



State of New Mexico Office of the State Auditor

Fiduciary Activities/Leases

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

Effective Dates—June 30

2019

- Statement 83—Certain Asset Retirement Obligations
- Statement 88—Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Implementation Guide 2018-1

2020

- Statement 84—Fiduciary Activities
- Statement 90—Majority Equity Interests
- Implementation Guide 2019-1
- Implementation Guide 2019-2

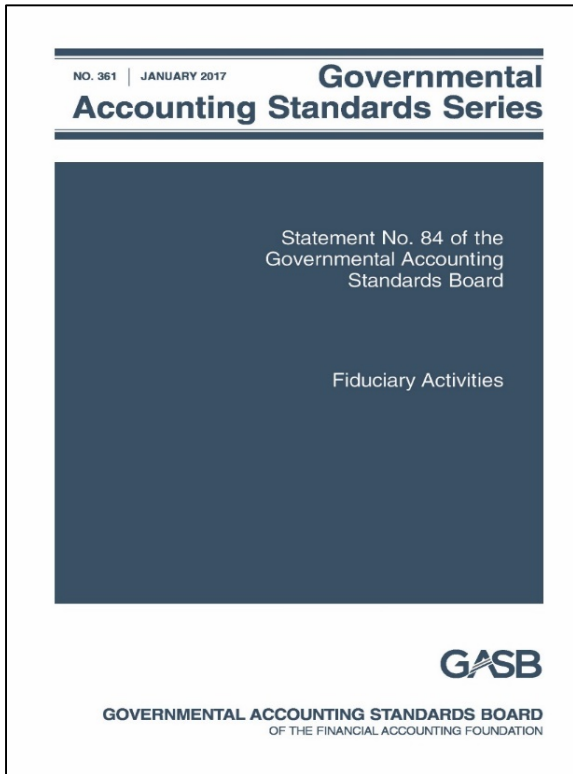
2021

- Statement 87—Leases
- Statement 89—Interest Cost Incurred before the End of a Construction Period
- Implementation Guide 2019-3

