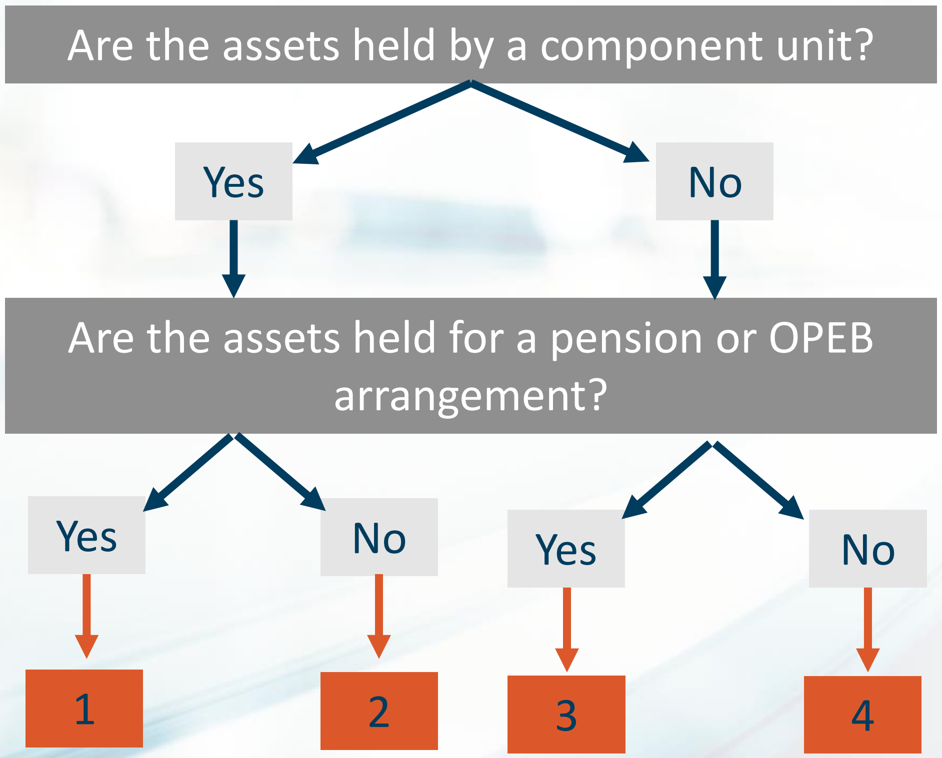
WHEN SHOULD **A GOVERNMENT REPORT ASSETS IN A FIDUCIARY FUND?**

FOUR PATHS TO MAKING THIS DETERMINATION:

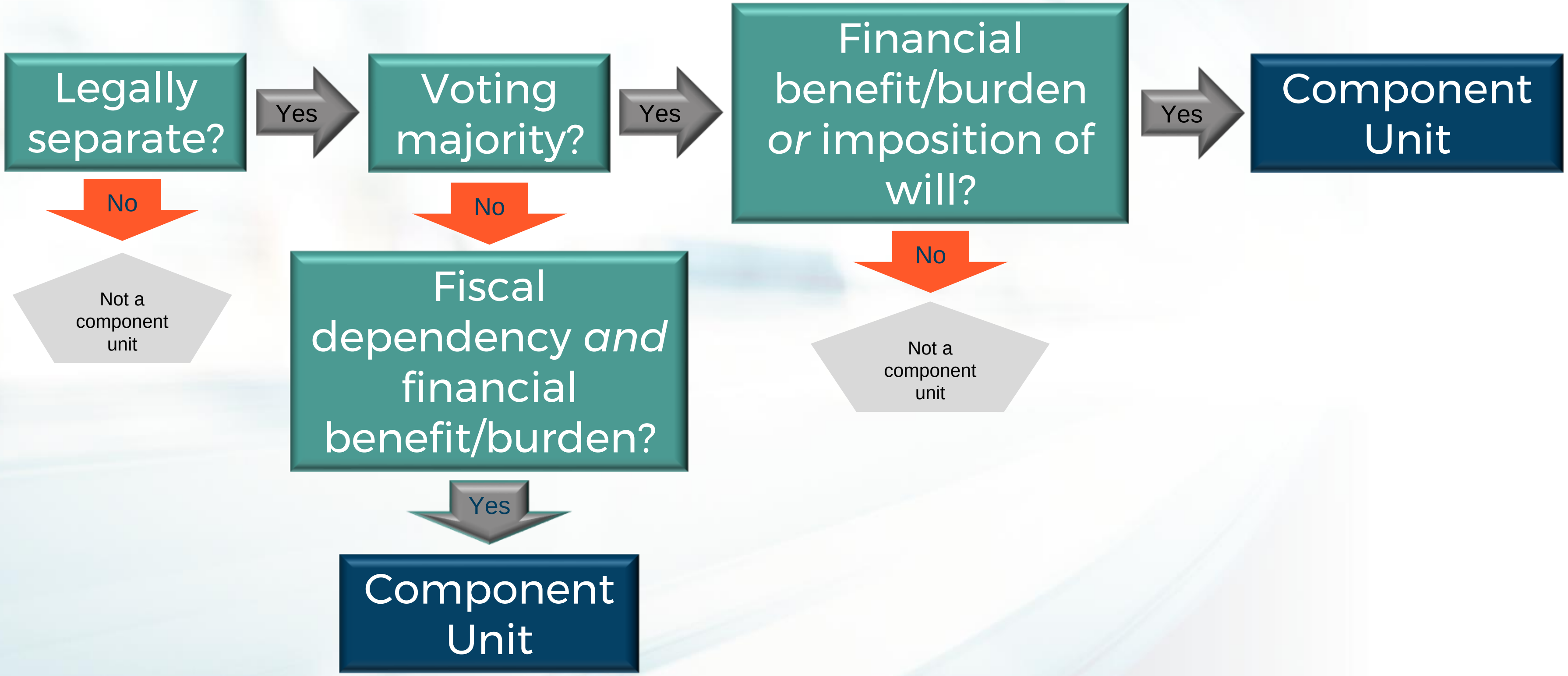
- Component units that are postemployment benefit arrangements
- Component units that are not postemployment benefit arrangements
- Postemployment benefit arrangements that are not component units
- All other activities

WHEN SHOULD **A GOVERNMENT REPORT ASSETS IN A FIDUCIARY FUND?**

Four paths to making this determination:



WHEN IS **THERE A COMPONENT UNIT?**



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RELEVANT GUIDANCE **ON FIDUCIARY COMPONENT UNITS**

Paragraph 7 of Statement 84 amended Statement 14 to indicate that a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to a pension plan or OPEB plan

Implementation Guide 2019-2 provided guidance that in the absence of a governing board, a government performing the duties of a governing board for a defined contribution (DC) plan that is administered through a trust that meets the criteria in Statement 67 is effectively the same as appointment of a voting majority

RELEVANT GUIDANCE **ON FIDUCIARY COMPONENT UNITS (CONTINUED)**

The implication of that existing and considered guidance is that many governments would be required to report DC plans and other employee benefit plans as component units in their fiduciary fund financial statements

The Board directed the staff to conduct additional outreach on the structure of those types of arrangements and user needs for information about them

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MODIFIED BY **GASB STATEMENT 97**

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is performing the duties a governing board normally would perform) should be treated the same as the **appointment of a voting majority** of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a **financial burden** applies only to defined benefit plans

COMPONENT UNITS **THAT ARE POSTEMPLOYMENT BENEFIT ARRANGEMENTS ARE FIDUCIARY IF…**

- They are one of the following arrangements:
  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

GASB S-84 **OTHER COMPONENT UNITS ARE FIDUCIARY IF…**

2

- They have one or more of the following characteristics:
  - The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
  - The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
  - The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

GASB S-84 **WHEN DOES A GOVERNMENT HAVE ADMINISTRATIVE INVOLVEMENT OR DIRECT FINANCIAL INVOLVEMENT?**

- Examples of administrative involvement
  - If it monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it has the ability to exercise discretion in how assets are allocated
- Example of direct financial involvement
  - If it provides matching resources for the activities

GASB S-84 **POSTEMPLOYMENT BENEFIT ARRANGEMENTS THAT ARE NOT COMPONENT UNITS ARE FIDUCIARY IF…**

- The government **controls** the assets of the arrangement, and the arrangement is one of the following arrangements:
  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

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GASB S-84 **WHEN IS A GOVERNMENT CONTROLLING ASSETS?**

- A government controls the assets of an activity if:
  - The government *holds* the assets.
  - The government has the ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

GASB S-84 **ALL OTHER ACTIVITIES ARE FIDUCIARY IF…**

ALL THREE OF THE FOLLOWING ARE MET:

- The government **controls** the assets
- Those assets are *not* derived either:
  - Solely from the government's own-source revenues, or
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have administrative or direct financial involvement
- One of the criteria on the next slide is met

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GASB S-84 **ALL OTHER ACTIVITIES (CONTINUED)**

- The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
- The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
- The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

GASB S-84 **FIDUCIARY ACTIVITIES**

- If any one of these paths is met, the activity meets the definition of a fiduciary activity to be reported in one of the following fiduciary funds
  - Pension (and other employee benefit) trust fund
  - Investment trust fund
  - Private-purpose trust
  - Custodial fund
    - Replaces agency funds

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GASB S-84 **STAND-ALONE BUSINESS-TYPE ACTIVITIES**

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

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GASB S-84 **FIDUCIARY FUND FINANCIAL REPORTING (CONT.)**

- Financial Statements
  - Statement of fiduciary net position
  - Statement of changes in fiduciary net position
  - Applies to all fiduciary funds, <u>including custodial funds</u>

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GASB S-84 **FIDUCIARY FUND FINANCIAL REPORTING**

- Accrual basis of accounting
- Economic resources measurement focus
- Liability recognition
  - A liability to the beneficiaries in a fiduciary fund should be recognized when an event has occurred that compels the government to disburse the fiduciary resources
  - Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets
- Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus.

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GASB S-84 **AND ILLINOIS DOWNSTATE POLICE AND FIRE PENSION PLANS**

- IGFOA Technical Accounting Review Committee (TARC)
  - Illinois CPA Society
  - GASB Research staff
  - White Paper
    - Most Article 3 and Article 4 police and fire pension plans meet the definition of a fiduciary component unit
      - Employer has a financial burden for funding a defined benefit plan, and
      - Plan is fiscally dependent on the employer due to the employer's ability to choose the actuarial assumptions used to calculate the actuarially determined contributions (ADC)
    - Add note to reporting entity disclosure identifying plans as fiduciary component units
    - Separately issued plan reports are "Fiduciary Component Units" reports

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APPLICATION OF **GASB STATEMENT NO 84**

- Developer Deposits
  - Municipality collects deposits from developers when plans for new construction are submitted to the municipality for review
  - The deposits are used to secure the payment of plan review fees, legal fees and, if approved, permit fees by the developer that are owed to the municipality
  - The municipality holds the funds in one of its demand deposit accounts
  - The funds are returned to the developer upon completion of the review or used for payment to the municipality for the services provided if not reimbursed by the developer
- Can these deposits from developers be accounted for in a fiduciary fund?
  - No, the plan review, legal and permit fees that the deposits are securing are the government's own source revenues

APPLICATION OF **GASB STATEMENT NO 84 (CONT.)**

- Tax collections
  - A county collects property taxes on all taxable property within its boundaries
  - Property taxes are collected for the county and for other taxing bodies
  - The property taxes collected and held for other governments are commingled with the taxes collected for the county and are not held in a trust or equivalent arrangement
  - The county holds the funds in a separate demand deposit account
  - The taxes collected are distributed to all taxing bodies at regular intervals (at least bi-monthly)
- Should the property taxes collected be accounted for in a fiduciary fund?
  - Yes, the taxes collected for other governments meets the definition of a fiduciary activity since the county controls the funds and these are held for other governments and should report this activity in a custodial fund. However, property taxes that the county collects for itself can not be reported in the custodial fund.

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GASB S-97, **CERTAIN COMPONENT UNIT CRITERIA, AND ACCOUNTING AND FINANCIAL REPORTING FOR INTERNAL REVENUE CODE SECTION 457 DEFERRED COMPENSATION PLANS**

- **What:**
  - GASB issued S-97 to change the criteria for including certain employee benefit plans as component units and improvements to Statement 32 on IRC Section 457 plans
- **Why:**
  - Some 457 plans have characteristics have changed due, in part, to changes in the IRC; questions been raised about whether certain employee benefit plans should be included as component units
- **When:**
  - Effective dates vary by topic

GASB **S-97**

- IRC 457 Plans
  - All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan
    - Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due
  - All requirements relevant to pensions should be applied by employers to benefits provided through Section 457 plans that meet the definition of a pension plan
    - If the employer contributes to a defined contribution plan disclosures required by GASB Statement No. 68, paragraph 126 should be presented
  - Investments should be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator is eliminated)

