The Continuing Saga

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Disclaimer of Opinions

- *The Opinions expressed during this presentation are my own. They do not necessarily represent the views of the Tennessee Comptroller of the Treasury, his representatives, or the Tennessee Department of Audit.*

Jerry

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GASB and Covid-19

COVID-19 Page & Emergency Toolbox

- Guidance and resources available at www.gasb.org/COVID19
- Emergency toolbox
  - Intended to help stakeholders quickly identify the GASB's authoritative guidance that could be relevant to the current circumstances, including topics such as contingencies, going concern, prior-period adjustments, revenue and receivable recognition, and subsequent events
  - Provides links to COVID-19 resources and nonauthoritative guidance of professional organizations

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GASB and Covid-19

COVID-19 Page & Emergency Toolbox

- Guidance and resources available at www.gasb.org/COVID19
  - Technical Bulletin No. 2020-1, Issued in June 2020
  - Technical Bulletins are considered Level 2 GAAP

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GASB Technical Bulletin 2020-1, Paraphrased

- Question 1
  - Are funds received from the CRF subject to eligibility requirements? When should these funds be recognized as revenue?
- Answer 1
  - Yes. CRF funds include eligibility requirements. CRF Funds shall be used for those expenditures that are incurred due to the Coronavirus Disease 2019. (Some examples follow later)
  - The CRF Funds are considered voluntary nonexchange transactions, subject to eligibility requirements. Revenues should be recognized when eligibility requirements are met.
  - CRF Funds received in advance should be considered liabilities until such time as eligibility requirements are met.

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GASB Statement 33

- ***Statement No. 33*, Accounting and Financial Reporting for Nonexchange Transactions**
- 4.7. Q—A city government with a June 30 fiscal year-end incurred costs for debris clearing and increased public safety protection as a result of a natural disaster that occurred on May 30, 20X8. The president of the United States declared a natural disaster and approved funding for the region affected. The city applied for federal funding, and it received a notice of award on June 29, 20X8. The city executed the grant agreement on July 5, 20X8. Can the city recognize voluntary nonexchange revenue as of June 30, 20X8, for the reimbursement of costs incurred related to the natural disaster that occurred that fiscal year?
- A—**No**. **Paragraph 15 of Statement No. 33**, *Accounting and Financial Reporting for Nonexchange Transactions*, identifies expenditure-driven grant provisions to be a form of stipulation that "is considered an eligibility requirement … and affects the timing of recognition. That is, there is no award— … the recipient has no asset (receivable)—until the recipient has met the provider's requirements by incurring costs in accordance with the provider's program." In other words, in the absence of an executed grant agreement before the end of the reporting period, the city cannot establish that it has incurred allowable costs and, therefore, cannot establish the existence of an asset (a receivable) at June 30, 20X8; that is the case even when the city has incurred costs that could be reimbursable once the grant agreement is executed. Assets and revenue should be recognized for allowable costs only after the grant agreement is executed.

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An Example of Revenue Recognition

- The Elementary and Secondary Schools Education Relief (ESSER) funds will go under CFDA No. 84.425 and will have the COVID extension added. These funds were awarded prior to June 30 and provide for payment of qualifying expenses incurred after March 1, 2020. Therefore, any qualifying expenditures for FY 2020 should be reported on the SEFA and may result in this being a Major Program. In addition, this may result in deferred revenues* if the counties do not get their requests filed timely. Remember, this a reimbursement grant, so it is our job to audit what they are submitting for reimbursement and not to go looking for additional expenditures. If they file a request after they have closed their books, we can pick that up next year.
- * or a liability if no expenditures have been identified.

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An Example of Revenue Recognition

- The Tennessee Cares Act payments https://tncaresact.tn.gov/allocations. These payments were not awarded to the counties until after July 1, 2020. You cannot recognize expenditures on the SEFA prior to having an award. Therefore, this federal assistance will not be reported on the SEFA in FY 2020. The assistance will be recognized on the SEFA in FY 2021 and may include qualifying expenditures made in FY 20. This will cause a mismatch between the financial statement expenditures and the SEFA expenditures, but that is ok. The CFDA No. for this will be 21.019. Nor will governments recognize a receivable and revenue or deferred revenue for the amount of the potential award for June 30, 2020.

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GASB Technical Bulletin 2020-1, Paraphrased

- Question 2
  - Should funds received from the Provider Relief Fund (U.S. Department of Health and Human Services) to cover loss of revenue be considered as meeting eligibility requirements for purposes of recognizing revenue? (CFDA 93.498; or 93.461 for Uninsured.
- Answer 2
  - Yes. When the government has demonstrated that revenues have been lost (i.e. has met the eligibility requirements), then revenue should be recognized.

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GASB Technical Bulletin 2020-1, Paraphrased

- Question 3
  - If Amendments to the CARES Act are enacted after a government's statement of net position date, but prior to the issuance of the financial statements, should the government consider those amendments as the basis for changing the financial statements for the period reported?
- Answer 3
  - No. Any amendments to the CARES Act enacted after the statement of net position date should not be recognized because of the subsequent event (i.e. the amendment).

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GASB Technical Bulletin 2020-1, Paraphrased

- Question 4
  - If a not-for-profit entity (operating under GASB pronouncements as a governmental entity) received a forgivable loan pursuant to the Paycheck Protection Program, and the entity determines that the loan will be forgiven in a subsequent reporting period (i.e. compliance has been achieved or will be before financial statements are issued), should the entity continue to report the loan as a liability?
- Answer 4
  - Yes. The entity should continue to report the loan as a liability until the entity is *legally released from the debt*. When that occurs, the entity should report a revenue for the amount of the debt released.