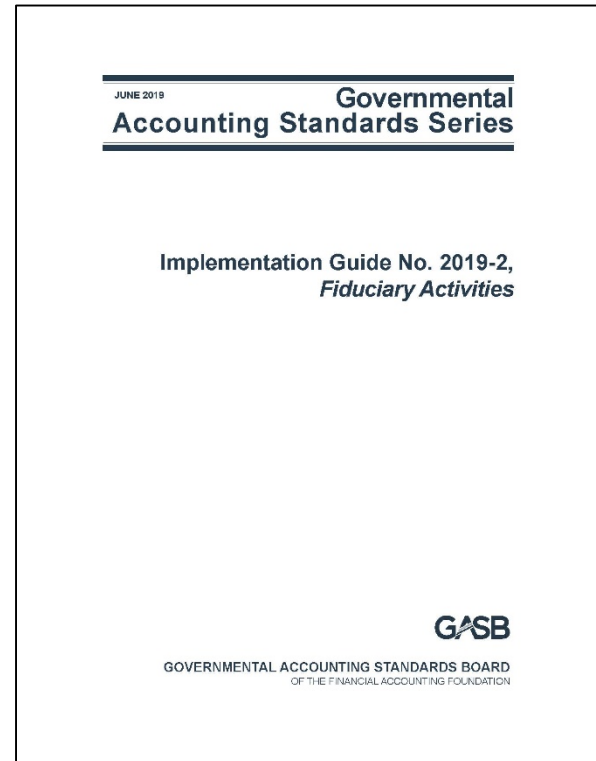
2022

- Statement 91—Conduit Debt

Fiduciary Activities



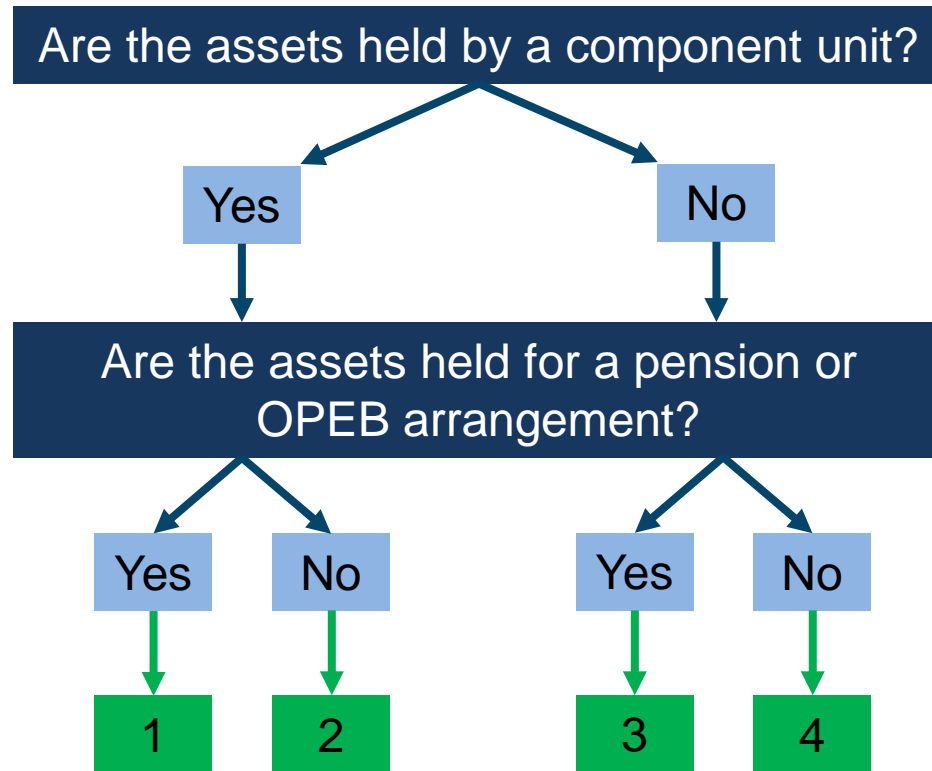
Statement 84



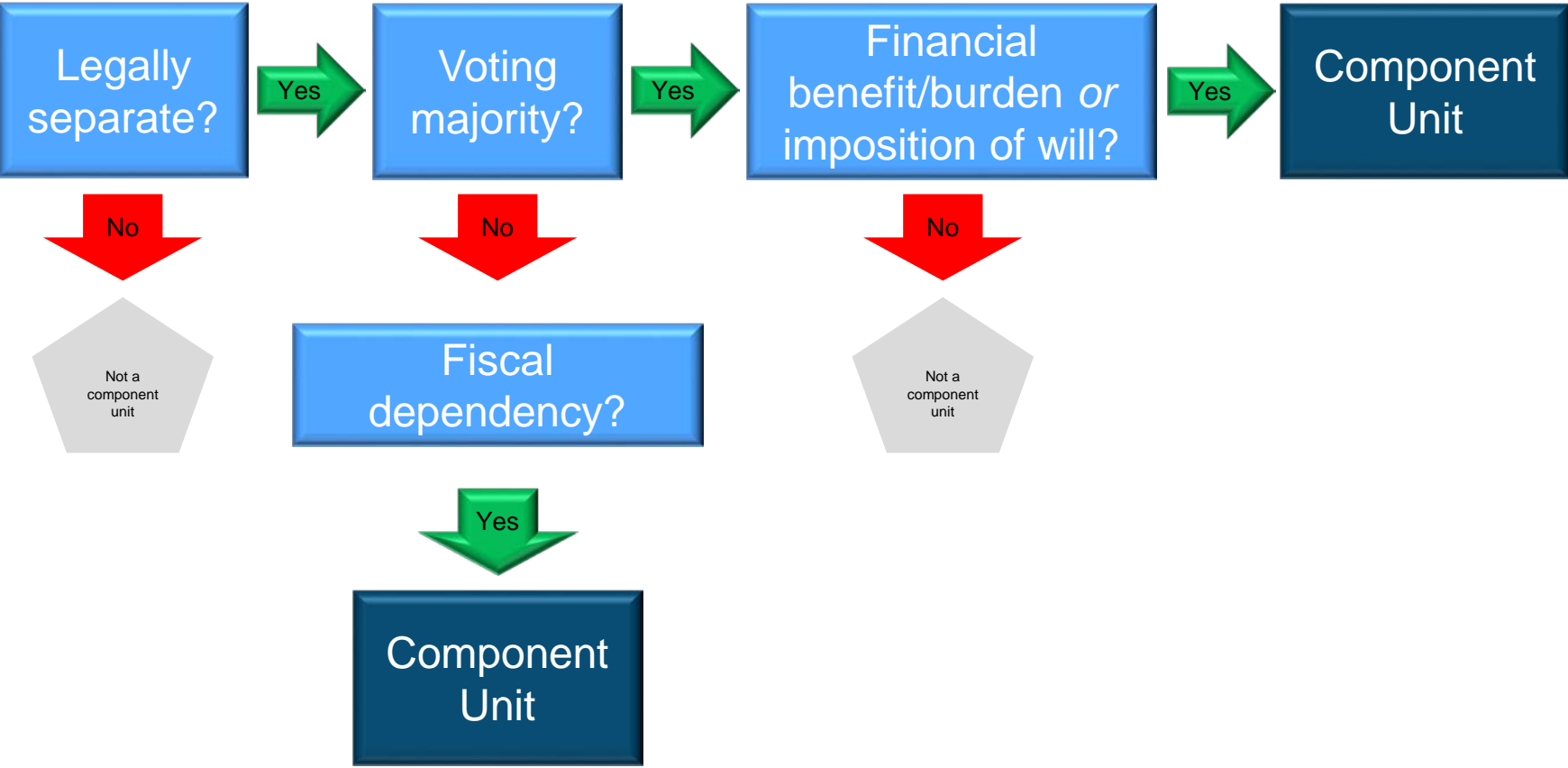
Implementation Guide 2019-2

When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



When Is There a Component Unit?



Determining If There Is A Component Unit—Legally Separate

Paragraph 7 of Statement 84

Generally, pension plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 and OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 74 are legally separate entities.

Questions 4.1, 4.2, and 4.3 of Implementation Guide 2019-2

- 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

Determining If There Is A Component Unit—Voting Majority and Financial Burden or Imposition of Will

Paragraph 7 of Statement 84

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.

Paragraph 26 of Statement 14

The primary government has the ability to impose its will if it can significantly influence programs, projects, activities, or level of services performed or provided.

Determining If There Is A Component Unit— Imposition of Will, Continued

Paragraph 26 of Statement 14

- 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

Identifying Fiduciary Activities Q&As

- Fiduciary Component Units
 - Intended to clarify other Implications of Statement 14, as amended
 - Financial accountability applicability (Q4.4-Q4.6)
 - No board equivalent to appointment of a majority of board if government performs the duties that the Board normally would (Q4.5)
 - Implication of being legally obligated or otherwise assuming the obligation to make contributions to a pension or OPEB plan (Q4.7)



Determining If There Is A Component Unit— Financial Dependency and Financial Burden

Paragraph 16 of Statement 14

A special-purpose government would be fiscally dependent on the primary government, if the primary government had the authority to do one of the following:

- Approve the organization's budget
- Approve organization's levy, rates, taxes or other charges
