

# 2019 Illinois GFOA Conference



## *GASB Update – Part 1*

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

# Presentation Overview

- Statement 83, Certain Asset Retirement Obligations (Brian)
- Statement 84, Fiduciary Activities (Fred)
- Statement 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (Brian)

# Effective Dates—June 30

- Statement 83—asset retirement obligations
- Statement 88—debt disclosures
- Implementation Guide 2018-1

- Statement 87—leases
- Statement 89—interest cost

2019

2020

2021

2022

- Statement 84—fiduciary activities
- Statement 90—majority equity interests
- Implementation Guide 2019-1

- Statement 91—conduit debt

# Effective Dates—December 31

- Statement 83—asset retirement obligations
- Statement 84—fiduciary activities
- Statement 88—debt disclosures
- IG2018-1
- Statement 90—majority equity interests

- Statement 91—conduit debt

2019

2020

2021

- Statement 87—leases
- Statement 89—interest cost
- IG2019-1

# Certain Asset Retirement Obligations

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Statement No. 83

# Certain Asset Retirement Obligations

## What?

The Board 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 periods beginning after June 15, 2018

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)

## Examples

- Nuclear power plant decommissioning
- Coal ash pond closure
- Contractually required land restoration, such as removal of wind turbines
- Other similar obligations

# Recognition & Measurement

## Initial Recognition

ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events.

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.



# Measurement Exception for a Minority Owner of a Jointly Owned Capital Asset

Minority share (less than 50 percent) of ownership interest in an undivided interest arrangement is one of the following:

- A nongovernmental entity is the majority owner
- No majority owner, but a nongovernmental owner has the operational responsibility

## Initial and Subsequent Measurement Exception

- The governmental minority owner should report its minority share of ARO using the measurement produced by the nongovernmental joint owner

The measurement date of such an ARO should be no more than one year and one day prior to the government's financial reporting date

Specific disclosure requirements in this circumstance

# Effects of Funding and Assurance

If legally required to provide funding and assurance, disclose that fact

Do not offset ARO with assets restricted for payment of the ARO

Costs to comply with funding and assurance provisions are period costs separate from the ARO expense

# Disclosures

General description of ARO and associated tangible capital assets, including source of AROs (such as federal laws or regulations, contracts, 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 therefor

# Fiduciary Activities

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## Statement No. 84

# Fiduciary Activities

## What?

The Board 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; BTAs are uncertain about how to report fiduciary activities

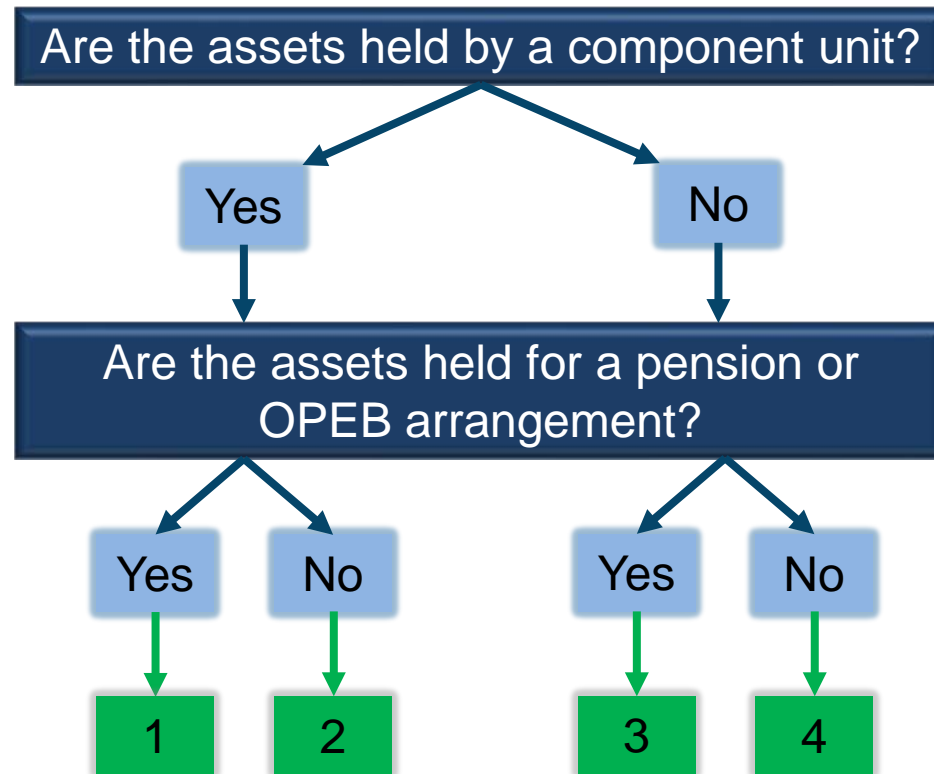
## When?