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GASB Technical Bulletin 2020-1, Paraphrased

- Question 5
  - Should funds received by business type activities or enterprise fund operations through the Higher Education Emergency Relief Fund, Federal Aviation Administration Grants CARES Act Airport Grants, Federal Transit Administration Formula Grants, be reported as operating or nonoperating revenues?
- Answer 5
  - These are considered subsidies and should be reported as nonoperating revenues. However, funds provided through the Provider Relief Fund's Uninsured Program (U.S. Department of Health and Human Services) for care, treatment, or testing of uninsured individuals should be considered payments for services and recognized as operating revenue.

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GASB Technical Bulletin 2020-1, Paraphrased

- Question 6
  - Should expenditures/expenses incurred in response to the coronavirus disease be reported as extraordinary items or special items?
- Answer 6
  - No. Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. An item is infrequent in occurrence if the event is not reasonably expected to recur in the foreseeable future. It is reasonable to expect that the virus will occur in the foreseeable future, therefore the event is not extraordinary.
  - Furthermore, special items are within the control of management and are either unusual in nature and infrequent in occurrence. Expenditures/Expenses are within the control of management, but the disease itself is not. Therefore, the event would not be considered a special item.

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Another Revenue Example

- ***This probably does not apply to cities***: Election equipment. In some counties the TN Secretary of State has purchased election equipment on behalf of the county. We will treat this like commodities and book both a revenue and an expenditure at the fund level for the equipment purchase. This will be reported as non-cash assistance on the SEFA under CFDA 90.404 - 2020 Supplemental COVID-19 Election Security Grants. This grant is from the U.S. Election Assistance Commission (EAC) passed through the TN Secretary of State.

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Issue	Relevance	Codification Section
Capital asset impairment	Discontinued operations (other than temporary); idle impaired capital assets	1400—Reporting Capital Assets, paragraphs .176–.180
Contingencies	Risk-financing and insurance-related activities other than public entity risk pools	C50—Claims and Judgments, paragraphs .109–.148
	Contingent liabilities, including exchange financial guarantees and contingent assets	C50—Claims and Judgments, paragraphs .149–.168
Debt extinguishments	All extinguishments of debt, including refundings	D20—Debt Extinguishments and Troubled Debt Restructuring, paragraphs .103–.128
Demand bonds	Remarketing demand bonds, and counterparty take-out agreement	D30—Demand Bonds, Paragraphs .107–.112
Derivative instruments	Termination of hedge accounting, including circumstances in which a swap counterparty or its credit support provider commits or experiences an act of default or a termination event	D40—Derivative Instruments, paragraphs .118–.121
Disclosures related to outflows of resources **NEW 07-20-20**	Outflows of resources incurred in response to COVID-19	2300—Notes to Financial Statements, paragraph.108
Disposals of operations	Cessations of operations, such as through transfer or sale	C010—Combinations and Disposals of Operations, paragraphs .148–.152 and .155

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Donated inventory **NEW 07-20-20**	Donated personal protection equipment	N50—Nonexchange Transactions, paragraph .103
Extraordinary and special items	Revenues and expenses (expenditures) that are unusual and/or infrequent	1800—Classification and Terminology, paragraphs .144–.152
Fair value measurement	Transactions that are no longer orderly due to a significant decline in market activity	3100—Fair Value Measurement, paragraphs .142–.148
Going concern considerations	Information that contradicts the presumption that a government is a going concern	2250—Additional Financial Reporting Considerations, paragraphs .117–.120
Government combinations	Mergers between governments, a government acquiring another entity, and transfers of operations	C010—Combinations and Disposals of Operations, paragraphs .102–.147 and .152–.154
Management's discussion and analysis	Required discussion of currently known facts, decisions, or conditions expected to have a significant effect on financial position or results of operations	2200—Comprehensive Annual Financial Report, paragraphs .108 and .109h
Nonexchange financial guarantees **REVISED 07-20-20**	Guarantor recognition and disclosure requirements if a government is more likely than not to make a payment; disclosures for governments with outstanding obligations (for example, PPP loans) that have been guaranteed by another entity as part of a nonexchange transaction	N30—Nonexchange Financial Guarantees, paragraphs .105–.108 and .111–.113

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Nonexchange transactions **NEW 07-20-20**	Subsequent contravention of eligibility requirements	N50—Nonexchange Transactions, paragraph .123
Operating and nonoperating revenue and expenses **NEW 07-20-20**	Classification of transactions not specifically addressed in Category A or Category B authoritative literature	1000—The Hierarchy of Generally Accepted Accounting Principles, paragraphs .103, and 2200—Comprehensive Annual Financial Report, paragraphs .191-.193.
Prior-period adjustments and accounting changes	Changes in an accounting principle, accounting estimate, or the reporting entity	2250—Additional Financial Reporting Considerations, paragraphs .121–.150
Property tax revenues **NEW 07-20-20**	One-time extension of property tax due date	P70—Property Taxes, paragraph .104. and N50—Nonexchange Transactions, paragraph .115
Public entity risk pools	Risk-financing and insurance-related activities	P020—Public Entity Risk Pools, paragraphs .119–.124, .130–.132, and 146–.147

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Revenue and expense/expenditure recognition	Certain actions that provide budgetary relief—such as delaying payments on expenses (expenditures) already incurred or accelerating the receipt of future-period revenues—do not result in a comparable change to accrual-based and modified-accrual based inflows and outflows	*Revenue recognition:* 1600—Basis of Accounting, paragraphs .103–.106 and .113–.115 N50—Nonexchange Transactions, paragraphs .113–.127 P70—Property Taxes, paragraphs .105–.107 S20—Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, paragraphs .102–.119 *Expenditure recognition:* 1600—Basis of Accounting, paragraphs .103 and .116–.125 N50—Nonexchange Transactions, paragraphs .116–.125 *Budgetary reporting:* 2400—Budgetary Reporting, paragraphs .102, .103, .110, and .111

