GASB 84
Fiduciary Activities

Jeffrey Staley, CPA
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GASB 84 – Fiduciary Activities:

• Effective Date: Reporting period beginning after December 15, 2018

• Provides clarity on what is considered a trust and agency account

• Key determination is control, focus is generally on:
  • whether the government is controlling the assets of the fiduciary activity, and
  • beneficiaries with whom a fiduciary relationship exists

• If the Governmental Entity has determined that they have control, it will be reported in the financial statements as a governmental activities fund (general fund or special revenue fund).

• Each instance will need to be analyzed individually, so start now.
GASB 84 – Fiduciary Activities:

FLOWCHARTS FOR EVALUATING AND REPORTING POTENTIAL FIDUCIARY ACTIVITIES

• The following flowcharts are intended to aid in the application of the provisions of this Statement. The flowcharts are nonauthoritative and do not cover all aspects of this Statement. They should not be used in place of the Statement itself.
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:

1. Are the assets held by a component unit?
   - Yes
   - No

2. Are the assets held for a pension or OPEB arrangement?
   - Yes
   - No

3. Yes
   - No

4. Yes
   - No
Other Component Units Are Fiduciary if...

They have one or more of the following characteristics:

- 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

or

- 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

- 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
All Other Activities Are Fiduciary if...

- Arrangement meets one or more of the criteria in AND
- The government *controls* the assets AND
- Those assets are *not* derived either:
  - Solely from the government’s own-source revenues, or
  - From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement
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
4.17. **Q**—The chess club of a public high school is established in accordance with the school’s operating policies and is not legally separate from the high school. The club members organize and conduct fundraising activities to pay for the club’s annual tournament and other club activities during the school year. The proceeds from the fundraising activities are held in a separate bank account in the school’s name. In determining whether those resources controlled by the school are a fiduciary activity, are the assets held for the benefit of individuals as addressed in paragraph 11c(2) of Statement 84 (and thus require evaluation of whether the school has administrative involvement or direct financial involvement), or do they benefit an organization as addressed in paragraph 11c(3) of Statement 84 (and thus require evaluation of whether the club is part of the primary government)?

**A**—Assets are for the benefit of an organization if the benefits accrue to the organization as an institution, rather than to the individuals that constitute the organization. However, in this scenario, because the club is not legally separate from the primary government, it is not itself an institution. As a result, the provisions in paragraph 11c(2) of Statement 84 should be applied.
Assets are for the benefit of individuals

Q—A school board is responsible for establishing the fees charged by student clubs to their members. The clubs are not legally separate from the school district. Assuming that the school board has no other policies in place related to the disbursement of funds for various student clubs, does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. Footnote 1 of Statement 84 provides examples to consider in determining whether a government has administrative involvement. The establishment of fees related to the generation of funds is analogous from a revenue standpoint to the example provided of determining eligible expenditures. In other words, establishing specific guidelines on how the resources can be spent is analogous to establishing guidelines on the amount at which resources are set. In this scenario, the school board is establishing the amount at which fees are set, and, therefore, the school district does have administrative involvement and the criterion in paragraph 11c(2) of Statement 84 is not met.
Q—A student club is established in accordance with the school district’s operating policies. The club is not legally separate from the school district. The students of the club conduct fundraising events, the proceeds of which are deposited into a savings account controlled by the school district. The student club president, with the members of the club, establishes how the resources can be spent and approves disbursements from the account. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. Footnote 1 of Statement 84 provides examples to consider when determining whether a government has administrative involvement. In assessing whether a government has administrative involvement, a “substance versus form” consideration is appropriate. That is, the government’s role would have substance if the school board, school administrator, or faculty advisor (representative of the school) establishes how the resources can be spent through approved policies. In this scenario, the students (the beneficiaries) are establishing how the resources can be spent, and, therefore, the school district does not have administrative involvement and the criterion in paragraph 11c(2) of Statement 84 is met.
4.20. Q—Assume the same facts as in Question 4.19, except that the parents of the club members establish how the resources can be spent. In that scenario, does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. The school district does not have administrative involvement. The parents of the students (representatives of the beneficiaries) and not the school board, school administrator, or faculty advisor are establishing how the resources can be spent.
Q—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. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

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.
4.22. Q—A school board establishes and approves a policy related to the receipt, disbursement, and holding of funds for various student clubs and organizations that are not legally separate from the school district. The policy includes specific guidelines related to how the funds raised by the clubs and organizations can be spent. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because the school has established specific guidelines on how the resources can be spent in an approved policy.

