

Accounting and Reporting Update – GASB 84 and GASB 87

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Objectives – GASB 84 Presentation

- Provide background on rationale for GASB Statement 84.
- Discuss significant accounting changes to commonly reported fiduciary activities.
- Highlight resources included in newly updated LGSA accounting bulletin.
- Describe accounting and reporting requirements for fiduciary activities in the AUD/ST-3 – highlight major changes.
- Answer outstanding questions.



GASB 84 – Background

- Purpose – to provide guidance on identifying fiduciary activities for accounting and reporting purposes.
 - Establish specific criteria to use in determining whether a government has a fiduciary responsibility.
- Implementation is designed to enhance accountability, consistency and comparability of fiduciary activities across governments.



Identifying Fiduciary Activities

- GASB 84 provides a step-by-step flow chart to help determine which activities are fiduciary in nature.
- We prepared a questionnaire using the same criteria as a more manageable resource to help local governments and school districts make this determination.



Key Definitions

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



Key Definitions

- Own-Source Revenues
 - Revenues that are generated by a government itself. They include exchange and exchange-like revenues and investment earnings. Derived tax revenues and imposed nonexchange revenues also are included.



Fiduciary Activities Questionnaire

Example 1

A school district previously held assets for a hockey team booster club in an agency fund. The assets are:

- Not a component unit
- Held in a district bank account
- Generated solely from outside fundraising
- Not held in a trust
- Administered entirely by the booster club



Fiduciary Activities Questionnaire

Example 1

<u>#</u>	<u>Question</u>	<u>Yes</u>	<u>No</u>
1.	Is the entity a component unit?	Go to #2.	Go to #5
5.	Does the government control the assets?	Go to #9	Go to #13

- Does not meet the definition of a component unit
- DOES have control of the assets since they are held in a district bank account



Fiduciary Activities Questionnaire

Example 1

		<u>Yes</u>	<u>No</u>
9.	Are the assets held for pension or OPEB arrangements ¹ ?	Go to #3	Go to #10
10.	Are the assets derived solely from the government's own-source revenue?	Go to #14	Go to #11
11.	Are the assets derived from government mandated non-exchange transactions or voluntary non-exchange transactions?	Go to #12	Go to #6

- Not held for pension or OPEB arrangements
- Assets solely derived from booster fundraising



Fiduciary Activities Questionnaire

Example 1

		<u>Yes</u>	<u>No</u>
6.	Are the assets held in a trust or equivalent arrangement and the government itself is <i>not</i> a beneficiary?	Go to #15	Go to #7
7.	Are the assets for the benefit of individuals and the government does <i>not</i> have administrative involvement or direct financial involvement?	Go to #15	Go to #8
8.	Are the assets for the benefit of organizations or other governments that are <i>not</i> part of the financial reporting entity?	Go to #15	Go to #14

- Not held in a trust
- Assets are for the benefit of individuals and the assets are administered by the booster club – NOT the district
- District does not contribute – no direct financial involvement



Fiduciary Activities Questionnaire

Example 1

13.	The activity would not be reported
14.	The activity would be reported with the governmental or business type activities
15.	The activity would be reported in a fiduciary fund

- In this example, the assets would be reported in a fiduciary fund, specifically in a custodial fund, since it is untrusted.
- Every use of the questionnaire will result in a determination of how the assets should be reported.



Fiduciary Activities Questionnaire

Example 2

- A village is holding assets previously recorded in the Trust and Agency Fund as part of a performance contract.
 - Funds are held in a village bank account
 - Contract is to construct a new village building
 - Not held in a trust
 - If contractor completes the project satisfactorily, village refunds deposit; if not, contractor forfeits deposit



Fiduciary Activities Questionnaire

Example 2

#	Question	Yes	No
1.	Is the entity a component unit?	Go to #2.	Go to #5
5.	Does the government control the assets?	Go to #9	Go to #13

- Assets do NOT meet criteria of component unit
- Assets held in a village bank account – village DOES have control of assets