- Approve organization's issuance of bonded debt

Identifying Fiduciary Activities Q&As

■ Fiduciary Component Units

- Control applicability

- Intended to clarify whether control of the assets is required when a government has determined the activity is a component unit (Q4.8)



All Other Activities Are Fiduciary if...

All three of the following are met:

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

All Other Activities (continued)

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

When Is a Government Controlling Assets?

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

A government uses an asset when it expends or consumes that asset for the benefit of individuals, organizations, or other governments, outside of the government's provision of services to them.

Identifying Fiduciary Activities Q&As

■ Control of Assets

- Intended to clarify whether a government is controlling assets as described in paragraph 12 of Statement 84
 - Touchdown club (Q4.32)



When Does a Government Have Administrative Involvement or Direct Financial Involvement?

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

- **Example of direct financial involvement**
 - If it provides matching resources for the activities

Identifying Fiduciary Activities Q&As

■ Other Fiduciary Activities

- Intended to clarify whether the following are considered to be fiduciary activities
 - Custodian of fees collected for a not-for-profit association (Q4.10)
 - Contractor deposits/Performance bonds (Q4.11-Q4.12)
 - Retainage (Q4.13)
 - Payroll clearing accounts (Q4.15)



Identifying Fiduciary Activities Q&As

■ Other Fiduciary Activities

- Intended to clarify whether assets are held for the benefit of individuals (paragraph 11c(2) of Statement 84) or for the benefit of an organization (paragraph 11c(3) of Statement 84) (Q4.16)
 - Do the benefits accrue to individuals that constitute the organization?
 - Do the benefits accrue to the organization itself as an institution?
 - Is the club legally separate from the primary government?