Effective for periods beginning after December 15, 2018

Earlier application is encouraged

# When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



# Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if...

1

They are one of the following arrangements:

- St. 67  
¶3** Pension plan administered through a trust that meets criteria
- St. 74  
¶3** OPEB plan administered through a trust that meets criteria
- St. 73  
¶116** Assets from entities not part of the reporting entity accumulated for pensions
- St. 74  
¶59** Assets from entities not part of the reporting entity accumulated for OPEB

# Other Component Units Are Fiduciary if...

They have one or more of the following characteristics:



Assets are:

- Administered through a trust in which government is *not* a beneficiary
- Dedicated to providing benefits, AND
- Legally protected from the creditors of government



- Assets are for the benefit of individuals
- Assets are *not* derived from government's provision of goods or services to the individuals AND
- Government does *not* have administrative involvement or direct financial involvement w/ the assets



- Assets are for the benefit of organizations/governments *not* part of the reporting entity AND
- Assets are *not* derived from government's provision of goods or services to them

2

or

or



# Postemployment Benefit Arrangements That Are Not Component Units Are Fiduciary if...

3

- Arrangement is one of those in **1** AND
- The government **controls** the assets of the arrangement
  - Control means one or both of the following is true:

- Government *holds* the assets

- Government has ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries

# All Other Activities Are Fiduciary if...

4



# Fiduciary Fund Classes

Pension  
and other  
employee  
benefit  
trust fund

Investment  
trust fund

Private-  
purpose  
trust fund

Custodial  
fund

Trust agreement or equivalent arrangement should be present

# Stand-Alone Business-Type Activities

A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.

**Exception: 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**

# Statement 84 Guide

52 questions and answers, including:

- Classifying fiduciary activities
- Applying the criteria for control and own-source revenues
- Applying the clarified definitions of fund classes, including determining eligibility for the custodial fund exception for BTAs
- Fiduciary fund financial statements, including the determining eligibility for the exception to disaggregating certain additions and deductions
- Reporting fiduciary component units

Revisions to 3 existing questions and answers

# GASB S-84 FIDUCIARY COMPONENT UNIT

- GASB Statement No. 14, *The Financial Reporting Entity*, as amended, defines a component unit (CU) as a **legally separate entity** that the primary government (PG) is **financially accountable** for
  - PG appoints voting majority of the CU Board, **and**
    - PG can impose its will on the CU or provides a financial benefit/burden;
  - CU is fiscally dependent on the PG and the CU provides a financial benefit/burden on the PG
- GASB S-84 notes that a financial burden exists if the employer is required to contribute to the post-employment benefit arrangement (S-84, paragraph 7)