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Revenue and receivable recognition	Estimations of uncollectible amounts	1600—Basis of Accounting, paragraphs .104 and .106 L30—Lending Activities, paragraph .121 N50—Nonexchange Transactions, paragraphs .113, .115, .118, and .123 P70—Property Taxes, paragraph .106
Sales and pledges of receivables and future revenues	Transactions in which a government sells receivables or pledges a future revenue stream to repay a borrowing	S20—Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, paragraphs .102–.119
Significant violations of finance-related legal or contractual provisions	Violations, such as a bond covenant violation, and how those violations are being addressed	1200—Generally Accepted Accounting Principles and Legal Compliance, paragraph .112 2300—Notes to Financial Statements, paragraph .106h
Subsequent events **REVISED 07-20-20**	Events or transactions that affect the financial statements but occur after the financial statement date; disclosures for legislation enacted after the end of the reporting period	2250—Additional Financial Reporting Considerations, paragraphs .109–.116
Termination benefits	Early retirement offers and similar programs	T25—Termination Benefits

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Troubled debt restructuring	Restructuring of debt for governments both as debtor and creditor	D20—Debt Extinguishments and Troubled Debt Restructuring, paragraphs .129–.165

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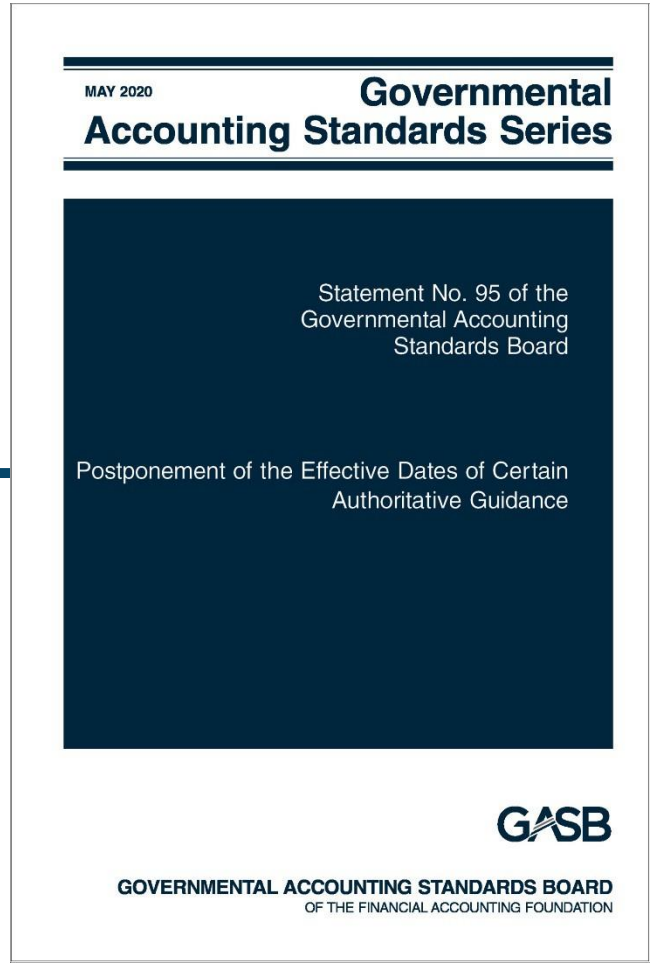
Postponement of the Effective Dates of Certain Authoritative Guidance

Statement No. 95



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Date Postponement

What?

The Board has postponed the effective dates of certain Statement & Implementation Guide provisions

Why?

The Board acted in response to numerous stakeholder requests prompted by the COVID-19 pandemic

When?

Effective immediately

Provisions can be implemented early to the extent allowed by each pronouncement

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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*

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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*

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates—June 30

2015

- Statement 68—Pensions—Employers
- Statement 69—Government Combinations and Disposals of Government Operations
- Statement 71—Pension Transition for Contributions Made Subsequent to the Measurement Date

2016

- Statement 72—Fair Value Measurement and Application
- Statement 73—Pensions—Related Assets (outside scope of Statements 67 and 68)
- Statement 76—Hierarchy of GAAP for State/Local Governments
- Statement 79 – Certain External Investment Pools and Pool Participants

2017

- Statement 73—Pensions Amendments to Certain Provisions of 67 & 68
- Statement 74—Financial Reporting – OPEB Plans
- Statement 77—Tax Abatement Disclosures
- Statement 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Plans
- Statement 80 - Blending Requirements for Certain Component Units
- Statement 82 – Pension Issues

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Effective Dates—June 30

2018

- Statement 75—OPEB (employers)
- Statement 81—irrevocable split-interest agreements
- Statement 85—omnibus (may be implemented by topic)
- Statement 86—certain debt extinguishment issues
- Implementation Guide 2017-1

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Implementation Dates

Effective Date – Periods Beginning *After*	Statement	First Fiscal Years Affected		
		June 30th	Sept. 30th	December 31st
June 15, 2018	GASB-83 - *Asset Retirement Obligations*	2019	2019	2019
June 15, 2018	GASB-88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*	2019	2019	2019
June 15, 2018	IGU-2018-1, Update	2019	2019	2019
December 15, 2018	GASB-84 – *Fiduciary Activities*	2020	2020	2019
December 15, 2018	IGU-2019-2, *Fiduciary Activities*	2020	2020	2019
December 15, 2018	GASB-90 – *Majority Equity Interests*	2020	2020	2019
June 15, 2019	IGU – 2019-1, Update	2020	2020	2020
December 15, 2019	GASB-87 –*Leases*	2021	2021	2020
December 15, 2019	IGU – 2019-3, *Leases*	2021	2021	2020
December 15, 2019	GASB-89–*Accounting for Interest Cost before the End of a Construction Period*	2021	2021	2020
December 15, 2020	GASB-91 –*Conduit Debt Obligations*	2022	2022	2021