GASB **S-87 LEASES**

- **What:**
  - GASB issued S-87 to improve lease accounting and financial reporting
- **Why:**
  - The existing standards had been in effect for decades without review to determine if they remain appropriate in light of GASB conceptual framework and continue to result in useful information
  - FASB and IASB conducted a joint project to update their lease standards
  - An opportunity to increase comparability and usefulness of information and reduce complexity for preparers
- **When:**
  - Effective date is periods beginning after June 15, 2021 (June 30, 2022, and thereafter
- **Implementation Guide**:
  - IG No. 2019-3, *Leases* was issued in August 2019 and is effective for periods beginning after June 15, 2021 (June 30, 2022, and thereafter to coincide with the implementation of GASB S-87)

GASB S-87 **SCOPE AND APPROACH**

- Applied to any contract that meets the definition of a lease: "A lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction."
  - The right-to-use asset is that "specified in the contract"
  - Control is manifested by (1) the right to obtain 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
- Leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for leases with some exceptions, such as short-term leases

GASB S-87 **UNIFIED REPORTING MODEL FOR LEASES**

- No classification of leases into operating/capital or other categories
- Underlying assumption that leases are financings
- 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)

ISSUES **TO FOCUS ON AS SOON AS POSSIBLE**

Debt limits and bond covenants

- All leases lasting more than a year will be reported by lessees as long-term liabilities
- Review state and local laws and agreements to determine whether that could impact compliance with debt limitations and bond covenants

Lease policies and procedures

- May need to consider changing policies and procedures for tracking and reporting leases, both as lessee and lessor
- May need better communication between departments that enter into leases and central accounting staff
- Need procedures that identify when lease agreements have been initiated and when existing leases are modified (such as changes in lease term or estimated payment amounts)
- Should review capital asset policies, such as the capitalization thresholds, especially in light of the need to report intangible right-to-use assets

ISSUES **TO FOCUS ON AS SOON AS POSSIBLE (CONTINUED)**

Transition provisions

- Statement 87 requires that leases be recognized and measured using the facts and circumstances as of the beginning of the period of implementation
- For example:
  - As of July 1, 2021, for FYE June 30, 2022

LEASE **TERM**

- For financial reporting purposes, when does the lease start and end?
  - Start with the noncancelable period

- Plus, periods covered by options to:
  - Extend lease, if reasonably certain of being exercised
  - Terminate lease, if reasonably certain of *not* being exercised
- Excludes cancelable periods
  - Periods for which lessee and lessor both have option to extend or terminate (such as rolling month-to-month leases)
- Fiscal funding and cancellation clauses are ignored unless reasonably certain of being exercised

SHORT-TERM **LEASES**

Definition	**At beginning of lease, maximum possible term under the contract is 12 months or less**
Lessee accounting	• Recognize expenses/expenditures based on the terms of the contract • Do not recognize assets or liabilities associated with the right to use the underlying asset
Lessor accounting	• Recognize lease payments as revenue based on the payment provisions of the contract • Do not recognize receivables or deferred inflows

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GASB S-87 **INITIAL ACCRUAL BASIS REPORTING**

	Assets	Liability	Deferred Inflow
Lessee	Intangible lease 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 includes same items as lessee's liability) • Continue to report the leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

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GASB S-87 **SUBSEQUENT ACCRUAL BASIS REPORTING**

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease 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 amount needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

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GASB S-87 **INITIAL MODIFIED ACCRUAL BASIS REPORTING**

- Financial Statements Prepared Using the Current Financial Resources Measurement Focus – Lessee
  - An expenditure and other financing source should be reported in the period the lease is initially recognized.
  - Subsequent governmental fund lease payments should be accounted for consistent with principles for debt service payments on long-term debt (expenditure when due)

GASB S-87 **GENERAL LESSEE DISCLOSURES**

- General description of leasing arrangements
- Total amount of lease assets (by major classes of underlying assets), and the related accumulated amortization
- Amount of outflows of resources recognized for the period for variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease liability
- Principal & interest requirements to maturity for each of the next 5 fiscal years and in 5-year increments thereafter
- Commitments under leases that have not yet begun (other than short-term leases)
- Components of any net impairment loss recognized on the lease asset during the period.