Fiduciary Activities Questionnaire

Example 2

		<u>Yes</u>	<u>No</u>
9.	Are the assets held for pension or OPEB arrangements ¹ ?	Go to #3	Go to #10
10.	Are the assets derived solely from the government's own-source revenue?	Go to #14	Go to #11
11.	Are the assets derived from government mandated non-exchange transactions or voluntary non-exchange transactions?	Go to #12	Go to #6

- Assets are not held for pension or OPEB arrangements
- Assets ARE derived solely from own-source revenue
 - Village is holding the assets as part of an exchange transaction

Fiduciary Activities Questionnaire

Example 2

13.	The activity would not be reported
14.	The activity would be reported with the governmental or business type activities
15.	The activity would be reported in a fiduciary fund

- In this example, the assets would be reported in a governmental fund.
- Use the questionnaire – its use will result in a determination of how the assets should be reported.



Reporting Fiduciary Activities

Four Fund Types

- Available for NYS LGs and SDs
 - Private Purpose Trust Funds
 - Custodial Funds (formerly Agency)
- Not Available for NYS LGs and SDs
 - Pension and Other Employee Benefit Trust Funds
 - Investment Trust Funds



Reporting Fiduciary Activities

Major Changes Between Agency and Custodial Funds

- Agency funds required only the presentation of assets and liabilities, whereas custodial funds require the same elements as the other fiduciary funds.
- Custodial funds will also require a resource flows statement because they have a measurement focus; agency funds did not require this.



AUD/ST-3 Reporting

- LGs and SDs will need to assess activities currently classified as fiduciary to determine if these activities should still be considered fiduciary in nature or if these activities should now be reported in a governmental fund, as a business-type activity or not reported at all.
- LGs and SDs need to also consider if there are any current unrecorded activities that would now meet the fiduciary activities definition and may now need to be reported.



AUD/ST-3 Reporting

- Expect the following changes to the AUD and the ST-3:
 - Addition of governmental fund account codes for activities that previously were classified as fiduciary in nature
 - Addition of proprietary fund account codes for custodial fund assets that may be reported in proprietary funds if they are expected to be held for 3 months or less
 - Creation of a new Custodial Fund, which will replace the Agency Fund
 - Addition of a statement of revenues, a statement of expenditures and fund equity for the newly created Custodial Fund



AUD/ST-3 Reporting

- Payroll Clearing Accounts
 - Implementation Guide 2019-2, *Fiduciary Activities*, clearly indicates they will NOT meet the criteria of a fiduciary activity.
- Student Activity Funds
 - Administrative involvement will be the key criterion for determining if they should be reported as a fiduciary activity.
- Length of Service Award Programs (LOSAP)
 - Reporting will depend on if the assets held are from the employer or other governments or organizations.



AUD/ST-3 Reporting

- Fiduciary Activities Accounting Bulletin – November 2020 Update
 - Addition of appendix detailing select account codes now active in governmental, proprietary and fiduciary funds
 - Many account codes previously available only in fiduciary funds are now available in governmental funds and/or proprietary funds (for business-type activities).



AUD/ST-3 Reporting

- Fiduciary Activities Accounting Bulletin – November 2020 Update
 - All account codes in the former Agency Fund (TA) will be deactivated for AUD and ST-3 reporting for fiscal years ending December 31, 2020 and after.
 - Applicable account codes have been added to the new Custodial Fund (TC).
 - Inserted clarifying guidance on LOSAP Assets



Clarifying Information on GASB 84



Clarifying Information

- GASB 84 applies to entities that file an AUD, an ST-3, or ANY other annual financial report required to follow OSC's uniform system of accounts.
 - This includes Boards of Cooperative Educational Services (BOCES), Soil and Water Conservation Districts, etc.
- 12/31 FYE filers will be the first LGs to file using GASB 84 requirements.
- School Districts will file the 2020-21 ST-3 using GASB 84 requirements.
- Numerous questions specific to accounting for payroll using GASB 84