# GASB S-84 FIDUCIARY COMPONENT UNIT

- Board appointment
  - Voting majority, not simple majority
  - What if no board exists?
    - PG Board serving in that capacity and therefore can impose its will on the potential CU (GASB 2020 IG)
- Imposition of will
  - Significantly influence programs, projects, activities or levels of services provided
  - Remove appointed member at will
  - Modify or approve the budget, rates or fees
  - Appoint, hire, reassign or dismiss persons responsible for day to day operations
- If the PG appoints the voting majority of the board and can impose its will on the entity, or a financial benefit/burden exists, then the unit may meet the definition of a component unit and, therefore, a fiduciary component unit

# GASB S-84 FIDUCIARY COMPONENT UNIT

- Fiscal dependency or independence
  - Determine budget without another government having authority to approve and modify that budget
  - Levy taxes or set rates or charges without approval by another government
  - Issue bonded debt without approval by another government
- Substantive approvals versus administrative approvals
- A special purpose government must possess all three characteristics to be fiscally independent
- If the PG holds any of these powers and a financial benefit/burden exists then the unit may meet the definition of a component unit and, therefore, a fiduciary component unit



# GASB S-84 FIDUCIARY COMPONENT UNIT

- Downstate Police (Article 3) and Fire (Article 4) Pension Plans
  - Board appointment criteria not met except in unique circumstances
    - 5 member BOT, PG appoints 2, actives appoint 2, retirees appoint 1
    - If Board appointment is met, financial burden is met, definition of a component unit is met
  - Fiscal dependency (independence) criteria
    - The pension board has no appropriation authority, PG oftentimes adopts the pension fund budget
    - The employer (PG) has ultimate authority to determine amount to fund to the pension fund (can choose the actuary, actuarial assumptions within confines of state statute/minimum)
    - The pension board has no authority to issue bonded debt
- Pension plan is a fiduciary component unit if any one of the three criteria is met and the employer is required to contribute to the plan (financial burden)
- Fiscal dependency exists due to employer (PG) having ultimate authority for determining employer contributions

# 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 and the government has administrative involvement

# APPLICATION OF GASB STATEMENT NO 84

- 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 accounts
  - 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.**

# APPLICATION OF GASB STATEMENT NO 84

- Student Activity Funds
  - An educational district collects student activity fees on each credit hour as part of tuition and fees
  - These fees are used to support a variety of campus needs and activities. In addition, a certain amount of fees are distributed to the student government to be divided allocated among the student clubs for their use
  - Some clubs generate their own additional revenues through fundraising activities on campus. Other clubs are financed only from the allotted student activity fees
  - The educational district holds the funds in one of its demand deposit accounts
  - Funds are disbursed by the student club upon approval by an academic advisor to the student club
  - The student clubs are not held in a trust or trust equivalent arrangement nor are the student clubs component units
- Do the student activity funds meet the definition of a fiduciary activity
  - No, the student activity fees are own source revenues to the educational district

# APPLICATION OF GASB STATEMENT NO 84

- Employer sponsored deferred compensation plan (IRC 457)
  - No Board exists, employer Board serves in that capacity
  - Employer hires investment managers to provide investment alternatives to employees
  - Plan assets are held in a trust
  - Employer does not have a requirement to and does not contribute and to the plan
  - Employees/plan members contribute a set % of wages up to a maximum
- Does the deferred compensation plan meet the definition of a fiduciary component unit or a fiduciary activity?
  - Yes – the Employer Board is serving as the Board and therefore can impose its will. If the employer contributes to the plan the activity would be reported in a pension fund. If the employer does not contribute to the plan the activity would be reported as a private purpose trust
- Would the answer change if a separate Board is established to govern the plan and the employer does not appoint a voting majority of the Board?
  - Possibly, the fiscal dependency criteria would need to be applied. If both are not met then no the plan would not meet the definition of a fiduciary activity