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GOVERNMENTAL ACTIVITIES					
Capital Assets not Being Depreciated					
Land	$ 34,386,864	$ 14,220,254	$ 28,638	$ (327,919)	$ 48,250,561
Land Right of Way	104,122,961	59,529	-	-	104,182,490
Works of Art	977,267	-	-	-	977,267
Construction in Progress	30,020,606	9,076,966	323,113	-	38,774,459
Total Capital Assets not Being Depreciated	169,507,698	23,356,749	351,751	(327,919)	192,184,777
Tangible Capital Assets Being Depreciated					
Buildings and Land Improvements	149,152,436	490,406	-	327,919	149,970,761
Machinery and Equipment	29,247,952	760,313	144,309	-	29,863,956
Vehicles	16,504,720	715,065	352,438	-	16,867,347
Infrastructure	393,930,731	929,615	-	-	394,860,346
Intangible Capital Assets Being Depreciated					
Buildings and Land Improvements					
Equipment and Software					
Vehicles					
Total Capital Assets Being Depreciated	588,835,839	2,895,399	496,747	327,919	591,562,410
Less Accumulated Depreciation for Tangible Capital Assets					
Buildings and Land Improvements	$ 40,368,274	$ 3,502,596	$ -	$ -	$ 43,870,870
Machinery and Equipment	20,050,154	2,291,974	105,124	-	22,237,004
Vehicles	11,684,525	1,239,645	352,438	-	12,571,732
Infrastructure	161,493,352	7,536,005	-	-	169,029,357
Less Accumulated Amortization for Intangible Capital Assets					
Buildings and Land Improvements					
Equipment and Software					
Vehicles					
Total Accumulated Depreciation	233,596,305	14,570,220	457,562	-	247,708,963
Total Capital Assets Being Depreciated, Net	355,239,534	(11,674,821)	39,185	327,919	343,853,447
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 524,747,232	$ 11,681,928	$ 390,936	$ -	$ 536,038,224

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GASB S-87 **GENERAL LESSOR DISCLOSURES**

- General description of leasing arrangements
- Total amount of inflows of resources (such as lease revenue and interest revenue, if not otherwise displayed
- Amount of inflows of resources recognized for the period for variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease receivable
- The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments

APPLICATION **OF GASB STATEMENT NO 87**

- A village leases three squad cars from a vendor. The agreement:
  - Is for a period of 3 calendar years, non-cancellable by either party
  - the lease calls for 3 annual payments of $20,000 due on the first day of the year (total $60,000)
  - The lease does not contain an interest rate, therefore a rate of 3.0% annually has been assumed, with a net present value of future lease payments of $56,570
  - the lease does not transfer ownership of the squad cars at the end of the agreement
  - The squad cars have a useful life of 5 years

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APPLICATION **OF GASB STATEMENT NO 87**

- Is this a lease as defined by GASB Statement No 87?
- Why or why not?
- If yes how should this lease be accounted for by the Village
  - What would change if the lease transferred ownership of the squad cars to the Village at the end of the three years and the squad cars have a 5-year useful life

APPLICATION **OF GASB STATEMENT NO 87**

- Is this a lease as defined by GASB Statement No 87?
  - Yes, the agreement conveys control of the right to use the squad cars (underlying nonfinancial asset) for a period of time (3 years) in an exchange like transaction
- Lessee accounting
  - Inception
  - Governmental fund, CFRMF, MABOA)

Expenditure – leased asset (dr.)	56,570	
Other financing source – leases (cr.)		56,570

  - Governmental activities

Intangible asset – right to use squad cars (dr.)		56,570
Other financing source – leases (dr.)	56,570	
Expenditure - leased asset (cr.)		56,570
Lease payable (cr.)	56,570	

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APPLICATION **OF GASB STATEMENT NO 87**

- Lessee accounting
  - Payment made for year 1
  - Governmental fund, CFRMF, MABOA)
    - Principal paid leases (dr.) 19,420
    - Interest paid leases (dr.) 580
    - Cash (cr.) 20,000
  - Governmental activities
    - Lease payable (dr.) 19,420
    - Principal paid leases (cr.) 19,420
    - Amortization expense – leases (dr.) 18,857
    - Accumulated amortization – leases (cr.) 18,857
      (56,570, 3 year term)

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APPLICATION **OF GASB STATEMENT NO 87**

- What would change if the lease transferred ownership of the squad cars to the Village at the end of the three years and the squad cars have a 5-year useful life
- Is this a lease as defined by GASB Statement No 87?
  - No, since ownership transfers it is an installment purchase contract, not a lease
- How should this installment purchase be accounted for by the Village?

