

# **GASB PROPOSED IMPLEMENTATION GUIDANCE**

---

Fiduciary Activities (GASB 84)

Leases (GASB 87)

# Fiduciary Activities – GASB 84

Focus is on –

- a) Whether a government is controlling the assets of the fiduciary activity
- b) The beneficiaries with whom a fiduciary relationship exists

Qualifying activities should be reported in a fiduciary fund in the basic financial statements

- a) Statement of fiduciary net position
- b) Statement of changes in fiduciary net position

Custodial funds replace agency funds

# Fiduciary Activities – GASB 84

A government **controls** the assets of an activity if the government –

- a) Holds the assets or
- b) Can direct the use, exchange, or employment of the assets in a manner that provides benefits to specified or intended recipients

# Fiduciary Activities – GASB 84

The assets associated with the activity are **not** derived either –

- a) a) Solely from the government's own-sourced revenues or
- b) b) From taxes or grants (with the exception of pass-through grants for which the government does not have administrative involvement or direct financial involvement)

# Fiduciary Activities – GASB 84

The assets associated with the activity have one or more of the following characteristics –

- a) The assets are administered through a **trust** in which the government is not a beneficiary
- b) The assets are for the benefit of **individuals** and the government does not have administrative involvement with the assets or direct involvement with the assets (and the assets are not derived from the government's provision of goods or services to those individuals)
- c) The assets are for the benefit of **organizations or other governments** that are not part of the financial reporting entity (and the assets are not derived from the government's provision of goods or services to those organizations or other governments)

# Fiduciary Activities – GASB 84

## Examples of **administrative involvement** –

- a) The government monitors compliance
- b) The government determines eligible expenditures
- c) The government has the ability to exercise discretion over how the assets are allocated

## Example of **direct financial involvement** –

- a) The government matches resources for the activities

# Fiduciary Activities - Control Applicability



| Question 4.10  | Answer  |
|--|---|
| <p>A Government is the custodian for fees charged by the local cemetery association (a nonprofit organization which is not a component unit of the Government). The activity is administered through a trust.</p> <p>Is this a fiduciary activity of the Government?</p> | <p>Yes. The activity should be reported as a fiduciary activity because the Government, as custodian, is holding and therefore controlling the assets (per paragraph 11a).</p> <p>The assets are not derived from the Government's own-source revenues or from taxes or grants (per paragraph 11b) and are held in a trust (per paragraph 11c).</p> |

# Fiduciary Activities - Control Applicability



| Question 4.11   | Answer  |
|---|---|
| <p>A sheriff seizes property from an individual suspected of committing a crime. The seized assets are held until the defendant is tried in court. If found guilty, the assets are distributed to various law enforcement agencies. If found not guilty, the assets are returned to the defendant.</p> <p>Should the the seized assets be reported as a fiduciary activity?</p> | <p>Yes. The control criterial per paragraph 12 are met. The assets are not derived from the Government's own-source revenues. The assets are not property of the Government until a judgment is rendered.</p> <p>The assets are not derived from taxes or grants.</p> <p>The assets are for the benefit of an individual.</p> <p>The Government does not have administrative involvement (until after there is a judgment) or direct financial involvement.</p> |



# Fiduciary Activities - Control Applicability



| Question 4.12  | Answer   |
|--|--|
| <p>Should contractor deposits be reported in a fiduciary fund?</p> | <p>No. Although the Government is holding the cash, the deposit is a result of an exchange transaction between the contractor and the Government.</p> <p>The Government is holding the cash for its own benefit.</p> <p>Therefore, the cash deposit and a related liability would be reported in the Government's governmental fund financial statement.</p> |

# Fiduciary Activities - Control Applicability



| Question 4.14   | Answer   |
|---|--|
| <p>Should the Government report retainages of amounts billed by a contractor in a fiduciary fund?</p> | <p>No. Although the Government is holding the cash, the Government is holding the cash for its own benefit.</p> <p>The unremitted retainage is a liability arising from an exchange transaction between the Government and the contractor.</p> |

