



West Virginia DEPARTMENT OF  
**EDUCATION**

# GASB UPDATE

*July 13, 2021*

## GASB Statements Effective for FY21

- GASB 84: Fiduciary Activities
  - Effective for reporting periods beginning after December 15, 2019 (FY21).
  - 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.

## GASB Statements Effective for FY21

- 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.

## GASB Statements Effective for FY21

- 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

## GASB Statements Effective for FY21

- 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

## GASB Statements Effective for FY21

- 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.

## GASB Statements Effective for FY21

- 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

## GASB Statements Effective for FY21

- 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
    - ESCs

## GASB Statements Effective for FY21

- GASB 90: Majority Equity Interests
  - Effective for reporting periods beginning after December 15, 2019 (FY21).
  - 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.

## GASB Statements Effective for FY22

- GASB 93: Replacement of Interbank Offered Rates
  - The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021 (FY22). All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020 (FY21).
    - GASB 95 extended the due date for paragraphs 13 and 14 (lease modifications) to reporting periods beginning after June 15, 2021 (FY22)
  - This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments.

## GASB Statements Effective for FY22

- GASB 89: Accounting for Interest Cost Incurred before the End of a Construction Period
  - Effective for reporting periods beginning after December 15, 2020 (FY22)
  - 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.

## GASB Statements Effective for FY22

- 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.

## GASB Statements Effective for FY22

- GASB 92: Omnibus
  - Effective for reporting periods beginning after June 15, 2021 (FY22).
  - This Statement addresses a variety of topics and includes specific provisions about the following:
    - Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan.
    - The applicability of Statements No. 73, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, as amended, to reporting assets accumulated for postemployment benefits.
    - The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements.
    - Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
    - Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
    - Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
    - Terminology used to refer to derivative instruments.

## GASB Statements Effective for FY22

- GASB 87 (Leases)
  - Effective for reporting periods beginning after June 15, 2021 (FY22).
  - 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.
  - **Requires Retroactive adjustment.**

## GASB Statements Effective for FY22

- 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



## GASB Statements Effective for FY22

- GASB 87: Leases (continued)
  - Major changes
    - Old: capital and operating Leases
    - New: Substantially all leases are treated as Financing Leases (similar to a 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





## GASB Statements Effective for FY22

- 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.
    - 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.
  - All other Leases
    - At the commencement of the lease term, the lessee should recognize a lease liability and an intangible right-to-use lease asset (lease asset).



## GASB Statements Effective for FY22

- 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.



## GASB Statements Effective for FY22

- GASB 87: Leases (continued)
  - Lessee Accounting Overview
    - Measurement of the lease liability includes:
      - Fixed Payments.
      - Variable payments that depend on an index or rate, initially measured using the index or rate as of the commencement of the lease term.
      - Variable payments that are fixed in substance.
      - Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees.
      - The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option.
      - Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising that option.
      - Any lease incentive receivable from the lessor.
      - Any other payments that are reasonably certain of being required.

## GASB Statements Effective for FY22

- GASB 87: Leases (continued)
  - Lessee Accounting Overview

Lessee	Assets	Liability
Initiation of Lease	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.	Present value of future lease payments
Subsequent Recognition and measurement	Amortize over shorter of useful life or lease term	Reduce by principal portion of lease payments. Interest portion should be coded to interest expense.

## GASB Statements Effective for FY22

- GASB 87: Leases (continued)

- Bus Lease Example

- Background

- On July 1, 2020, the county enters into a contract for five buses. The contract states the term is 5 years, with monthly payments of \$2,000 due every 1<sup>st</sup> of the month. The lessor provided the borrowing rate of 6%.
      - The county may cancel the contract after three years.
      - At the end of the contract, the purchase price for each bus is \$12,000.
      - The county has historically utilized the buses for the full term of the contract and has never terminated early. The contract does not provide the lessor an option to terminate. At the date of the contract, the county does not have any intent to terminate early. At the end of the lease, the government intends to return the buses; there is no transfer of ownership provision.

Does this meet the definition of a lease?



## GASB Statements Effective for FY22

- GASB 87: Leases (continued)

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- Background

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      - The county has historically utilized the buses for the full term of the contract and has never terminated early. The contract does not provide the lessor an option to terminate. At the date of the contract, the county does not have any intent to terminate early. At the end of the lease, the government intends to returns the buses; there is no transfer of ownership provision.

Does this meet the definition of a lease? **YES**



## GASB Statements Effective for FY22

- GASB 87: Leases (continued)
  - What is the lease term?

	Lessee Options		Lessor Options	
	Terminate	Extend	Terminate	Extend
Year 1	N/A	N/A	N/A	N/A
Year 2	N/A	N/A	N/A	N/A
Year 3	N/A	N/A	N/A	N/A
Year 4	Reasonably certain will not exercise	N/A	N/A	N/A
Year 5	Reasonably certain will not exercise	N/A	N/A	N/A

- What is the term of the lease?
- Should the purchase price be considered in the lease liability?

## New GASB Statements Effective for FY22

- GASB 87: Leases (continued)
  - What is the lease term?