APPLICATION **OF GASB STATEMENT NO 87**

- Purchase accounting
  - Inception
  - Governmental fund, CFRMF, MABOA)

Expenditure – capital outlay (dr.)	60,000	
Other financing source – installment purchase (cr.)		60,000

  - Governmental activities

Vehicles squad cars (dr.)	60,000	
Other financing source – installment purchase (dr.)	60,000	
Expenditure – capital outlay (cr.)		60,000
Installment contract payable (cr.)		60,000

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APPLICATION **OF GASB STATEMENT NO 87**

- Lessee accounting
  - Payment made for year 1
  - Governmental fund, CFRMF, MABOA)
    - Principal paid IC (dr.) 20,000
    - Interest paid IC (dr.) 600
    - Cash (cr.) 20,600
  - Governmental activities
    - IC payable (dr.) 20,000
    - Principal paid IC (cr.) 20,000
    - Depreciation expense – vehicles (dr.) 12,000
    - Accumulated depreciation – vehicles (cr.) 12,000
      (60,000, 5 year useful life)

GASB S-89 **ACCOUNTING FOR INTEREST COST INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD**

- **What:**
  - GASB issued S-89 to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period
- **Why:**
  - The existing standards have provided guidance for capitalizing gross or net interest costs as part of the construction or acquisition of capital assets of proprietary funds and have not been consistently implemented in practice.
- **When:**
  - Effective date is periods beginning after December 15, 2020 (December 31, 2021, and thereafter). Early implementation is encouraged

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GASB S-89 **ACCOUNTING FOR INTEREST COST INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD**

- Accrual basis financial statements
- 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
- Interest cost should not be capitalized as part of the historical cost of a capital asset
- Apply prospectively
- Do not restate prior periods to remove previously capitalized interest
- Many governments have already early implemented this pronouncement

GASB S-90 **MAJORITY EQUITY INTEREST**

- **What:**
  - GASB proposed revisions to Statement 14 to address ownership of an equity interest in a legally separate entity.
- **Why:**
  - Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance
- **When:**
  - Effective for fiscal years ending December 31, 2020 and thereafter

GASB S-90 **MAJORITY EQUITY INTERESTS**

- Modifies previous guidance for reporting a majority equity interest in legally separate entity
  - Majority equity interest is a financial interest in a legally separate entity
    - Evidenced by ownership of a majority (>50%) of the stock of the legally separate entity, or
    - Having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government
      - Evidenced by a present or future claim to a majority of the net resources of the separate entity
- If the intent of holding the equity interest is for profit or to generate income, this meets the definition of an investment
  - Apply GASB Statement No. 72 to account for the equity interest
  - Do not report the separate entity as a component unit

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GASB S-90 **MAJORITY EQUITY INTERESTS (CONTINUED)**

- If the intent of holding the equity interest is not for profit or to generate income but rather to provide services, then the definition of an investment is not met
  - The holding of the majority equity interest results in the government being financially accountable for the organization
  - The government should report the legally separate organization as a component unit

GASB S-90 **MAJORITY EQUITY INTERESTS (CONTINUED)**

- A majority equity interest in an organization reported as a component unit also should be reported as an asset of the government or fund that holds the equity interest, measured using the equity method in accordance with paragraphs 205–209 of Statement 62, as amended
  - If the component unit is blended, the asset and net position associated with the equity interest held by the government or fund should be eliminated in the blending process
  - In financial statements prepared using the current financial resources measurement focus, the asset representing the government's equity interest should be limited to amounts appropriately reported under the current financial resources measurement focus

GASB S-91 **CONDUIT DEBT OBLIGATIONS**

- **What:**
  - GASB issued S-91 are to provide a single method of reporting conduit debt obligations by issuers
- **Why:**
  - Eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures
- **When:**
  - Effective date is periods beginning after December 15, 2021 (December 31, 2022 and thereafter)

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GASB S-91 **CONDUIT DEBT OBLIGATIONS**

- A conduit debt obligation is defined as a debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor) having *all* of the following characteristics:
  - There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
  - The issuer and the third-party obligor are not within the same financial reporting entity.
  - The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
  - The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
  - The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

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LIMITED, ADDITIONAL & **VOLUNTARY COMMITMENTS EXTENDED BY ISSUERS**

Generally, issuers' commitments are **limited** to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** to support debt service in the event of the third-party obligor's default.