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
- 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
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)

Effective Dates after Statement 95

December 31,

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

GASB 83?
Sewage Lagoons

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The Saga

84

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Fiduciary Activities

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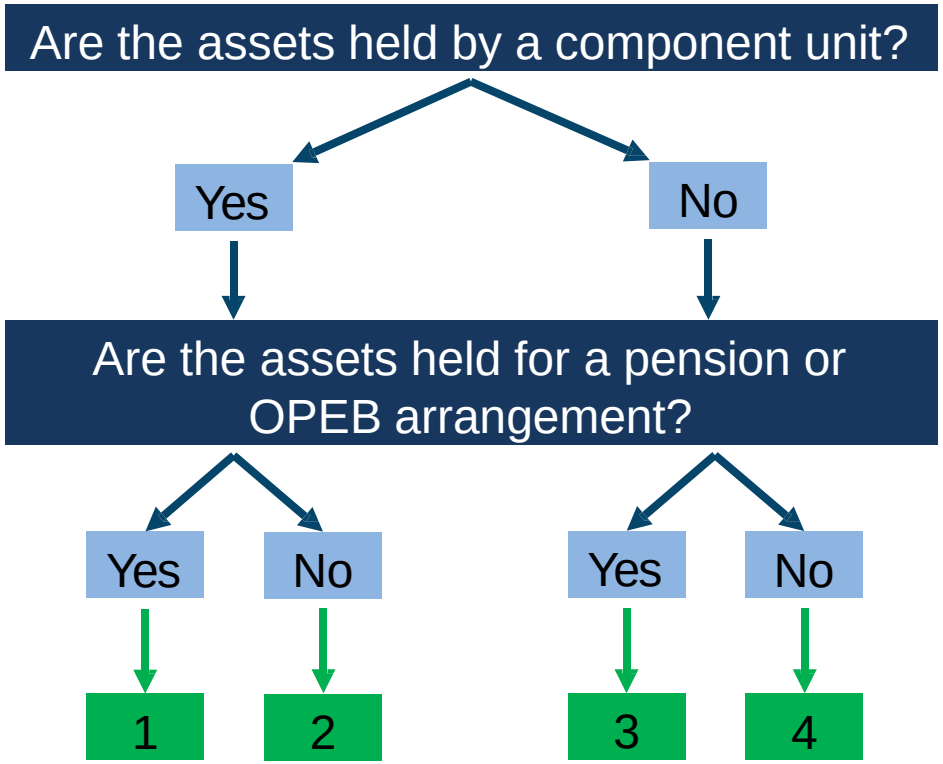
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



Four Paths to Reporting Assets in a Fiduciary Fund

1. Component units that provide postemployment benefits 1

3. Postemployment benefit arrangements that are not component units 3

2. Component units that do not provide postemployment benefits 2

4. All other activities 4

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The Four Paths to Fiduciary Presentation

1

Is there **a component unit** that is providing postemployment benefits (Pensions or OPEB)?

Example –Statewide PERS is a component unit of a State.

2

Is there **a component unit** that does not provide postemployment benefits, *but is a fiduciary*?

Example – Foundation of an Institution of Higher Education that is a component unit.

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The Four Paths to Fiduciary Presentation

3

Are there postemployment benefit arrangements that are ***not component units***?

→ **Example –** Municipal Plan that is not an irrevocable trust and is currently reported as an Agency Fund.

4

Are there any other fiduciary activities – such as:

- Investment Trust Funds?
- Other Endowments?
- Funds or activities that are *currently* Agency Funds?

→ **Examples –** Conservation Trust, Library or School Endowment, School Activity Funds

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Question??

- Ask yourself, where do Defined Contribution Plans and IRS 457 Plans fit on this Matrix, or do they??

- This relates to the 3rd Box Above.

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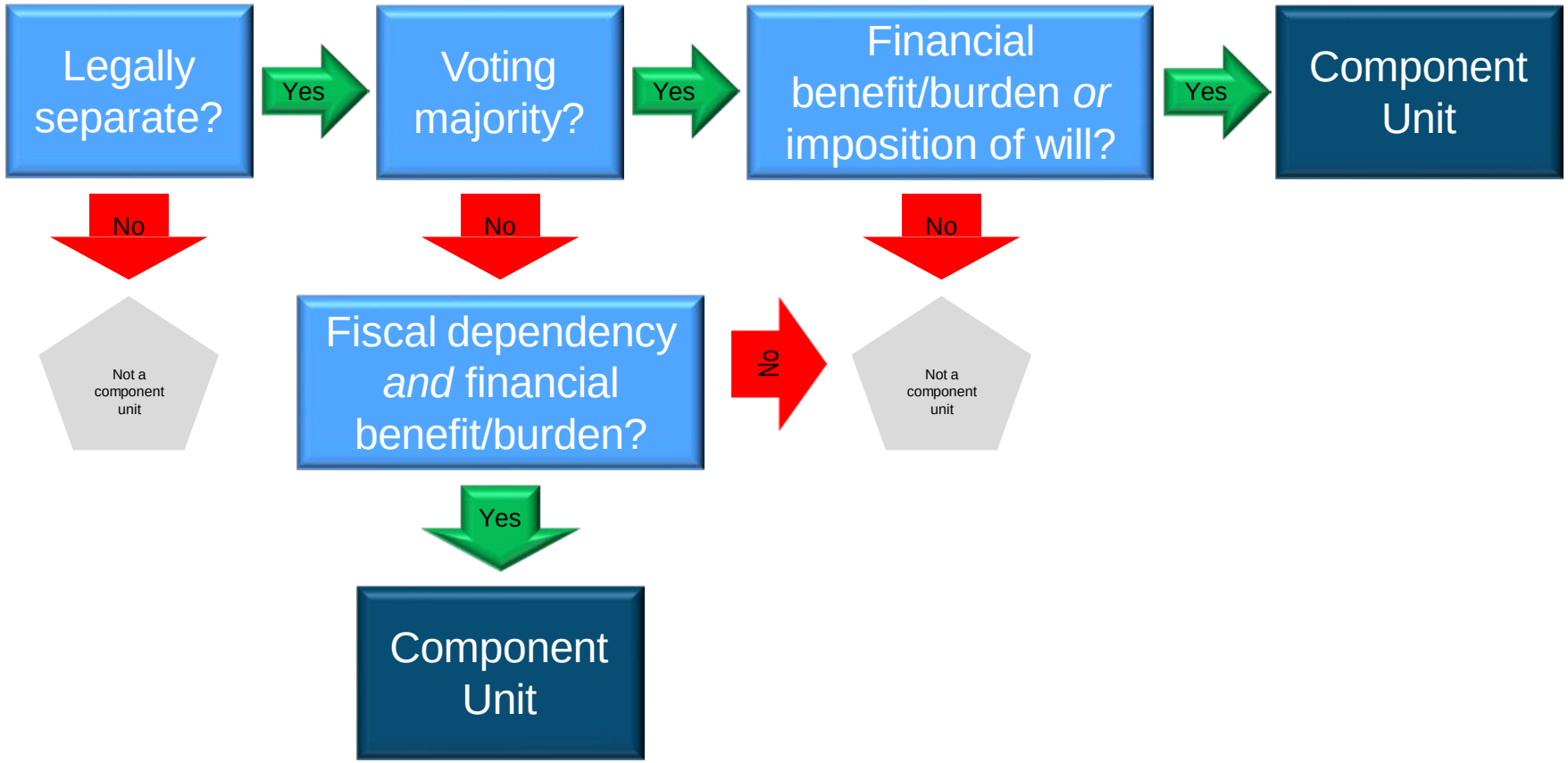
When Does a Government Have a Component Unit?



