

# To be, or Not to be, that is the question

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# DISCLAIMER OF OPINIONS

- ❶ 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



# Contact Information

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25TH ANNUAL GOVERNMENTAL

# GAAP UPDATE



## Schedule of Implementations (1 of 6)

Statement #	New Statement Periods (*Fiscal Years) Beginning After	Implement for Fiscal Years Ending			
		March 31	June 30	September 30 / October 31	December 31
83 AROs	June 15, 2019	2021	2020	2020	2020
84 Fiduciary	Dec. 15, 2019	2021	2021	2021	2020
87 Leases	June 15, 2021*	2023	2022	2022	2022
88 Debt	June 15, 2019	2021	2020	2020	2020
89 Interest Capitalization	Dec. 15, 2020	2022	2022	2022	2021
90 MEI	Dec. 15, 2019	2021	2021	2021	2020
91 Conduit	Dec. 15, 2021	2023	2023	2023	2022

## Schedule of Implementations (2 of 6)

Statement #	New Statement Periods (*Fiscal Years) Beginning After	Implement for Fiscal Years Ending			
		March 31	June 30	September 30 / October 31	December 31
92 Omnibus:					
¶4-5, 11, 13	Upon issuance				
¶6-7	* June 15, 2021	2023	2022	2022	2022
¶8, 9, 12	June 15, 2021	2023	2022	2022	2022
¶10	<i>Acquisitions in periods beginning after June 15, 2021</i>	2023	2022	2022	2022

## Schedule of Implementations (3 of 6)

Statement #	New Statement Periods (* Fiscal Years) Beginning After	Implement for Fiscal Year Ending			
		March 31	June 30	September 30 / October 31	December 31
93 IBOR Replacement:					
¶11b LIBOR no longer appropriate benchmark interest rate	Periods <u>ending</u> after Dec. 31, 2021	2022	2022	2022	2022
¶13-14 Lease Modifications	June 15, 2021*	2023	2022	2022	2022
All others	June 15, 2020	2022	2021	2021	2021

## Schedule of Implementations (4 of 6)

New Statement	Periods (*Fiscal Years) Beginning After	Implement for Fiscal Years Ending			
		March 31	June 30	September 30 / October 31	December 31
94 PPPs & APAs	* June 15, 2022	2024	2023	2023	2023
96 SBITAs	* June 15, 2022	2024	2023	2023	2023
97 CU Criteria and IRC 457 Plans:					
¶4-5 (DC plans exempted from certain CU requirements)	Upon Issuance				
¶6-9 (Leases)	* June 15, 2021	2023	2022	2022	2022
All other	June 15, 2021	2023	2022	2022	2022



## Schedule of Implementations (5 of 6)

<b>Implementation Guides (Revised)</b>	<b>Effective</b>
Implementation Guide No. 2017-3:  Questions 4.484 and 4.491: OPEB Alternative Measurement Method: Employee turnover-related probabilities and expected remaining service life	First reporting period in which the measurement date of the (collective) net OPEB liability is on or after June 15, 2019
Questions 4.85, 4.103, 4.108, 4.109, 4.225, 4.239, 4.244, 4.245, and 5.1 – 5.4: OPEB Cost-sharing plans post-eligibility employment and DROP entry effect on attribution period; and administrative costs	Actuarial valuations as of December 15, 2018, or later

## Schedule of Implementations (6 of 6)

New Implementation Guide		Implement for Fiscal Year Ending			
Guide #	Periods (*Fiscal Years) Beginning After	March 31	June 30	September 30 / October 31	December 31
2018-1 Update	June 15, 2019	2021	2020	2020	2020
2019-1 Update	June 15, 2020	2022	2021	2021	2021
2019-2 Fiduciary Activities	December 15, 2019	2021	2021	2021	2020
2019-3 Leases	June 15, 2021*	2023	2022	2022	2022
2020-1	Various				

# QUESTIONS?

Email your GASB questions to:

 [marianna@coffeecobudgets.org](mailto:marianna@coffeecobudgets.org)

TO BE OR NOT TO BE?



**Covid**



# GASB STATEMENT 33

- ❁ **IG 2019-1, 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.

# 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.

# 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.

# 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.

# 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.

# 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.
- **Footnote:** GASB does not consider magnitude an indicator of extraordinary or special items.