Identifying Fiduciary Activities Q&As

- Assets Are For the Benefit of Individuals
 - Intended to clarify whether a government has administrative involvement or direct financial involvement with the assets
 - Actual scenarios are analogized to the examples from Statement 24:
 - Monitors compliance with the requirements of the activity (established by the government or resource provider)
 - Determines eligible expenditures (established by the government or resource provider)
 - Has ability to exercise discretion over how the assets are allocated
 - Provides matching resources for the activities

- COMES DOWN TO WHO ESTABLISHES THE SPECIFIC GUIDELINES ON HOW THE RESOURCES CAN BE SPENT

Identifying Fiduciary Activities Q&As

■ Assets Are For the Benefit of Individuals

- Intended to clarify whether a government has administrative involvement or direct financial involvement with the assets related to student clubs and organizations:
 - School Board establishes the fees charged by the clubs to their members (Q4.17)
 - Student club president and members of club establish how the resources raised can be spent (Q4.18)
 - Parents of the club members establish how the resources raised can be spent (Q4.19)
 - Faculty advisor of the club establishes how the resources raised can be spent (Q4.20)
 - School Board establishes policy including specific guidelines on spending (Q4.21)
 - School Board establishes policy with general guidelines for all clubs (Q4.22)
 - State establishes guidelines through an administrative policy on how the resources raised can be spent (Q4.23)
 - School district provides matching funds (Q4.26)

Identifying Fiduciary Activities Q&As

- Assets Are For the Benefit of Individuals
 - Intended to clarify when a government has administrative involvement or direct financial involvement with the assets
 - University scholarships (Q4.25)



Identifying Fiduciary Activities Q&As

- Assets Are For the Benefit of Organizations or Other Governments
 - Intended to clarify when assets are being held for the benefit of an individual or an other organization
 - Students raise funds restricted for a not-for-profit (Q4.28)
 - Non-trust agreements to provide accounting and treasury services (including investing) to a not-for-profit organization (Q4.29-Q4.30)



What Are Own-Source Revenues?

- Revenues that are generated by a government itself
 - Exchange and exchange-like revenues (water and sewer charges and investment income)
 - Nonexchange revenues
 - Derived tax revenues (sales and income taxes)
 - Imposed nonexchange revenues (property taxes)



Identifying Fiduciary Activities Q&As

- Own-Source Revenues
 - Intended to clarify whether specific revenue sources would be considered own-source as described in paragraph 13 of Statement 84



Reporting Fiduciary Activities—Fiduciary Funds

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
 - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- *Custodial funds* would report fiduciary activities for which there is no trust agreement or equivalent arrangement.



Reporting Fiduciary Activities in Fiduciary Funds Q&As

■ Investment Trust Funds

- Intended to clarify how to report investments held in a trust for other governments that are not component units (Q4.39)
- Intended to clarify how to report investment pools that are not administered through a trust that meets the criteria in paragraph 11c(1) of Statement 84 (Q4.40)

■ Private-Purpose Trust Funds

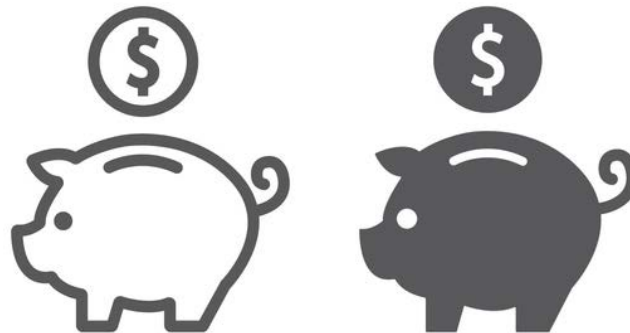
- Intended to clarify that a fiduciary activity administered through a trust that meets the criteria in Statement 84 that is not a pension (or other employee benefit) trust fund or an investment trust fund should be reported in a private-purpose trust fund (Q4.41)

Liability Recognition

- A government should 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 fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.
 - County would recognize a liability when it collects taxes for other governments, even though it may not be required to distribute the taxes to those governments for a prescribed period
- Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus.