Key Issues about Fiduciary Activities and Component Units

Statement 14, paragraph 26

Existence of any one of the following meets the imposition of will criteria:

- Ability to remove appointed members of the organization's governing board at will
- The ability to modify or approve the budget of the organization
- The ability to modify or approve rate or fee changes affecting revenues
- The ability to veto, overrule or modify other decisions of the organization's governing body
- The ability to appoint, hire, reassign or dismiss management of the organization

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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

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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

Other Component Units Are Fiduciary if…

They have one or more of the following characteristics:

2

Trusts

- 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

or

Individuals

- 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

or

Organizations

- 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

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All Other Activities Are Fiduciary if…

4

Arrangement meets one or more of the criteria in 2

and

The government **controls** the assets

and

Those assets are *not* derived either:

- Solely from the government's own-source revenues, or
- From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement

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Control of Assets

- 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

Examples – All Other Activities – Fiduciary, Yes or No?

- Taxes - Yes
  - Property Tax Collected by County on Behalf of City
  - City Sales Tax
- Inmate Funds – Yes or No
- Student Activity Funds – Yes or No
- Pass-through Grants - Yes
- Customer Deposits - No
- IRC 457 Plans – Normally No
- Escheat Funds – Apply GASB 21

Examples – All Other Activities

- Tax Increment Financing – Yes or No
- Patient Accounts – Normally No
- Retainage Payable on Contracts - No
- Courts (Litigants, Heirs, Others) - Yes
- Employee payroll deductions - No
- Cemetery Associations – Yes or No
- Asset Seizures – Yes or No
- Cash Bonds - Yes

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			

Case Studies Derived From the Fiduciary Activities Implementation Guide 2019-2

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Property Tax – IG 4.38

- Q—A county collects property taxes on behalf of the other tax-levying governments within its jurisdiction. The county collects a fee, equal to 1 percent of the amount billed, from the other governments to provide this service. The taxes are deposited into the county collector's property tax distribution account, a custodial fund. Should the county report the fees in the custodial fund with the taxes collected?

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Property Tax – IG 4.38

- A—No. The county is obligated to provide the collection service for which a fee is charged to the other taxing governments. The nature of that transaction is exchange or exchange-like, resulting in own-source revenues of the county. Paragraph 11b(1) of Statement 84 states that an activity is not fiduciary if the assets are derived from the government's own-source revenues. Therefore, the county should report the fees in its governmental fund financial statements.

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Payroll withholding – IG 4.15

- Q—A government uses a clearing account to accumulate resources from withholding of employee payroll deductions and accrued employer payroll taxes that will be submitted to the appropriate taxing bodies when due. Should the government report the clearing account in the fiduciary fund financial statements?

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Payroll withholding – IG 4.15

- A—No. Although the government has control of the assets because it has custody of the cash withheld, the unremitted amounts in the clearing account are a liability of the government. When the deductions are withheld from an employee's pay, the amounts withheld and accrued by the employer become a liability of the government. As a result, the government is holding the amounts for its own benefit and the criteria in paragraph 11c of Statement 84 are not met.

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Inmate Fund – IG 4.24 & 4.14

- Inmates housed in the local government jail are provided an individual inmate account
  - Funded by earnings from jobs
  - Deposits of money when earned or by family members
- Inmates make purchases as needed,
  - Order magazines/stationary outside the jail
  - Commissary purchases
- Correctional Officer required to provide authorizing signature on outside purchases
  - Signature to ensure outside contraband does not enter facility
- Upon release the balance of the individual account is provided to the individual.

Fiduciary or not fiduciary?

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Student Activity Fund – IG 4.20

- A school district holds the funds raised by various student clubs, which are not legally separate from the school district.
- The funds are used to pay for various club activities during the year.
- There is no school board or school administration policy related to the club's activities and how the resources can be spent
- The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club.
- Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor.
- The funds are not held in a trust or equivalent arrangement.
- Does the school have administrative involvement?