# LATE BREAKING COVID NEWS

## 🇺🇸 NASACT – 3/3/21

- 🇺🇸 Below is communication from Tammie Brown at HHS OIG regarding COVID-19 vaccines. As you can see, the vaccines are not considered Federal Financial assistance and therefore, are not to be included as expenditures in the SEFA:
- 🇺🇸 *“Based on consultation with our HHS office of grants management and CDC, COVID -19 vaccines are not considered Federal Financial assistance in accordance with 45 CRF part 75 and therefore would not be included as expenditures in the SEFA. For the purposes of the Vaccination Program, COVID-19 vaccine doses do not transfer to recipients, but, rather, remain federal property until the point at which they are administered to individuals. Therefore, it has been determined that the vaccines do not meet the definition of Federal financial assistance. Hope this helps. Tammie”*

# TO BE OR NOT TO BE?

## Fiduciary Activities



84



# FIDUCIARY?

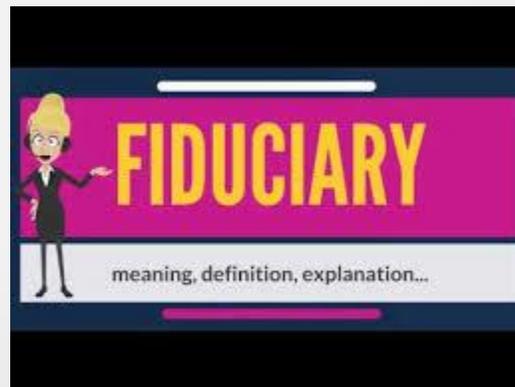
🌟 What is the big deal?

🌟 Why did GASB dedicate an entire standard to *Fiduciary Activities*?



# FIDUCIARY?

- 🌟 **What Is a Fiduciary?**
- 🌟 A fiduciary is a person or organization (i.e., government) that acts on behalf of another person or persons, putting their clients' interest ahead of their own, with a duty to preserve good faith and trust. Being a fiduciary thus requires being bound both legally and ethically to act in the other's best interests.



# 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

# Other Component Units Are Fiduciary if...

These also apply to All Other Activities

They have one or more of the following characteristics:



## 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



## 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

or

2

# ALL OTHER ACTIVITIES ARE FIDUCIARY IF...

4



# 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?

# 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?***

# GASB 84 - STUDENT ACTIVITY FUNDS

- 🌟 **Audits of Internal School Activity Funds**
  - **Continue to Audit on a Regulatory Basis of Accounting**
  - **Follow the *Audit Manual* guidance as currently written**
- 🌟 **We believe the schools do have administrative involvement with most activity funds.**
- 🌟 **Determining Materiality Under GASB 84**



# HOW TO RECORD THE ACTIVITY FUNDS

## Journal Entries

- 🌐 **What the Division of Local Government Audit Recommends:**
  - You could use a nonbudgeted special revenue fund rather than placing this in the General Purpose School Fund.
  - Record Total Assets, Liabilities, and Fund Balance
  - Record Total Revenues and Expenditures



# STUDENT ACTIVITY FUND – IG 4.19

- ⊛ Same facts as previous example except the **parent(s) of the club establish** how the resources can be spent?

**Fiduciary** or Not fiduciary?

# EVALUATION

## Student Activity Fund

Form developed by Crawford and Associates, CPA

Step 1	Answer
Component Unit Criteria Met	N
OR	
Govt controls the assets	
AND	
Assets not derived from the governments own source revenue/govt. mandated/voluntary nonexchange	Y
Step 2	
1. Trust which govt not a beneficiary 2. dedicated to providing benefits in accordance with terms 3. legally protect from govt's creditors	N
OR	
For the benefit of individuals & govt <b>does not</b> have <i>administrative involvement</i> or <i>direct financial involvement</i>	
AND	
Assets not derived from the governments provisions of goods & services to those individuals	Y
OR	
For the benefit of organizations or other govts that are not part of financial reporting entity	
AND	
Assets not derived from the governments provisions of goods & services to those individuals	N
Conclusion (if you have a yes answer in step 1 and step 2 the activity is fiduciary)	Y

# 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 – Depends, Refer to GASB 97

### 🌟 Escheat Funds – Apply GASB 21(Q&A, 7.52.5 and 7.52.8 in Implementation Guide 2015-1)



# EXAMPLES - ALL OTHER ACTIVITIES

## Fiduciary – Yes or No?

- 🌟 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



# EXAMPLES - ALL OTHER ACTIVITIES

## Fiduciary – Yes or No?

- 🌟 Drug Funds held by Funds rather than in Fiduciary Funds – Yes or No.
- 🌟 Seized Funds – Yes or No
- 🌟 Cafeteria Customer Deposits - No
- 🌟 Stabilization Reserve Trust – No
- 🌟 Tennessee School Board Association OPEB Trust - No
- 🌟 Contractor Performance Bonds - No
- 🌟 Contractor Deposits (deposits in-lieu-of-bonds) - No
- 🌟 Self-Insurance, Flexible Spending, etc. - No