Reporting Fiduciary Activities in Fiduciary Funds Q&As

- Statement of Fiduciary Net Position
 - Intended to clarify the “liability to a beneficiary” requirement—when a government is compelled to disburse the resources (Q4.47)



Other Reporting Requirements

- Additions would be presented disaggregated by source and, if applicable, separately display investment earnings, investment costs, and net investment earnings
- Deductions would be presented disaggregated by type and, if applicable, separately display administrative costs
 - Disaggregated additions and deductions requirement would apply to the statement of changes in fiduciary net position for all fiduciary funds *except* custodial funds held for three months or less
 - For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

Reporting Fiduciary Activities in Fiduciary Funds Q&As

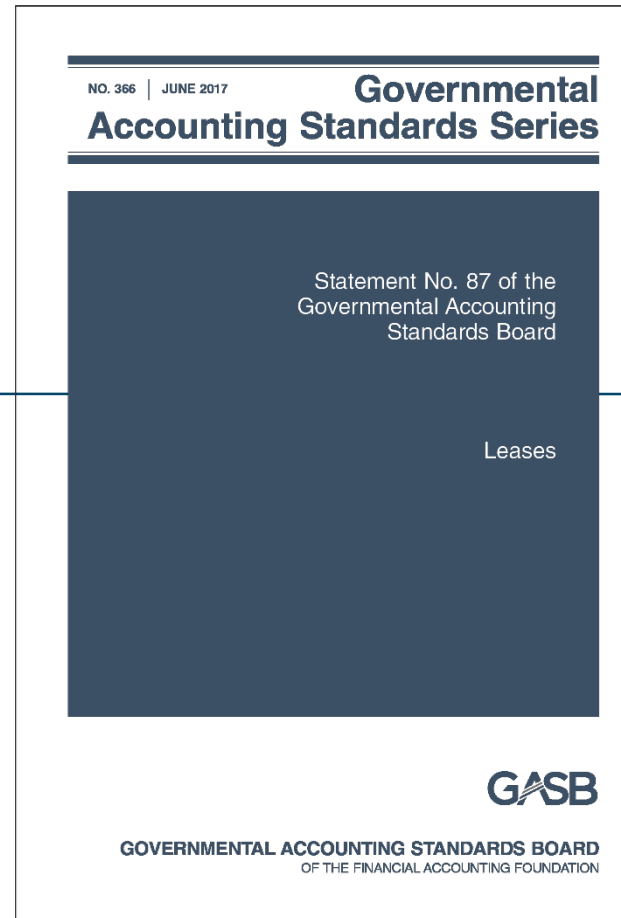
- Statement of Changes in Fiduciary Net Position
 - Intended to clarify the disaggregation exception when resources are expected to be held for 3 months or less for one activity and for multiple activities (Q4.48-Q4.50)



Transition Provisions

- Changes to conform to the provisions should be applied retroactively by restating financial statements, if practicable, for all prior periods presented
 - If not practicable, the cumulative effect, if any, of applying the provisions should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated.
- In first period that this Statement is applied, the notes to the financial statements should disclose the nature of the restatement and its effect.
 - The reason for not restating prior periods presented should be disclosed

Leases



Leases—Implementation Suggestions

- Determine if bond covenants or debt limit provisions need to be modified
- Develop a system to capture data related to lease terms, estimated lease payments, and other components of lease agreements that could effect the liability being reporting
- Establish policies now so that those policies can be applied to leases that are currently being entered into and still will be in effect when Statement 87 becomes effective
- Potential policies that could be considered
 - Identify a working threshold for assessing leases
 - Operationalize “reasonably certain”
 - Operationalize allocation procedures for nonlease components

Scope and Approach

- Capital/operating distinction is eliminated
- Statement 87 applies to any contract that meets the definition of a lease:

“A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”

- Leases are financings of the right to use an underlying asset



Single approach applied to accounting for leases with some exceptions, such as short-term leases

Definition of a Lease—Control

- 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

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 (Statement 60)



Assets financed with outstanding conduit debt, unless both the asset and the debt are reported by the lessor



Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

Lease Term

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



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

Short-Term Leases

Definition	At beginning of lease, <i>maximum possible term</i> under the contract is 12 months or less
Lessee accounting	<ul style="list-style-type: none">• Recognize expenses/expenditures based on the terms of the contract• Do not recognize assets or liabilities associated with the right to use the underlying asset
Lessor accounting	<ul style="list-style-type: none">• Recognize lease payments as revenue based on the payment provisions of the contract• Do not recognize receivables or deferred inflows

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible lease asset (right to use underlying asset)— value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	<ul style="list-style-type: none"> • Lease receivable (generally includes same items as lessee’s liability) • Continue to report the leased asset 	NA	Equal to lease receivable plus any cash received up front that relates to a future period

LESSEE—Initial Measurement

- Initial measurement of a lease liability includes:
 - Fixed payments (less any lease incentives receivable from the lessor)
 - Variable payments based on an index or rate (such as CPI), using the rate as of the beginning of lease
 - Variable payments that are fixed in substance
 - Residual value guarantees *reasonably certain* of being required
 - Purchase options *reasonably certain* of being exercised
 - Termination penalties, if lease term reflects lessee exercising termination options/fiscal funding clauses
 - Any other *reasonably certain* payments