# Fiduciary Activities - Control Applicability



| Question 4.15   | Answer   |
|---|--|
| <p>A Government is the custodian of inmates' individual accounts. The accounts hold earnings from jobs that inmates have in the jail or deposits from families of inmates. The inmates can purchase items from the commissary. When the inmate is released, any remaining balance is paid to the inmate.</p> <p>Is this a fiduciary activity of the Government?</p> | <p>Yes. The Government is holding the inmate accounts.</p> <p>The assets are not derived from the Government's own-source revenues or from providing goods or services to the inmates.</p> <p>The assets are for the benefit of individuals.</p> <p>The Government does not have administrative involvement or direct involvement because the inmates have discretion on how the assets are spent.</p> |

# Fiduciary Activities - Control Applicability



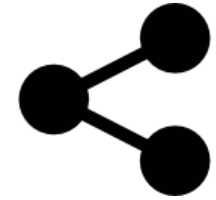
| Question 4.16  | Answer  |
|--|---|
| <p>Should the Government report withholding of employee payroll deductions and accrued employer taxes in a fiduciary fund?</p> | <p>No. Although the Government has control of the assets because it has custody of the cash withheld, the unremitted amounts are a liability of the Government.</p> <p>The amounts withheld and accrued by the employer become a liability of the Government.</p> <p>The Government is holding the amounts for its own benefit.</p> |

# Fiduciary Activities – Assets Are for the Benefit of Other Organizations



| Question 4.30  | Answer  |
|--|---|
| <p>The Government provides treasury and accounting services for a nonprofit organization. The nonprofit organization is legally separate from the Government and it does not meet the criteria for inclusion as a component unit of the Government.</p> <p>Should this activity be included in the Government's fiduciary fund financial statements?</p> | <p>Yes. Because the Government has custody of the nonprofit organization resources, the control criterion is met.</p> <p>Also, the resources meet the remaining requirements by being (a) <i>not</i> derived from the Government's own-source revenues or from taxes or grants and (b) for the benefit of the nonprofit organization, which is <i>not</i> part of the Government's reporting entity and <i>not</i> derived from the Government's provision of services to the nonprofit organization.</p> |

# Fiduciary Activities – Own-Source Revenues



| Question 4.36   | Answer   |
|---|--|
| <p>A Government imposes an annual license fee of \$1,500. The Government retains \$1,350 and remits the remaining amount to the state.</p> <p>Should the state portion of the fees collected be considered own-source revenues of the Government?</p> | <p>Yes. The nature of the transaction is exchange or exchange-like resulting in the fees collected being the Government's own-source revenue per paragraph 13.</p> |

# Fiduciary Activities – Own-Source Revenues



| Question 4.37  | Answer   |
|--|--|
| <p>A university charges each enrolled student an activity fee that is approved by the university's board of regents. The board authorizes expenditures of the fees.</p> <p>Should the student activity fees be considered own-source revenues of the university?</p> | <p>Yes. The university is obligated to provide a product or service for which a fee is charged. The student activity fees collected, therefore, are own-source revenues of the university.</p> |

# Leases – GASB 87

Leases are financings of the right to use an underlying asset

A **lessee** is required to recognize a lease liability and an intangible right-to-use asset

A **lessor** is required to recognize a lease receivable and a deferred inflow of resources



# Leases – GASB 87

A **lease** is a contract that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange for exchange-like transaction

Examples of nonfinancial assets –

- a) Buildings
- b) Land
- c) Vehicles
- d) Equipment

# Leases – GASB 87

## Examples of exclusions –

- a) A short-term lease that has a maximum possible term under the contract of 12 months or less, including options to extend, regardless of its probability of being exercised
- b) Licensing agreements for computer software
- c) Contracts that transfer ownership before or at the end of the lease and do not contain termination options (this is a financed purchase)

# Leases – GASB 87

The lease **term** is the period during which a lessee has a noncancelable right to use an underlying asset, plus the following at the lessee's or lessor's option to –

- a) Extend the lease if it is reasonably certain that the option will be exercised
- b) Terminate the lease if it is reasonably certain that the option will not be exercised

Fiscal funding clauses are not considered unless it is reasonably certain that funds will not be appropriated

The lease term is to be reassessed only when it is reasonably certain that the lessee or lessor changes its determination to exercise or not to exercise an option or an event specified in the contract occurs that requires an extension or termination of the lease