	Lessee Options		Lessor Options	
	Terminate	Extend	Terminate	Extend
Year 1	N/A	N/A	N/A	N/A
Year 2	N/A	N/A	N/A	N/A
Year 3	N/A	N/A	N/A	N/A
Year 4	Reasonably certain will not exercise	N/A	N/A	N/A
Year 5	Reasonably certain will not exercise	N/A	N/A	N/A

- What is the term of the lease? **5 years**
- Should the purchase price be considered in the lease liability? **NO**

## GASB Statements Effective for FY22

- GASB 87: Leases (continued)
    - Calculation of lease liability
      - Buses are delivered on July 1, 2020, date of 1<sup>st</sup> payment.
      - Payment schedule is 5 years, assuming a 6% interest rate.
      - Exclude \$12,000 purchase price which is not certain of being exercised.
      - Present value of \$2,000 monthly payments for 5 years (60 months).
        - Excel Formula: =pv(rate,Nper,Pmt,FV,Type)
          - Rate = (6% per year/12 months to get rate per month)
          - Nper (number of payments) = 60
          - Pmt (monthly payment) = \$2,000
          - FV (future value) = \$0
          - Type = 1 if payments are made at beginning of period, 0 if payments are made at end of period
- Present Value = \$103,968.38**

## GASB Statements Effective for FY22

- GASB 87: Leases (continued)
  - Annualized payment Schedule and Amortization Expense

Year	Principal	Interest	Total payment		Amortization Expense
2021	\$18,807.74	\$5,192.26	\$24,000	Year 1	\$20,793.68
2022	\$19,418.60	\$4,581.40	\$24,000	Year 2	\$20,793.68
2023	\$20,616.30	\$3,383.70	\$24,000	Year 3	\$20,793.68
2024	\$21,887.87	\$2,112.13	\$24,000	Year 4	\$20,793.68
2025	\$23,237.87	\$762.13	\$24,000	Year 5	\$20,793.66
<b>Total</b>	<b>\$103,968.38</b>	<b>\$16,031.62</b>	<b>\$120,000</b>	<b>Total</b>	<b>\$103,968.38</b>

## GASB Statements Effective for FY22

- GASB 87: Leases (continued)

- Journal Entries

Governmental Fund: Initial Journal Entry	Debit	Credit
Capital Outlay	\$103,968.38	
Other Financing Sources – Lease proceeds		\$103,968.38
<b>To record capital expenditure and related proceeds from lease of buses</b>		
Entity-Wide: Initial Journal Entry	Debit	Credit
Other Financing Sources – Lease Proceeds	\$103,968.38	
Lease liability – due within one year		\$18,807.74
Lease liability – due beyond one year		\$85,160.64
Intangible Lease Asset – Vehicles	\$103,968.38	
Capital Outlay		\$103,968.38
<b>To record intangible asset and related liability from lease of buses</b>		



## GASB Statements Effective for FY22

- GASB 87: Leases (continued)

- Journal Entries

Governmental Fund: Annualized Year 1 Journal Entry	Debit	Credit
Interest Expenditure	\$5,192.26	
Lease principal payment expenditure	\$18,807.74	
Cash		\$24,000
<b>To record 12 monthly lease payments for first year</b>		
Entity-Wide: Annualized Year 1 Journal Entries	Debit	Credit
Lease liability – due within one year	18,807.74	
Lease principal payment expenditure		\$18,807.74
Amortization Expense	\$20,793.68	
Accumulated Amortization		\$20,793.68
<b>To eliminate fund level activity for first year</b>		



## GASB Statements Effective for FY22

- GASB 87: Leases (continued)
  - Required disclosures
    - A general description of leasing arrangements including:
      - Basis, terms, and conditions on which variable lease payments are determined.
      - Existence terms, and conditions of residual value guarantees provided by the lessee.
    - Total amount of assets recorded under leases, and the related accumulated amortization, disclosed separately from other capital assets.
    - Lease assets disaggregated by major classes of underlying assets, disclosed separately from other capital assets.
    - Variable lease payments recognized during the period but not previously included in the lease liability.
    - Other payments recognized during the period but not previously included in the lease liability (such as residual value guarantees or penalties).

## GASB Statements Effective for FY22

- GASB 87: Leases (continued)
  - Required disclosures (continued)
    - A maturity analysis of all future lease payments.
      - Payments for each of the first five years.
      - Payments in five-year increments thereafter.
      - Show principal and interest separately.
    - Lease commitments, other than short-term leases, for which the lease term has not yet begun.
    - Components of any net impairment loss (gross impairment loss less change in lease liability).

## GASB Statements Effective for FY22

- GASB 97: Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans
  - Effective for reporting periods beginning after June 15, 2021 (FY22).
  - The requirements of this Statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans.

## GASB Statements Effective for FY23

- GASB 91: Conduit Debt Obligations
  - Effective for reporting periods beginning after December 15, 2021 (FY23).
  - The objective of this Statement is to better meet the information needs of financial statement users by enhancing the comparability and consistency of conduit debt obligation reporting and reporting of related transactions and other events.



## GASB Statements Effective for FY23

- GASB 94: Public-Private and Public-Public Partnerships and Availability Payment Arrangements
  - Effective for reporting periods beginning after June 15, 2022 (FY23).
  - Establishes the definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions.

## GASB Statements Effective for FY23

- GASB 96: Subscription-Based Information Technology Arrangements
  - Effective for reporting periods beginning after June 15, 2022 (FY23).
  - This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).
  - SBITA Definition:
    - A contract that conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets as specified in the contract for a period of time in an exchange or exchange-like transaction.

## GASB Statements Effective for FY23

- GASB 96: Subscription-Based Information Technology Arrangements (continued)
  - How to determine whether a contract conveys control of the right to use the underlying IT assets
    - The entity should assess whether it has both of the following:
      - The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract.
      - The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

## GASB Statements Effective for FY23

- GASB 96: Subscription-Based Information Technology Arrangements (continued)
  - Should be reported under provisions effectively the same as those for a lessee under GASB 87
    - Recognize a subscription asset and a subscription liability
      - Do not include short term SBITAs

## GASB Statements Effective for FY23

- GASB 96: Subscription-Based Information Technology Arrangements (continued)
  - Does not apply to:
    - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset.
    - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs

## QUESTIONS?

# Thank You

Josh Harner, CPA  
WVDE Office of School Finance  
304-558-6300  
Joshua.harner@k12.wv.us



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