



West Virginia DEPARTMENT OF  
**EDUCATION**

# GASB UPDATE

*July 17, 2019*

## New GASB Statements Effective for FY19

- GASB 83: Asset Retirement Obligations
  - Effective for reporting periods beginning after June 15, 2018 (FY19).
  - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs).
  - Establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

## New GASB Statements Effective for FY19

- GASB 83: Asset Retirement Obligations (continued)
  - Asset retirement obligation information:
    - Definition: An accounting process that recognizes the legal responsibility to dispose of assets at a future point in time.
    - Asset retirement obligations are typically associated with long-lived assets and can involve an entire asset or a portion of it.
    - The obligation can come about as a result of a law, statute, ordinance, or written contract.

## New GASB Statements Effective for FY19

- GASB 83: Asset Retirement Obligations (continued)
  - Asset retirement obligation information:
    - Example:
      - A company builds a gas station with underground tanks to store the fuel.
      - The tanks have an estimated life of 40 years and the current cost to remove the tanks is \$15,000.
      - Future inflation for this type of work is estimated to be 2.5% per year and the company's cost of borrowing is 9%.
      - The estimated future cost of removing the tanks in 40 years is  $\$15,000 * (1.025^{40}) = \$40,275.96$ .
      - The present value of this cost is  $\$40,275.96 / (1.09^{40}) = \$1,282.29$ .
      - At installation of the tanks, the company books an asset like normal and depreciates it over the 40 years. They also book a beginning ARO liability of \$1,282.29.
      - The liability is then accreted each year using the company's cost of borrowing rate of 9%.
        - Accretion expense entry
          - First year
            - Debit Accretion Expense:  $\$115.41 (\$1,282.29 * .09 = 115.41)$
            - Credit ARO Liability: \$115.41
          - Second Year
            - Debit Accretion Expense:  $\$125.79 ((\$1,282.29 + 115.41) * .09 = \$125.79)$
            - Credit ARO Liability: \$125.79
        - The company will continue to increase the liability each of the 40 years. The liability at the end of the 40 years will be \$40,275.96.
      - At retirement of the tank, the expenses actually incurred to remove the tank are booked against the ARO liability, and a gain or loss is recognized for the difference.

## New GASB Statements Effective for FY19

- GASB 88: Certain Disclosures related to debt, including direct borrowings and direct placements.
  - Effective for reporting periods beginning after June 15, 2018 (FY19).
  - The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.
  - It also clarifies which liabilities governments should include when disclosing information related to debt.

## New GASB Statements Effective for FY19

- GASB 88: Certain Disclosures related to debt, including direct borrowings and direct placements (continued)
  - This Statement requires that additional essential information related to debt be disclosed in notes to financial statements.
    - Unused lines of credit
    - Assets pledged as collateral for the debt
    - Terms specified in debt agreements related to significant events of default with finance-related consequences
    - Significant termination events with finance-related consequences
    - Significant subjective acceleration clauses

## New GASB Statements Effective for FY20

- GASB 84: Fiduciary Activities
  - Effective for reporting periods beginning after December 15, 2018 (FY20).
  - Establishes criteria for identifying fiduciary activities of all state and local governments.
    - The focus of the criteria generally is on:
      - Whether a government is controlling the assets of the fiduciary activity.
      - The beneficiaries with whom a fiduciary relationship exists.
    - Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

## New GASB Statements Effective for FY20

- GASB 84 Fiduciary Activities (continued)
  - An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.
  - Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position
    - An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

## New GASB Statements Effective for FY20

- GASB 84: Fiduciary Activities (continued)
  - This Statement describes four fiduciary funds that should be reported:
    - Pension (and other employee benefit) trust funds
    - Investment trust funds
    - Private – purpose trust funds
    - Custodial funds (currently agency funds)
      - Currently certain county boards have agency funds for RESAs, ESCs and MCVCS

## New GASB Statements Effective for FY20

- GASB 84: Fiduciary Activities (continued)
  - Pension (and other employee benefit) trust funds are used to report the following:
    - Pension plans and OPEB plans that are administered through trusts.
    - Other employee benefit plans for which resources are held in a trust
  - Contributions to the trust and earnings on those contributions are irrevocable.
  - Examples
    - Defined benefit pension plans
    - Defined contribution plans
    - Other postemployment benefit plans

## New GASB Statements Effective for FY20

- GASB 84: Fiduciary Activities (continued)
  - Investment trust funds are used to report the following:
    - Fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust.
  - One major difference between investment trust funds and Pension (and other employee benefit) trust funds is that contributions to the investment trust and earnings on those contributions are revocable.