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Student Activity Fund – ED IG 4.20

- A-Yes. The school district does have administrative involvement. The school district's role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school representative) has the ability to reject, modify, or approve how the resources are spent. The faculty advisor's approval is more than just a formality and is analogous to the example provided in footnote 1 of Statement 84 regarding the determination of eligible expenditures that are established by the government.

- ***Fiduciary or Not fiduciary?***

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GASB 84 - Student Activity Funds

- Recommend not implementing GASB 84. This is a decision between your audit client and your firm.
- We believe you have enough on your plate.
- Audits of Internal School Activity Funds
  - Continue to Audit on a Regulatory Basis of Accounting
  - Follow the *Audit Manual* guidance as currently written
- Because of the delay in implementing GASB 84, we will delay the separate Charter Schools Audits of Internal School Funds
- We believe the schools have administrative involvement with most activity funds.
- Determining Materiality Under GASB 84

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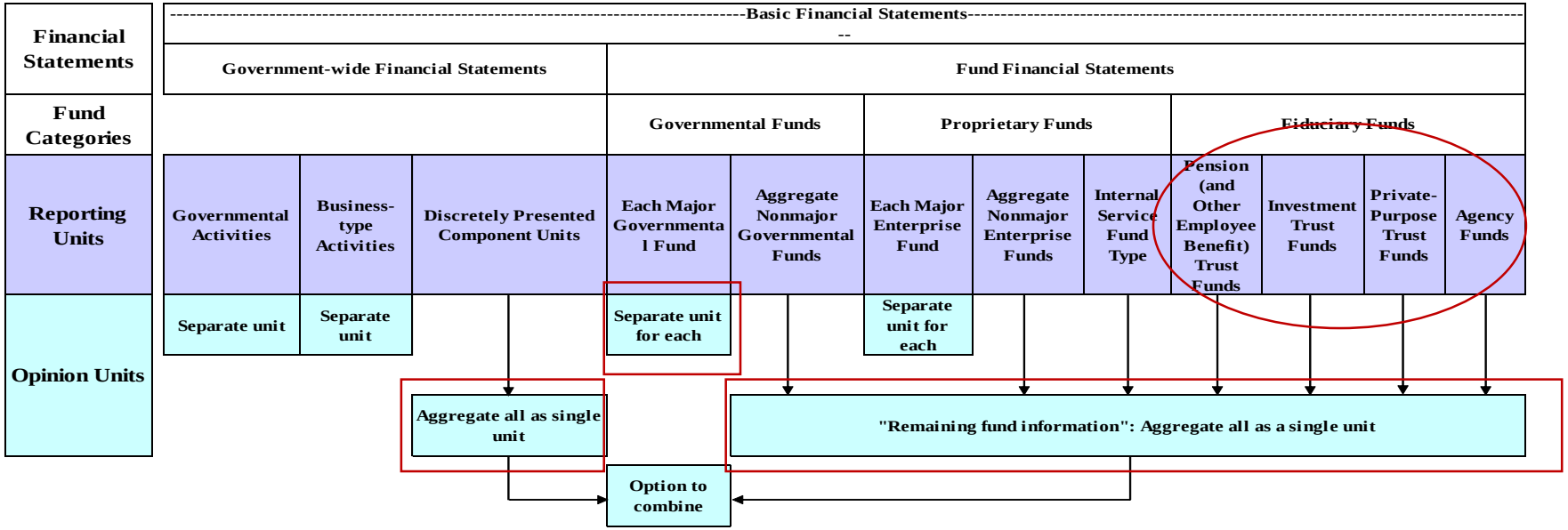
GASB Governments

Overview of Reporting Units and Opinion Units
FOR DISCUSSION PURPOSES ONLY



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GASB 84, Materiality Q&A

- **From the AICPA:**
- **Fiduciary TQA Issued**
- **On December 19, 2019, the AICPA issued nonauthoritative guidance in TQA 6950.23–.24 (AICPA, Technical Questions and Answers), Auditor Assessment of a Special-Purpose Government's Only Immaterial Fiduciary Fund , to address a question that has arisen because of changes to the reporting entity that may result from implementation of GASB Statement No. 84. The TQA provides background information on GASB Statement No. 84 and explains that one result of this standard is that some special-purpose government engaged in business-type activities (BTAs) will be reporting fiduciary activities for the first time. The detailed question and answer provided in the TQA address the auditor's consideration of materiality when a BTA elects not to present the only identified fiduciary fund in the financial statements because it considers it to be immaterial.**
- **Summary- It's Complicated:**
- **GASB 84 may require certain defined contribution pension plans (e.g., 403b and 401k plans) to be reported for the first time. Some governments (especially colleges, universities and casinos) may wish to argue these plans are immaterial and not include them. GAAP permits that (i.e., "the provisions of this statement need not be applied to immaterial items"). However, materiality considerations get dicey when the omitted fiduciary fund would otherwise have been an opinion unit unto itself. Does that make it inherently material, regardless of size? The AICPA says "no", not necessarily:**
-
- **Based on GASB IG 2015-1, Q7.4.1 (as amended), the government can assess quantitative materiality of the fiduciary fund type based on the significance of those funds to all funds of the government. Of course, qualitative materiality should also be considered.**
- **Would this be a misstatement??**

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Journal Entries

General Purpose School Fund (GPS)

- Obtain the current year or prior year activity fund audits.
- Determine Materiality. If material,
  - Debit Expenditures for Total Activities
  - Credit Revenues for Total Activities
  - Restate (Credit) beginning Restricted Fund Balance
  - Record (Credit) ending Restricted Fund Balance
  - Also record Debits and Credits for Assets and Liabilities. Assets (e.g. Cash) would also be reported as restricted.