# Leases – Application



| Question 4.1  | Answer   |
|---|--|
| <p>The Government leases land, which has a market rent of \$100,000 per year, for \$1 per year.</p> <p>Is this a lease?</p> | <p>No. A lease applies only to exchange or exchange-like transactions.</p> <p>Each party does not receive or give up essentially equal value or not quite equal value.</p> <p>This is a nonexchange transaction to be reported in accordance with GASB Statement 33.</p> |

# Leases – Application



| Question 4.2   | Answer  |
|--|---|
| <p>The Government has a multi-year lease for exclusive use of a facility four days a week. Other parties use the facility on the other days.</p> <p>To meet the definition of a lease, is the Government required to have sole control of the right to use the facility?</p> | <p>No. If the contract specifies that the Government has control of the right to use the facility during four days a week, the control criterion is met.</p> <p>The requirement that the contract be for a period of time does not require uninterrupted usage.</p> |

# Leases – Application



| Question 4.6  | Answer  |
|---|---|
| <p>Are cell phone tower or antenna placement agreements leases?</p> | <p>If they meet the criteria to be a lease, including the control criterion, then such agreements are leases.</p> <p>The control criterion generally is met if a cell tower or antenna placement agreement conveys control of the right to use the land on which the tower is placed or the connection point to which the antenna is fixed.</p> |

# Leases – Application



| Question 4.10  | Answer   |
|--|--|
| <p>A Government agrees to provide another entity the right to use the Government's land during hunting season for each year of the agreement (five years). The other entity plans to use the land for hunting and is the only party that is allowed to use the land during hunting season.</p> <p>Is the hunting rights agreement a lease?</p> | <p>Yes. The lessee is the only party allowed to access and use the land. The contract conveys control of the right to use the underlying asset (the land).</p> |

# Leases – Lease Term



| Question 4.15  | Answer   |
|--|--|
| <p>A noncancellable 5-year lease specifies that at the end of the five years, the lessor and lessee may continue the lease, using the same terms during the renegotiation period.</p> <p>Is the month-to-month holdover period included in the initial assessment of the lease term?</p> | <p>No. During the holdover period, the lessee has not contracted for a noncancellable right to use an underlying asset, and the lessor is not required to continue providing the asset.</p> <p>The holdover period is cancellable by either party and, therefore, is excluded from the lease term.</p> |

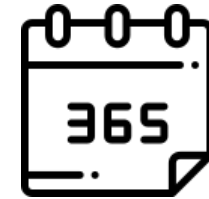


# Leases – Lease Term



| Question 4.16  | Answer  |
|--|---|
| <p>How does a bargain renewal option, such as a 20-year lease with a \$1 option to renew the lease for an additional 5 years, affect the initial assessment of the lease term?</p> | <p>All factors relevant to the likelihood that options will be exercised are to be assessed.</p> <p>Relevant factors include significant economic incentives and disincentives, such as the cost of exercising the renewal option and the expected condition and maintenance requirements for the asset during the extension period.</p> <p>If the Government determines that it is reasonably certain that the option will be exercised, the lease term would be 25 years.</p> |

# Leases – Short-Term Leases



| Question 4.19  | Answer  |
|--|---|
| <p>A Government enters into a 12-month lease with options to renew for 12 months at a time, up to 49 times.</p> <p>Is this agreement a short-term lease?</p> | <p>No. The maximum possible term is required to be 12 months or less, including any options to extend.</p> <p>The presence of renewal options, regardless of their probability of being exercised, means this lease does not meet the definition of a short-term lease.</p> |

# Leases – Contracts That Transfer Ownership



| Question 4.23   | Answer  |
|---|---|
| <p>A vendor installs equipment on a Government's building to increase energy efficiency. The Government makes payments to the vendor based on a percentage of the Government's energy cost savings.</p> <p>The Government will own the equipment at the end of the agreement, and the contract does not contain a termination option.</p> <p>Is this a lease?</p> | <p>No. If title transfers to the Government at the end of the contract, the transaction is a financed purchase.</p> |