For example:
- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

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RECOGNITION **BY THE ISSUER**

- Do *not* recognize a conduit debt obligation as a liability
- May have a related liability arising out of an additional or voluntary commitment
- **Additional commitment**: report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- **Voluntary commitment**: if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments
- Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

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DISCLOSURES **BY TYPE OF COMMITMENT**

A general description of the issuer's conduit debt obligations

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

If the issuer recognizes a related liability

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

GASB S-93 **REPLACEMENT OF INTERBANK OFFERED RATES**

- **What:**
  - GASB issued S-93 to facilitate the transition from using IBORs in hedging derivative instruments and leases
- **Why:**
  - LIBOR in its current form is expected to effectively sunset at the end of 2021
- **When:**
  - LIBOR – periods ending after December 31, 2021
  - Leases – periods beginning after June 15, 2021
  - Remainder – periods beginning after June 15, 2020.

Continue to apply hedge accounting to an effective hedging derivative instrument with a variable payment based on an IBOR, if all criteria are met:

- Hedging derivative instrument is amended or replaced to change the reference rate of its variable payment or add/change reference rate-related fallback provisions
- The new reference rate essentially equates the old rate by:
  - Adjusting the new rate by a coefficient or constant, limited to what is necessary to essentially equate the rates, and/or
  - An up-front payment, limited to what is necessary to essentially equate the rates
- The original hedging derivative instrument is ended and the replacement hedging derivative instrument is entered into on the same date
- Critical terms are identical, except for term changes that are necessary for reference rate replacement (see next slide)

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GASB S-93 **OTHER TERM CHANGES**

Term changes that may be necessary for the replacement of the reference rate are limited to:

- The frequency with which the rate of the variable payment resets
- The dates on which the rate resets
- The methodology for resetting the rate
- The dates on which periodic payments are made

GASB S-93 **TWO-STEP TRANSITION TO A SOFR**

A hedging derivative instrument may be amended or replaced in two steps: a transition from an IBOR to another rate (such as the effective federal funds rate) prior to transitioning to a secured overnight financing rate (SOFR)

Hedge accounting continues when all the following criteria are met:

- The first step replaces an IBOR with another rate
- That interim rate is replaced by a SOFR in the second step
- All four of the criteria for a one-step transition are met

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GASBS-93 **OTHER PROVISIONS**

- Effective Federal Funds Rate and SOFR are appropriate benchmark interest rates for taxable debt when applying the consistent critical terms method
- LIBOR is no longer an appropriate benchmark interest rate for taxable debt when applying the consistent critical terms method
- Replacing an IBOR as the reference rate of a hedged item does not terminate hedge accounting
- Uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- The lease modifications guidance in Statement 87 should not be applied to when a lease contract is amended solely to replace an IBOR

GASB S-94, **PUBLIC-PRIVATE AND PUBLIC –PUBLIC PARTNERSHIPS AND AVAILABILITY PAYMENT ARRANGEMENTS**

- **What:**
  - GASB issued S-94 to provide guidance for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87, and improvements to Statement 60
- **Why:**
  - 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 (SCAs)
- **When:**
  - Effective for reporting periods beginning after June 15, 2022 (FYE June 30, 2023, and thereafter)

GASB S-94 **DEFINITIONS: PPPS AND APAS**

- **Public-private partnerships** and **public-public partnerships (P3s)** are arrangements “in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.”
- **Availability payment arrangements (APA)**
  - Government contracts with another entity to operate or maintain the government’s nonfinancial asset
  - Entity receives payments from the government based on the asset’s availability for use
  - Asset’s availability may be based on the physical condition of the asset or the achievement of certain performance measures
  - May include design, finance, construction, or service components

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GASB S-94 **OTHER PROVISIONS**

- A P3 that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (SCA) – would be reported under Statement 87 unless (a) the underlying PPP assets are not existing assets of the transferor or (b) improvements are required to be made to those existing underlying P3 assets by the operator.
- An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.
- An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

GASB S-94 **TRANSFEROR REPORTING**

For all P3s, recognize:	If underlying P3 asset is a new asset or an existing asset that has been improved…
• Receivable for installment payments to be received, if any • Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term	• …and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation • …and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

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GASB S-94 **OPERATOR REPORTING**