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Journal Entries

General Purpose School Fund (GPS) *

- What the Division of Local Government Audit Recommends:
  - *You could use a special revenue fund rather than placing this in the General Purpose School Fund.

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Senior Class (or Other) Activity funds

We have received Questions?

- Internal School Uniform Accounting Policy Manual, page 5-23. Normal Procedures for paying out Senior Class Funds.
- This is the preferred method. We are not encouraging using an emergency declaration.
- However, if a government has declared an emergency and has adopted a policy about the disposition of Senior Class Funds, the emergency policy may prevail.
- It must be a fair, equitable, nondiscriminatory, method of disposition.
- May need to issue Form 1099.

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Student Activity Fund – IG 4.19 modified

- Same consideration except the parent(s) of the club establish how the resources can be spent?

Fiduciary or Not fiduciary?

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It’s Fiduciary, Now What?

Statement of Changes in Fiduciary Net Position - Liability Recognition

- **Custodial Funds (formerly Agency Funds)-**
- Recognize a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources
  - Events that compel a government to disburse 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 asset.

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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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 (Examples Dues, Scholarships)

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Key Issues about Fiduciary Activities and Component Units

Legally Separate

- Questions 4.1-4.3 intended to clarify whether pension or OPEB plans (both defined benefit and defined contribution) that are administered through a trust or an equivalent arrangement are legally separate

Voting Majority and Financial Burden or Imposition of Will

- Statement 84, paragraph 7: 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 the pension plan or OPEB plan.
- Statement 14, paragraph 26: The primary government can impose its will if it can significantly influence programs, projects, activities, or level of services performed or provided.

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Key Issues about Fiduciary Activities and Component Units (continued)

Financial Accountability

- Q4.4-Q4.6: appointment of majority of board
- Q4.5: lack of board is equivalent to appointment of a majority if government performs the duties that the board normally would

Financial Burden

- Q4.7: being legally obligated or otherwise assuming the obligation to make contributions to a pension or OPEB plan constitutes a financial burden

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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

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- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
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- Statement 96 – SBITAs

The provisions of this Statement need not be applied to immaterial items.

The Saga

97

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

GASB 97

What?

The GASB issued an Exposure Draft that proposes changes to the criteria for including certain employee benefit plans as component units and improvements to Statement 32 on IRC Section 457 plans

Why?

Over time, some 457 plan characteristics have changed; questions have been raised about whether certain employee benefit plans should be included as component units

When?

Final Statement is expected in

June 2020

TENNESSEE COMPTROLLER OF THE TREASURY

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

Based on the outreach, the Board decided to expand the project and issue a new proposal including guidance on component units

Component Unit Criteria for DC Plans and Other Plans

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform 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) would apply only to defined benefit plans

The effective date for the relevant Q&As in Implementation Guide 2019-2 – 4.3, 4.5, and 4.6 – would be delayed until completion of this project (Delayed by 95)

Proposals for 457 Plans

All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan

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

Investments would be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator would be eliminated)

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The Saga

87

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Leases

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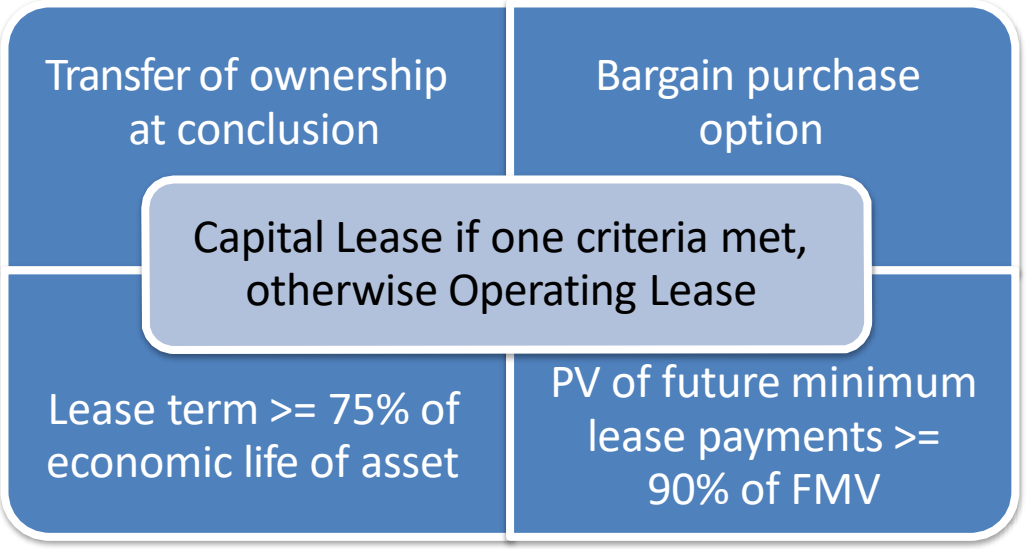
Background

- **Why:**
  - Governmental lessees
    - Over 89,000 state and local governments, including states, counties, cities, ports, hospitals, universities, and special-purpose governments
    - Over 500 federally recognized tribal governments
  - Governmental lessors
    - About 390 primary commercial airports
    - Sports stadiums
    - Tribal casinos
    - Ports and marinas
    - Utilities' power poles

Current lease accounting

- Lessee - determines type of lease – Capital or Operating



Lease Type	Accounting – accrual basis	Disclosure
Capital	Debit: capital assets Credit: long-term debt for PV of future minimum payments	Disclose future minimum payments
Operating	Expense payments as made	Disclose future minimum payments (if noncancelable)

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New Definition of a Lease

- A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.