Accounting for Payroll Post GASB 84

- Recording Expenditures
 - Continue to record the expenditure in the fund which gave rise to the claim.
- Recording Net Payment
 - Remove the payroll liability for amounts paid out to employees from the appropriate fund.
- Recording Withholding Liabilities
 - Also record in the fund where the employee is being paid from – no transfer to fiduciary fund required



Accounting for Payroll Post GASB 84

To record payroll expenditure:

	<u>Sub</u> <u>Account</u>	<u>Debit</u>	<u>Credit</u>
A522 Expenditure		\$5,000.00	
A1410.1 Clerk, Personal Services	\$ 4,375.00		
A1410.8 Clerk, Employee Benefits	\$ 625.00		
A710 Consolidated Payroll			\$5,000.00
SS522 Expenditure		\$3,500.00	
SS1410.1 Clerk, Personal Services	\$ 3,250.00		
SS1410.8 Clerk, Employee Benefits	\$ 250.00		
SS710 Consolidated Payroll			\$3,500.00



Accounting for Payroll Post GASB 84

To record net payment to employees:

	<u>Debit</u>	<u>Credit</u>
A710 Consolidated Payroll	\$4,000.00	
A200 Cash		\$4,000.00
SS710 Consolidated Payroll	\$3,100.00	
SS200 Cash		\$3,100.00



Accounting for Payroll Post GASB 84

To record transfers to various liability accounts for withholdings:

	<u>Debit</u>	<u>Credit</u>
A710 Consolidated Payroll	\$1,000.00	
A717 Deferred Compensation		\$ 125.00
A720 Group Insurance		\$ 125.00
A721 NYS Income Tax		\$ 125.00
A723 Income Executions		\$ 125.00
A726 Social Security Tax		\$ 125.00
A718 State Retirement		\$ 125.00
A719 Disability Insurance		\$ 125.00
A724 Association and Union Dues		\$ 125.00
SS710 Consolidated Payroll	\$ 400.00	
SS717 Deferred Compensation		\$ 50.00
SS720 Group Insurance		\$ 50.00
SS721 NYS Income Tax		\$ 50.00
SS723 Income Executions		\$ 50.00
SS726 Social Security Tax		\$ 50.00
SS718 State Retirement		\$ 50.00
SS719 Disability Insurance		\$ 50.00
SS724 Association and Union Dues		\$ 50.00



Resources Available to Aid in GASB 84 Implementation

- Original GASB Literature
 - [GASB Statement 84](#), *Fiduciary Activities*
 - [Implementation Guide 2019-2](#), *Fiduciary Activities*
- OSC Accounting Bulletin on Fiduciary Activities
 - [November 2020 Update](#)
- Technical Inquiries with the GASB
- Division of Local Government and School Accountability – Professional Standards Unit
 - LGSA_PSU@osc.ny.gov



Objectives – GASB 87 Presentation

- Provide background on rationale for GASB Statement 87.
- Discuss the new lease definition, lease term and exceptions.
- Describe what you should be doing now to prepare.
- Answer outstanding questions.



GASB 87 – Background

- Effective for fiscal years beginning after **June 15, 2021**
- Creates a single lease model, replacing the former capital vs. operating lease model
- The Statement is based on the foundational principle that leases are financings
 - Provides a new definition of leases
 - Defines what is included in the lease term
 - Lists exceptions



New Lease Definition

- A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.
 - Conveying control is when the government has the right to:
 - Obtain the present service capacity of the asset and
 - Determine the nature and manner of use of the asset.
 - Examples of nonfinancial assets include land, buildings, vehicles and equipment.



Lease Term

- The lease term is the period a lessee has a noncancelable right to use the asset
 - Plus any option to extend or terminate if either party is reasonably certain they will or will not exercise those options

		Lessee			Lessor			
Noncancelable Lease Period	+	Periods covered by option to extend the lease if reasonably certain lessee will exercise option	+	Periods covered by option to terminate the lease if reasonably certain lessee will not exercise option	+	Periods covered by option to extend the lease if reasonably certain lessor will exercise option	+	Periods covered by option to terminate the lease if reasonably certain lessor will not exercise option



Reasonably Certain Template

Instructions: This template may be used by local governments and school districts to help document determinations of reasonable certainty relating to leases. Completed templates should be maintained by the local government/school district with the accompanying lease documents. This template is being provided as a tool to help local governments and school districts with the new lease standard (GASB Statement No. 87) and is **not** an OSC accounting and financial reporting requirement (it **does not** need to be submitted to OSC).