For all P3s, recognize:	If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA…	If underlying P3 asset is a new asset and the P3 is not an SCA…
• Liability for installment payments to be received, if any	• …also recognize an intangible right-to-use asset	• Also recognize the underlying P3 asset until ownership is transferred • And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer

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GASB S-96 **SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

- **What:**
  - GASB issued S-96 to provide guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITAs)
- **Why:**
  - Lack of existing guidance
  - Conflict with GASB S-87 on Leases
- **When:**
  - Effective date is periods beginning after June 15, 2022 (FYE June 30, 2023, and thereafter). GASB Statement No 95 did not defer the implementation date of GASB S-96

GASB S-96 **SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

- A subscription-based information technology arrangement (SBITA) is a
  - Contract that conveys control of the right to use another party's IT software
    - Alone or with tangible capital assets (e.g., hardware)
  - In an exchange or exchange-like transaction
- Right to use the underlying IT asset means the government can
  - Obtain the present service capacity from the use of the underlying IT asset
  - Determine the nature and manner of use of the underlying IT assets
- SBITAs exclude contracts that solely provide IT support services
- SBITAS include contracts that contain both a right to use asset and an IT support services component

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GASB S-96 **SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

- GASB S-96 does not apply to the following:
  - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, *Leases,*
  - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
  - Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
  - Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* as amended.

GASB S-96 **SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

- The subscription term is the period during which the government has a noncancelable right to use the underlying IT assets
  - An option to extend should be included if it is reasonably certain that the option will be exercised
  - Periods covered by a government's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the government will *not* exercise that option
  - Periods covered by a SBITA vendor's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will exercise that option
  - Periods covered by a SBITA vendor's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will *not* exercise that option.

GASB S-96 **SHORT-TERM SBITAS**

- A short-term SBITA is a SBITA that, at the commencement of the subscription term, has a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised
  - Periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties must agree to extend) are cancellable periods and should be excluded from the maximum possible term.
- For a SBITA that has cancellable periods, such as a rolling month-to-month SBITA or a year-to-year SBITA, the maximum possible term of that SBITA is the noncancelable period, including any notice period
- Short-term SBITA recognize an outflow of resources based on the payment provision of the contract
  - No intangible asset or subscription liability are recognized

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GASB S-96 **RECOGNITION AND MEASUREMENT**

Accrual basis/economic resources

- Recognize a subscription liability and an intangible right-to-use asset at the commencement of the subscription term
- The subscription liability should be measured at the present value of subscription payments expected to be made during the subscription term. Measurement of the subscription liability should include the following, if required by a SBITA
  - Fixed payments
  - Variable payments that depend on an index or rate
  - Variable payments that are fixed in-substance
  - Any subscription contract incentives receivable from the SBITA vendor
  - Any other payments to the SBITA vendor associated with the SBITA contract that are reasonably certain of being required based on an assessment of all relevant factors
- The liability should be discounted using the interest rate that the vendor charges the government

GASB S-96 **RECOGNITION AND MEASUREMENT**

Accrual basis/economic resources

- The intangible right-to-use subscription asset should be measured at the commencement of the subscription term as the sum of:
  - The initial measurement of the subscription liability
  - Payments associated with the SBITA made to the vendor at the commencement of the subscription payments term, if any
  - Capitalizable initial implementation costs
- The subscription asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets
  - The amortization of the subscription asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes
  - Amortization should begin at the commencement of the subscription term

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CAPITALIZABLE **COSTS GASB S-96 SBITA**

Stage	Related Activities	Capitalize?
Preliminary project stage	1. Conceptual formulation and evaluation of alternatives 2. Determination of the existence of needed technology 3. Final selection of alternatives for development	No
Application development stage	1. Design of the chosen path 2. Coding 3. Installation to hardware 4. Data conversion	Yes, but only if incurred after completion of the preliminary project stage
Operation and additional implementation	1. Application training 2. Troubleshooting 3. Data conversion beyond what is necessary to make the software operational 4. Software maintenance	No

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GASB S-96 **DISCLOSURES**

- A general description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined
- The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets
- The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability
- The amount of outflows of resources recognized in the reporting period for other payments, such as termination penalties, not previously included in the measurement of the subscription liability
- Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter

ANY **QUESTIONS?**

FRED LANTZ
CPA
DIRECTOR
Fred.lantz@sikich.com
630.566.8557

LINDSEY FISH
CPA
SENIOR MANAGER
lindsey.fish@sikich.com
630.566.8400

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