Definition of a Lease (continued)

- Control requires both of the following:
  - (1) the right to obtain the 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
- Control applied to the right-to-use lease asset (a capital asset) "specified in the contract"
  - Control criteria NOT limited to contracts that convey substantially all of the present service capacity from use of the underlying asset
    - Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day

Leases Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights)—except for the sublease of an intangible right-to-use asset
- Biological assets (including timber, living plants, and living animals)
- Inventory
- Service concession arrangements (see GASB Statement 60)

Leases Scope Exclusions (continued)

- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- Supply contracts (such as typical power purchase agreements, which do not convey control of the right to use the underlying power generating facility)

Common Leased Assets

TENNESSEE COMPTROLLER OF THE TREASURY

Short-Term Lease Exception

- A *short-term* lease is one that, at the beginning of the lease, has a "maximum possible term" under the contract, including any options to extend, of 12 months or less
- Practicality exception for short-term leases
  - For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the noncancelable period including any notice period

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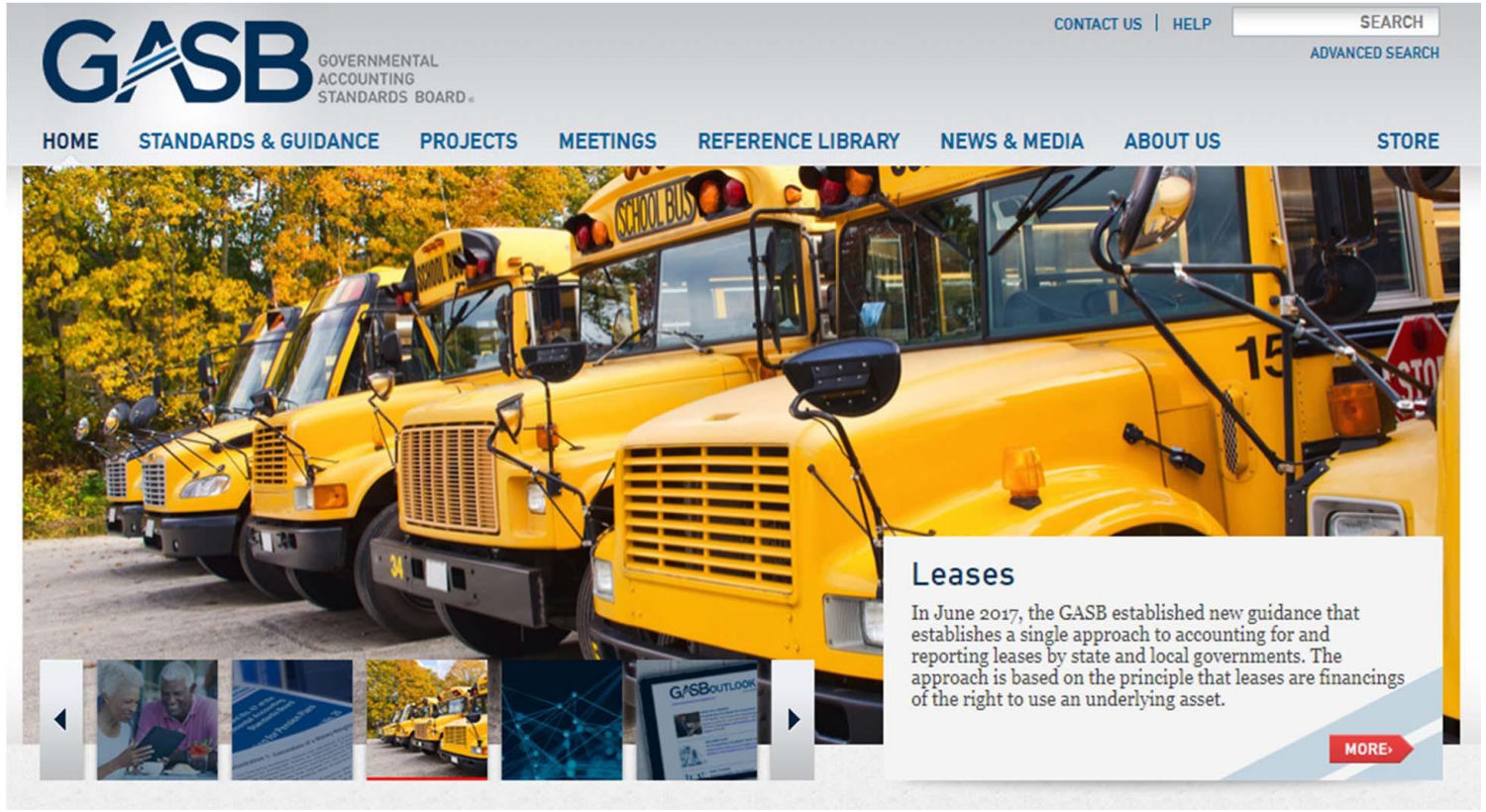

TENNESSEE COMPTROLLER OF THE TREASURY

What should management be doing now?

- Develop a listing of all lease agreements – Lessee or Lessor
- Determine the most likely noncancelable lease period?
- Determine which leases are operating, if any, Capital Leases, and other GASB 87 leases.
- Recalculate the lease for remaining lease period. Determine the interest current interest rate.
- Combine like leases (copiers, computers) into similar remaining lease periods. Consider materiality for the assets and the liability.

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What should management be doing now?

- Consider your capitalization threshold for the intangible asset and the corresponding liability.
- Work with vendors to get all the information in the contract.
- If you are using comparative financial statements, you have even more work.

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What's Coming Down the Assembly Line?

- Statement 91 – Conduit Debt Obligations
- Statement 92 – Omnibus 2020
- Statement 93 – Replacement of Interbank Offered Rates
- Statement 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements
- Statement 96 – Subscription-Based Information Technology Arrangements

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The Big Three

What Are the Big Three?

1. Financial Reporting Model
   - Recognition Concepts
2. Revenue and Expense Recognition
3. Disclosure Framework
   - Disclosure Requirements

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Contact Information

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Questions

- And the Saga continues to continue!!
- **Thank you!**

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