LESSEE—Initial Measurement (continued)

- Lease liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset
- Lease liability payments discounted using the rate the lessor charges the lessee (may be implicit) or, if that rate cannot be readily determined, the lessee's incremental borrowing rate

LESSOR—Recognition and Measurement

- Recognize a lease receivable and deferred inflow of resources
- Do not derecognize the underlying asset and do not recognize a residual asset
 - Depreciate underlying asset as normal, unless required to be returned in its original or enhanced condition or has an indefinite useful life
- In governmental funds, report lease receivable and deferred inflow of resources
 - Recognize deferred inflow of resources as revenue when “available”

LESSOR—Initial Measurement

- Initial measurement of a lease receivable includes:
 - Fixed payments
 - Variable payments that depend on an index or rate (such as CPI)
 - Use the rate as of beginning of lease
 - Variable payments that are fixed in substance
 - Exclude variable lease payments that are dependent on a lessee's performance or usage of an underlying asset
 - Residual value guarantees that are fixed in substance
 - Less provision for uncollectible amounts

LESSOR—Initial Measurement (continued)

- Discount the lease receivable using the rate the lessor charges the lessee
 - Interest rate may be implicit in the lease
- Initially excludes the following
 - Residual value guarantees that are not fixed in substance should be recognized as a receivable when:
 - a. Payment is required, and
 - b. Amount can be reasonably estimated
 - Purchase option payments or termination penalties
 - Recognized when exercised

LESSOR—Deferred Inflow of Resources

- Deferred Inflow of Resources — Initial Measurement
 - Receivable amount, plus
 - Any cash received up front that relates to future periods (for example, final month's rent)
- Recognize revenue over the lease term on a systematic and rational manner over the lease term

LESSOR—Exceptions

- The following transactions do not apply the general lessor recognition and measurement guidance (but still required to provide certain disclosures)
 - Leases of tangible assets that are investments
 - No lease receivable reported for leased investment assets because investments are reported at fair value
 - Certain regulated leases (for example, airport-airline agreements)

Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	<ul style="list-style-type: none"> • Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less amount needed to cover accrued interest) 	NA	Recognize revenue over the lease term in a systematic and rational manner

Contracts with Multiple Components

- Separate contracts into lease and nonlease components or multiple lease components
- Allocate consideration to multiple underlying assets if:
 - Differing lease terms, or
 - Are in differing major asset classes for disclosure
- Allocation process:
 - First — use any prices for individual components if price allocation not unreasonable based on contract terms and professional judgment (maximizing observable information)
 - If no prices or if not reasonable, use best estimate based on professional judgment (maximizing observable information)
 - If not practicable to determine best estimate, may account for components as single lease unit

Other Topics Covered by Statement 87

Disclosures

Contract combinations

Lease modifications & terminations

Lease incentives

Subleases

Sale-leasebacks

Lease-leasebacks

Effective Date and Transition

- Effective for periods beginning after December 15, 2019
 - Earlier application encouraged
- Transition
 - Apply retroactively
 - Restate if practicable, cumulative effect if not
 - Leases recognized and measured *using the facts and circumstances that exist at the beginning of the period of implementation* (hindsight)
 - Lessors should *not* restate the assets underlying their existing sales-type or direct financing leases
 - Any residual assets for those leases would become the carrying values of the underlying assets

Major and Practice Issue Projects

Timetable		
Subscription-Based IT Arrangements	Exposure Draft—May 2019	Comment Deadline—was August 23
Public-Private Partnerships	Exposure Draft—June 2019	Comment Deadline—was September 13
Deferred Compensation Plans	Exposure Draft—June 2019	Comment Deadline—was September 27
Omnibus	Exposure Draft—June 2019	Comment Deadline—was October 4
Secured Overnight Financing Rate	Exposure Draft—September 2019	Comment Deadline—November 27

Big Three

What Are the Big Three?

- Financial Reporting Model
 - Recognition Concepts
- Revenue and Expense Recognition
- Disclosure Framework
 - Disclosure Requirements

Research

- Capital assets
- Compensated absences
- Going concern disclosures—severe financial distress
- Interim financial reporting
- Investment fees
- Prior-period adjustments

Questions



Website information: www.gasb.org