# EXAMPLES - ALL OTHER ACTIVITIES

## Fiduciary – Yes or No?

- ⊗ City Sales, City Property, Special School Districts Taxes, Constitutional Officers-LHO, District Atty. General Fund, Drug Task Forces would, etc. **remain as currently reflected** in Custodial (Agency) Funds



# FIDUCIARY ACTIVITY



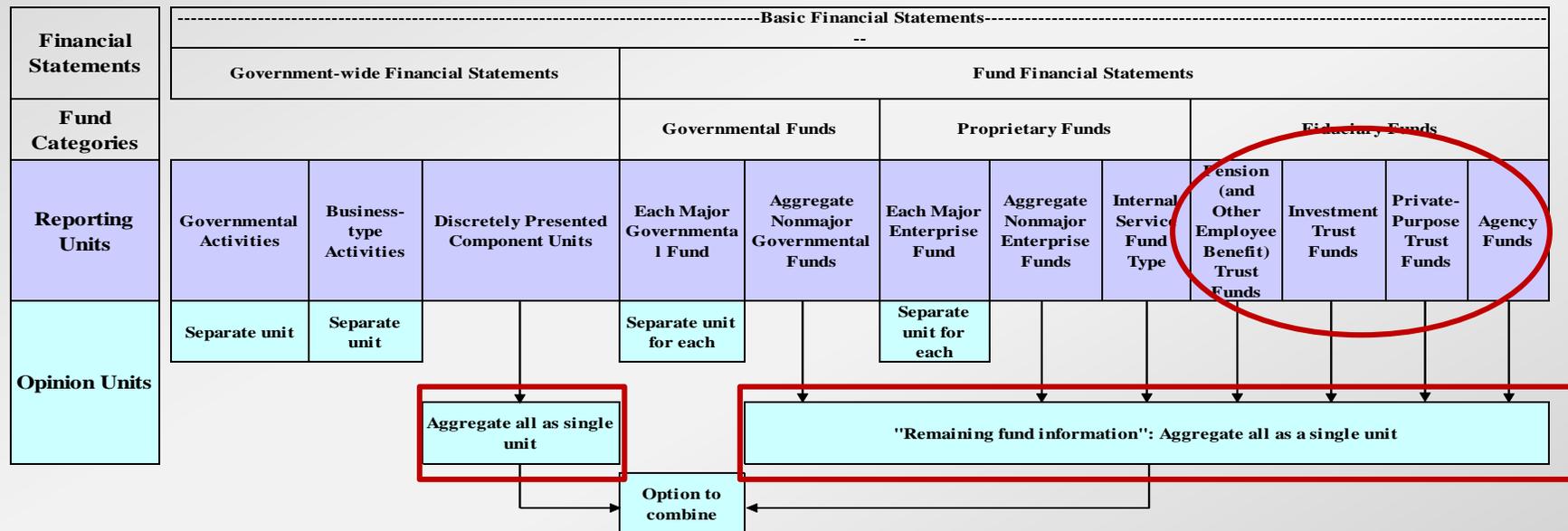
**Good News!!**



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

# GASB Governments

Overview of Reporting Units and Opinion Units  
FOR DISCUSSION PURPOSES ONLY



# GASB 84

## 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

# TO BE OR NOT TO BE?

## Leases

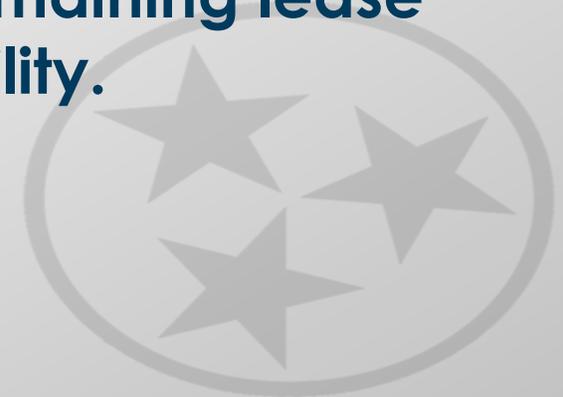


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# WHAT SHOULD I BE DOING?

- ④ Develop a listing of all lease agreements – Lessee or Lessor
- ④ Determine the most likely noncancelable lease period?
- ④ Determine which leases are operating, if any, Capital Leases, and other GASB 87 leases.
- ④ Recalculate the lease for remaining lease period. Determine the interest current interest rate.
- ④ Combine like leases (copiers, computers) into similar remaining lease periods. Consider materiality for the assets and the liability.