Lease Description	
Lease term	<p>The period during which a lessee has a noncancelable right to use an underlying asset, plus, if reasonably certain:</p> <p>a) Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option</p> <p>b) Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option</p> <p>c) Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option</p> <p>d) Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.</p> <p>A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.</p>
Lease payment	<p>Payments expected to be made during the lease term. They should include:</p> <ol style="list-style-type: none"> 1) fixed payments 2) variable payments that depend on an index or rate (such as CPI or market interest rate at commencement of lease term) 3) variable payments that are fixed in substance 4) amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees 5) the exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option 6) payments for penalties of terminating the lease, if the lease term reflects the lessee exercising (a) an option to terminate the lease, or (b) a fiscal funding or cancellation clause 7) any lease incentives receivable from the lessor (see par. 61 and 62 of Statement 87) 8) any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

Reasonably Certain Yes/No	Type	Definition	Lease Component	Location in Contract or	Reasonably Certain Criteria – higher threshold than “more likely than not” or “expected.” Lessee must have a “compelling economic reason.”			
					Market-based factors, i.e., option period amounts are favorable with current market rates	Contract-based factors, i.e., costs to terminate the lease (negotiation costs, relocation costs, substantial cancellation penalty, etc.) are a disincentive to	Asset-based factors, i.e., the extent to which the asset underlying the lease is essential to government operations, condition of the asset, etc.	Government-specific factors i.e., cost or timeliness of procurement process, likelihood to appropriate funds based on historical experience, etc.
	Renewal Options	Periods in a lease agreement that extend the lease beyond the initial lease period.	Lease term					
	Termination Clause	A clause in a lease agreement that allows termination by either the lessee, the lessor, or both.	Lease term					
	Purchase Option	A clause in the lease agreement that allows the lessee the option to purchase the asset.	Lease payment					
	Fiscal Funding Clause	A clause in a lease agreement that allows a government lessee to cancel a lease, typically on an annual basis, if the government does not appropriate funds for the lease payments.	Lease term					
	Residual Value Guarantees	A clause in a lease agreement that requires an additional payment at the end of the lease term based on the condition of the asset.	Lease payment					



Exceptions

- Types of contracts that do not qualify for lease accounting under the new Statement include:
 - A lease with a term of 12 months or less
 - Contracts for intangible assets
 - Licensing contracts
 - Leases of biological assets
 - Leases of inventory
 - Contracts that meet the definition of a service concession arrangement
 - Leases in which the asset is financed with conduit debt, unless both the underlying asset and debt are reported by the lessor
 - Supply contracts, such as power purchase agreements



How To Prepare

- Examine all current contracts to determine if they meet the new definition and calculate the term.
 - Contracts not specifically labeled as a lease may meet the new definition of a lease.
- Develop policies and procedures to identify and analyze new leases originating from all government departments.
- Discuss with your CPAs and attorneys for help interpreting and classifying contracts.

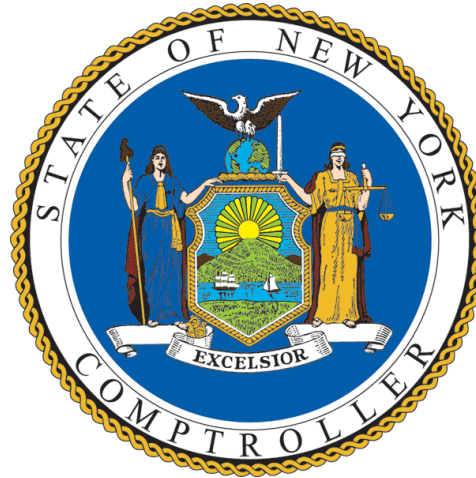


Questions

Please email us at: LGSA_PSU@osc.ny.gov



Thank You



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