# Leases – Lease Liability



| Question 4.25  | Answer  |
|--|---|
| <p>The Government adopts a capitalization threshold and expenses acquisitions, including lease assets, that fall below that threshold.</p> <p>Can the Government apply a similar threshold to recording lease liabilities?</p> | <p>Specific guidance related to a capitalization threshold for leases is not provided.</p> <p>However, governments often use capitalization thresholds in practice so that limited resources are not spent accounting for insignificant items. When applying a capitalization threshold to leases, lessees should consider the significance of the lease liability in addition to the significance of the lease asset.</p> <p>Significant lease liabilities, either individually or in the aggregate, should be recognized.</p> |

# Leases – Lease Liability



| Question 4.31   | Answer  |
|---|---|
| <p>A Government leases buses for two years and is required to make variable payments based on the number of miles driven.</p> <p>The Government is reasonably certain of the minimum number of miles that will be driven based on established routes.</p> <p>Should the lease liability include the reasonably certain variable lease payments?</p> | <p>No. Variable payments based on future performance of the Government or usage of the underlying asset are not included in the measurement of the lease liability.</p> <p>Rather, those variable payments should be recognized as outflows of resources in the period(s) in which the obligation for those payments is incurred.</p> |

# Leases – Notes to Financial Statements



| Question 4.40  | Answer  |
|--|---|
| <p>Can amortization expense for lease assets be combined with depreciation expense in the required disclosure by function?</p> | <p>Yes. If the lease amortization expense is applicable to multiple functions in the statement of activities, it should be charged to those functions accordingly.</p> <p>Lease amortization expense by function should be disclosed and may be combined with the disclosure of depreciation expense by function.</p> |

# Leases – Notes to Financial Statements



| Question 4.44  | Answer  |
|--|---|
| <p>Should lease assets be included with other capital assets in the disclosure of changes in capital assets?</p> | <p>Yes. Lease assets are capital assets and, therefore, should be included in the disclosure of changes in capital assets.</p> <p>Lessees are required to disclose “the amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets.” They are also required to disclose information about major classes of capital assets, including disclosure of changes in capital assets.</p> |

# Leases – Deferred Inflow of Resources



| Question 4.53  | Answer   |
|--|--|
| <p>Lessees are required to amortize their lease asset over the shorter of the lease term or the useful life of the underlying asset.</p> <p>Can the lessor recognize the deferred inflow of resources as an inflow over the useful life of the underlying asset if it differs from the lease term?</p> | <p>No. The guidance for leases is based on the foundational principle that leases are financings.</p> <p>In a lease transaction, the lessee promises to make payments over time for the right to use an underlying asset.</p> <p>Accordingly, the lessor recognizes inflows, including interest revenue, over that period of time—the lease term, which may be different than the useful life of the underlying asset.</p> |



# Leases – Contracts with Multiple Components



| Question 4.62   | Answer  |
|---|---|
| <p>The Government leases a certain piece of equipment.</p> <p>The contract includes the use of the equipment and a license for the software run by the equipment.</p> <p>Should the Government separate those components for accounting purposes?</p> | <p>Yes. If a lease contains multiple underlying assets, the lease components should be separated if the accounting treatment for each underlying asset would be different.</p> <p>Statement 87 does not apply to software licenses but does apply to the use of the equipment. Therefore, in this example, the components of the lease should be separated.</p> |

# Leases – Lease Terminations - Lessors



| Question 4.73  | Answer  |
|--|---|
| <p>Two years into a 10-year lease, the remaining lease agreement is cancelled. Lease receivable is \$80,000 and the related deferred inflow of resources is \$76,000.</p> <p>How should the lessor account for the termination of the lease?</p> | <p>Per paragraph 79, once the lease is terminated, the lease receivable and the related deferred inflows of resources should be eliminated.</p> <p>A loss of \$4,000 should be recognized in financial statements that apply the economic resources measurement focus. In financial statements that apply the current financial resources measurement focus, an other financing use should be recognized.</p> |

# Leases – Blended Component Unit



| Question 4.78   | Answer  |
|---|---|
| <p>A building authority is a blended component unit of a Government. The building authority acquires and constructs capital assets to lease to the Government.</p> <p>Should the leases with the Government be eliminated as intra-entity leases in the financial statements of the reporting entity?</p> | <p>Yes. Per paragraph 88, “when the lessor is a blended component unit, the debt and assets of the lessor should be reported as if they were the primary government’s debt and assets.” However, the building authority should report the leases in its stand-alone financial statements.</p> |