# WHAT SHOULD I BE DOING?

- ⊗ 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.
- ⊗ Consider debt covenants if applicable.
- ⊗ Consider reporting to EMMA if applicable



# WHAT SHOULD I BE DOING?

- ❋ If you are not going to do these things, then contact a firm and pay the firm to make the calculations.
- ❋ It is unlikely your CPA Audit Firm will have time to do this if you have numerous leases, and even if you don't, it will add audit costs and slow down the audit, and (here's the rub)
- ❋ Or, it could mean a modification of your auditor's opinion as a worse case scenario.





# TO BE OR NOT TO BE?

## Replacement of Interbank Offered Rates



93



# GASB 93

## Kristine Brock

- 🌐 In a related topic to next week's TGFOA Spring Institute, I asked GASB staff today while on a GASAC meeting if they have plans to update Statement 93 related to sunset of Interbank Offered Rates. The answer is "Yes, they are working on it now.". As you've heard, a couple of LIBOR indices will still cease publication on 12/31/2021 while others have been extended until June 2023. Staff said that the GASB is looking to revise the implementation of this statement to coincide with the sunset of the respective IBOR for each reporting entity. I don't think the new language will be issued by March 11-12 but it should be okay to say that GASB is reviewing timing for implementing Statement 93 based upon the late 2020 announcement from the organization that publishes LIBOR.



# GASB 93

## Where to Find LIBOR or IBOR

LIBOR EXPOSURE	WHERE CAN I FIND IT?	WHO SHOULD I CALL?
Swaps/Derivatives	Swap Confirmation Document: Terms of the swap: floating amounts	<ul style="list-style-type: none"> <li>Your Municipal/Swap Advisor (Reference GFOA QJR best practice)</li> <li>Your Bond/Swap Counsel</li> </ul>
Bank Loans	Loan agreement document, where payment and reference rate are discussed	<ul style="list-style-type: none"> <li>Your Municipal Advisor</li> <li>Your Bond Counsel</li> <li>Your Bank Relationship Manager</li> </ul>
Floating Rate Notes	If publicly offered, in Official Statement: inside of cover page If privately placed, in the Placement or Loan Agreement	<ul style="list-style-type: none"> <li>Your Municipal Advisor</li> <li>Your Bond Counsel</li> </ul>
Direct Placements	In the Placement or Loan Agreement where payment and reference rate are discussed: Pricing Notice	<ul style="list-style-type: none"> <li>Your Municipal Advisor</li> <li>Your Bond Counsel</li> <li>Your Bank Relationship Manager/Broker-Dealer</li> </ul>
Letters of Credit	Letter of credit and reimbursement agreement	<ul style="list-style-type: none"> <li>Your Municipal Advisor</li> <li>Your Bond Counsel</li> <li>Your Bank Relationship Manager</li> </ul>
Purchasing Cards	Purchasing card contract or purchasing card section of your bank services contract	<ul style="list-style-type: none"> <li>Your Internal/General Counsel</li> </ul>
Intergovernmental Fund	Inter-Governmental Agreement	<ul style="list-style-type: none"> <li>Your Municipal Advisor</li> <li>Your General/Internal Counsel</li> </ul>
Lines of Credit/Revolving Credit Agreements	In Revolving Credit Agreement	<ul style="list-style-type: none"> <li>Your Municipal Advisor</li> <li>Your Bond Counsel</li> <li>Your Bank Relationship Manager</li> </ul>
Lease Contracts	If held by vendor, in vendor agreement where payment is discussed. If held by bank, in bank contract where payment is discussed.	<ul style="list-style-type: none"> <li>Your Bank Relationship Manager/Vendor</li> <li>Your Bond Counsel and/or</li> <li>Your General/Internal Counsel</li> </ul>
Variable Rate Demand Bonds/Obligations (VRDOs)	Standby bond purchase agreement	<ul style="list-style-type: none"> <li>Your Municipal Advisor</li> <li>Your Bond Counsel</li> </ul>
Conduit Loans where the Government is the Lender (such as bond banks)	Conduit loan or bond agreements where pricing is discussed	<ul style="list-style-type: none"> <li>Your Municipal Advisor</li> <li>Your Bond Counsel</li> <li>Your General/Internal Counsel</li> </ul>
Investment Products, including Guaranteed Invest Products (GICs)	The investment agreement where LIBOR is referenced	<ul style="list-style-type: none"> <li>Your Investment Adviser</li> <li>Your GIC Provider</li> </ul>

# TO BE OR NOT TO BE?

## Certain Component Unit Criteria and Reporting IRC 457 Plans



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# GASB 97

## Complete Title

- ❁ ***Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32***



# Thank You!

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