## New GASB Statements Effective for FY20

- GASB 84: Fiduciary Activities (continued)
  - Private – purpose trust funds are used to report the following:
    - Fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds or investment trust funds, and the assets are administered through a trust in which:
      - The government itself is not a beneficiary.
      - The assets are dedicated to providing benefits to recipients in accordance with the benefit terms.
      - The assets are legally protected from the creditors of the government.
    - Example:
      - Scholarship Trust Funds

## New GASB Statements Effective for FY20

- GASB 84: Fiduciary Activities (continued)
  - Custodial funds replace agency funds and are used to report the following:
    - Fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds.
    - Custodial Funds typically do not involve a formal trust arrangement.
    - Government serves as custodian of the funds.
  - Examples
    - RESAs
    - ESCs

## New GASB Statements Effective for FY20

- GASB 90: Majority Equity Interests
  - Effective for reporting periods beginning after December 15, 2018 (FY20).
  - The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

## New GASB Statements Effective for FY21

- GASB 87: Leases
  - Effective for reporting periods beginning after December 15, 2019 (FY21).
    - Will need to be applied retroactively (restatement).
  - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.
  - Requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

## New GASB Statements Effective for FY21

- GASB 87: Leases (continued)
  - Major changes
    - Definition of a lease
      - A contract that conveys control of the right to use another entity's **nonfinancial asset** (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.
    - Nonfinancial Assets
      - Buildings
      - Land
      - Vehicles
      - Equipment



## New GASB Statements Effective for FY21

- GASB 87: Leases (continued)
  - Major changes
    - Old: Capital and Operating Leases
    - New: Substantially all leases are treated as Financing Leases (Similar to Capital Lease)
  - Three categories of leases instead of two
    - Old Categories
      - Capital leases
      - Operating leases
    - New Categories
      - Short Term Leases
      - Contracts that Transfer Ownership
      - All other leases

## New GASB Statements Effective for FY21

- GASB 87: Leases (continued)
  - Lease Categories
    - Short Term Leases
      - Leases that have a maximum possible term of 12 months or less, including any options to extend.
      - Leases that are month to month are considered short term.
      - Will be accounted for similarly to operating leases, with lease payments being recorded as expense or revenue by the lessee or lessor.

## New GASB Statements Effective for FY21

- GASB 87: Leases (continued)
  - Lease Categories
    - Contracts that transfer ownership
      - If the underlying asset transfers ownership to the lessee by the end of the contract, the transaction should be reported as a financed purchase of the underlying asset by the lessee, or sale of the asset by the lessor.

## New GASB Statements Effective for FY21

- GASB 87: Leases (continued)
  - Lease Categories
    - All other Leases
      - Lessees
        - At the commencement of the lease term, the lessee should recognize a lease liability and an intangible right-to-use lease asset (lease asset).
        - The lease liability will be measured at the present value of payments expected to be made during the lease term.
        - Lease payments will result in reduction of the lease liability and recognition of interest expense.
        - The lease asset will be measured as the sum of the initial measurement of the lease liability, initial direct costs, and lease payments made prior to commencement, less any lease incentives.
        - The lease asset will be amortized over the shorter of the lease terms or the useful life of the underlying asset.

## New GASB Statements Effective for FY21

- GASB 87: Leases (continued)
  - Lease Categories
    - All other Leases
      - Lessors
        - At the commencement of the lease term, a lessor should recognize a lease receivable and a deferred inflow of resources.
        - The lease receivable should initially be measured at the present value of lease payments expected to be received during the lease term.
        - Lease receipts (payments from lessee) will result in reduction of the lease receivable and recognition of inflows and revenues.
        - The deferred inflow of resources should be measured as the sum of the initial measurement of the lease liability and lease payments received made prior to commencement, less any lease incentives.
        - The lessor should continue to recognize the asset underlying the lease and continue to record depreciation, as applicable.

## New GASB Statements Effective for FY21

- GASB 89: Accounting for Interest Cost Incurred before the End of a Construction Period
  - Effective for reporting periods beginning after December 15, 2019 (FY21)
  - The objectives of this Statement are:
    - To enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period.
    - To simplify accounting for interest cost incurred before the end of a construction period.
  - Establishes accounting requirements for interest cost incurred before the end of a construction period.

## New GASB Statements Effective for FY21

- GASB 89: Accounting for Interest Cost Incurred before the End of a Construction Period (continued)
  - Requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.
  - Interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.
  - Reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

## Thank You

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