# SAMPLE APPLICATION OF GASB STATEMENT NO 84

- Village of Palatine, Illinois December 31, 2018
  - Evaluate funds currently reported as fiduciary funds
  - Police and fire pension plans reported as fiduciary component units
    - Modified reporting entity note
  - Agency fund for collecting taxes and remitting to bond holders for bonds that the Village is not obligated in any manner for repayment.
    - Reclassified to a custodial fund, net position restricted for bond holders, statement of changes in net position
  - Agency fund for Section 125 plan assets
    - Consolidated with the general fund due to administrative involvement and financial involvement by the Village
  - Agency fund for letter of credit escrow
    - Consolidated with the general fund due to administrative involvement and own source revenue

# SAMPLE APPLICATION OF GASB STATEMENT NO 84

- Village of Palatine, Illinois December 31, 2018
  - Modified Summary of Significant Accounting Policies (SSAP) for fiduciary fund definitions and specific funds used
  - Evaluate other activities not classified as fiduciary funds
    - IRC 457 Plan excluded due to not controlling deployment of assets, may change based on 2020 GASB Implementation Guide

VILLAGE OF PALATINE, ILLINOIS

STATEMENT OF NET POSITION  
FIDUCIARY FUNDS

December 31, 2018

	Pension	
	Trust	Custodial
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,188,277	\$ 1,262,096
Investments		
U.S. Treasury securities	22,070,392	-
U.S. agency securities	1,270,506	-
Corporate and international bonds	25,097,615	-
Municipal bonds	534,979	-
Money market mutual funds	764,936	-
Equities	89,304,765	-
Receivables		
Property taxes	-	588,231
Accrued interest	357,724	-
	<u>141,589,194</u>	<u>1,850,327</u>
<b>Total assets</b>	<b>141,589,194</b>	<b>1,850,327</b>
<b>LIABILITIES</b>		
None	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred property taxes	-	587,850
<b>NET POSITION</b>		
Restricted for pensions	141,589,194	-
Restricted for debt service	-	1,262,477
	<u>\$ 141,589,194</u>	<u>\$ 1,262,477</u>
<b>Total net position</b>	<b>\$ 141,589,194</b>	<b>\$ 1,262,477</b>



VILLAGE OF PALATINE, ILLINOIS

STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS

For the Year Ended December 31, 2018

	Pension Trust	Custodial
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 8,997,533	\$ -
Employee	2,148,249	-
Property owner	-	594,511
Other	50	-
	<u>11,145,832</u>	<u>594,511</u>
Investment earnings		
Net increase (decrease) in the fair value of investments	(13,197,286)	-
Interest	4,127,292	19,935
	<u>(9,069,994)</u>	<u>19,935</u>
Less investment expense	(454,240)	-
	<u>(9,524,234)</u>	<u>19,935</u>
<b>Total additions</b>	<u>1,621,598</u>	<u>614,446</u>
<b>DEDUCTIONS</b>		
Administration	35,745	-
Benefits and refunds	10,186,020	-
Debt service		
Principal retirement	-	90,000
Interest and fiscal charges	-	501,450
	<u>10,221,765</u>	<u>591,450</u>
<b>Total deductions</b>	<u>10,221,765</u>	<u>591,450</u>
<b>CHANGE IN NET POSITION</b>	<u>(8,600,167)</u>	<u>22,996</u>
<b>NET POSITION</b>		
January 1 - as restated	<u>150,189,361</u>	<u>1,239,481</u>
December 31	<u>\$ 141,589,194</u>	<u>\$ 1,262,477</u>

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

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Statement No. 88

# Debt Disclosures

## What?

The Board issued Statement 88 to improve existing standards for disclosure of debt

## Why?

A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made

## When?

Effective for periods beginning after June 15, 2018

Earlier application is encouraged

# Definition of Debt for Disclosure Purposes

“A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established”

- For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.

# New Disclosure Requirements

Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures

## New Disclosures about *All* Types of Debt

Amount of unused lines of credit

Assets pledged as collateral for debt

Terms specified in debt agreements related to significant:

- Events of default with finance-related consequences
- Termination events with finance-related consequences
- Subjective acceleration clauses

# Questions?

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