4.23. Q—Assume the same facts as in Question 4.22, except that the policy that applies to all clubs only addresses issues such as the authorized account signers and the prohibition of spending for illegal activities. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. The school district does not have administrative involvement. The school district’s role is not considered to be substantive because the school has not established specific guidelines regarding how the resources of the clubs and organizations can be spent.
4.24. **Q**—Assume the same facts as in Question 4.22, except that the state establishes specific guidelines on how the resources can be spent through administrative policy. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

**A**—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because the school district is required to follow the specific guidelines established by the state, through legislation or policy, regarding how the resources can be spent.
Control of Assets

4.33. Q—The Touchdown Club is a legally separate 501(c)(3) association that has its own board comprised of parents of high school football players and other program supporters. The club is not a component unit of the school district. The funds raised by the association are not held in an account of the school district. In this scenario, is the school district controlling the assets of the club, as described in paragraph 12 of Statement 84, and if not, should the school district still report the club’s activities?

A—No. The control criteria in paragraph 12 of Statement 84 are not met because the school district is not holding the funds, nor do they have the ability to direct the use, exchange, or employment of the funds. Because the school district does not have control of the assets and the club is not a component unit, the club’s activities would not be reported in the financial statements of the school district.
GASB 84 – Fiduciary Activities:

ILLUSTRATION

• This appendix illustrates an example of the fiduciary fund financial statements for a hypothetical government. The statements are illustrative only and should not be considered authoritative. Management’s discussion and analysis, other statements that constitute basic financial statements, notes to financial statements, budgetary comparison schedules, and other required contents are not presented; thus, this set of statements does not meet the minimum requirements for basic financial statements and required supplementary information.
### GASB 84 - Fiduciary Activities:

<table>
<thead>
<tr>
<th>Government ABC</th>
<th>Statement of Fiduciary Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiduciary Funds</strong></td>
<td>June 30, 20X2 (in thousands)</td>
</tr>
<tr>
<td></td>
<td>Pension (and Other Employee Benefit) Trust Funds</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$184,351</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
</tr>
<tr>
<td>Employee</td>
<td>2,123</td>
</tr>
<tr>
<td>Employer</td>
<td>83,004</td>
</tr>
<tr>
<td>Taxes for other governments</td>
<td></td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>175,402</td>
</tr>
<tr>
<td>Sale of investments</td>
<td>30,879</td>
</tr>
<tr>
<td>Total receivables</td>
<td>291,408</td>
</tr>
<tr>
<td>Investments at fair value:</td>
<td></td>
</tr>
<tr>
<td>Short-term investments</td>
<td>2,268,960</td>
</tr>
<tr>
<td>Bonds, notes, mortgages, and preferred stock</td>
<td>14,115,391</td>
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<tr>
<td>Common stock</td>
<td>20,342,440</td>
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<tr>
<td>Real estate</td>
<td>3,408,145</td>
</tr>
<tr>
<td>International investments</td>
<td>1,723,951</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>72,315</td>
</tr>
<tr>
<td>Pooled investment funds</td>
<td>23,128</td>
</tr>
<tr>
<td>Total investments</td>
<td>41,954,330</td>
</tr>
<tr>
<td>Securities lending collateral</td>
<td>1,746,544</td>
</tr>
<tr>
<td>Other assets</td>
<td>13,519</td>
</tr>
<tr>
<td>Total assets</td>
<td>44,150,152</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and other liabilities</td>
<td>130,846</td>
</tr>
<tr>
<td>Due to local governments</td>
<td></td>
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<tr>
<td>Obligations under securities lending</td>
<td>1,346,544</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>1,617</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,479,007</td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
</tr>
<tr>
<td>Restricted for:</td>
<td></td>
</tr>
<tr>
<td>Pensions</td>
<td>29,897,802</td>
</tr>
<tr>
<td>Postemployment benefits other than pensions</td>
<td>12,813,343</td>
</tr>
<tr>
<td>Pool participants</td>
<td></td>
</tr>
<tr>
<td>Individuals, organizations, and other governments</td>
<td></td>
</tr>
<tr>
<td>Total net position</td>
<td>$42,711,145</td>
</tr>
</tbody>
</table>
### GASB 84 – Fiduciary Activities:

#### Government ABC

**Statement of Changes in Fiduciary Net Position**

Fiduciary Funds for the Year Ended June 30, 20X2 (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Pension (and Other Employee Benefit) Trust Funds</th>
<th>Investment Trust Funds</th>
<th>Private-Purpose Trust Funds</th>
<th>Custodial Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADDITIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members</td>
<td>$ 297,646</td>
<td>$ 297,646</td>
<td>$ 297,646</td>
<td>$ 297,646</td>
</tr>
<tr>
<td>Employers</td>
<td>1,259,384</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other plans</td>
<td>148,792</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gifts and bequests</td>
<td>197,256</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total contributions</strong></td>
<td>$ 1,700,022</td>
<td>$ 197,256</td>
<td>$ 197,256</td>
<td></td>
</tr>
<tr>
<td>Investment earnings:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in fair value of investments</td>
<td>1,852,408</td>
<td>64,663</td>
<td>33,702</td>
<td></td>
</tr>
<tr>
<td>Interest, dividends, and other</td>
<td>1,416,448</td>
<td>58,465</td>
<td>30,378</td>
<td></td>
</tr>
<tr>
<td>Securities lending income</td>
<td>76,075</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total investment earnings</strong></td>
<td>3,344,931</td>
<td>123,128</td>
<td>64,080</td>
<td></td>
</tr>
<tr>
<td>Less investment costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment activity costs</td>
<td>32,281</td>
<td>50,236</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Securities lending costs</td>
<td>73,642</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net investment earnings</strong></td>
<td>3,239,008</td>
<td>72,892</td>
<td>64,017</td>
<td></td>
</tr>
<tr>
<td>Capital share and individual account transactions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares sold</td>
<td></td>
<td>2,817,210</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinvested distributions</td>
<td></td>
<td>72,892</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares redeemed</td>
<td></td>
<td>(2,776,843)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net capital share and individual account transactions</strong></td>
<td>$ 113,259</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales tax collections for other governments</td>
<td>$ 1,130</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$ 4,946,160</td>
<td></td>
<td>$ 261,275</td>
<td>$ 1,811,120</td>
</tr>
<tr>
<td><strong>Total additions</strong></td>
<td>$ 4,946,160</td>
<td>$ 185,151</td>
<td>$ 261,275</td>
<td>$ 1,812,589</td>
</tr>
<tr>
<td><strong>DEDuctions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits paid to participants or beneficiaries</td>
<td>1,965,047</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical, dental, and life insurance for retirees</td>
<td>536,027</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refunds and transfers to other systems</td>
<td>170,514</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative expense</td>
<td>19,920</td>
<td>$ 43</td>
<td>293</td>
<td></td>
</tr>
<tr>
<td>Beneficiary payments to individuals</td>
<td></td>
<td>211,179</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments of sales tax to other governments</td>
<td></td>
<td></td>
<td>$ 1,811,120</td>
<td></td>
</tr>
<tr>
<td>Distributions to shareholders</td>
<td></td>
<td>72,892</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>$ 2,689,508</td>
<td>72,892</td>
<td>211,222</td>
<td>$ 1,811,413</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in fiduciary net position</strong></td>
<td>$ 2,256,652</td>
<td>113,259</td>
<td>50,053</td>
<td>$ 1,175</td>
</tr>
<tr>
<td>Net position—beginning</td>
<td>$ 40,454,493</td>
<td>1,962,687</td>
<td>835,971</td>
<td>98,667</td>
</tr>
<tr>
<td>Net position—ending</td>
<td>$ 42,771,145</td>
<td>$ 2,075,546</td>
<td>$ 886,024</td>
<td>$ 99,842</td>
</tr>
</tbody>
</table>
Questions?

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GASB 87 – Leases
GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement

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GASB 87 & 88

**GASB 87 - Leases**
- Effective for periods beginning after December 15, 2019 (school year 2021)

- Definition:
  - “A lease is defined as 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 exchange or exchange-like transaction”
  - Examples of nonfinancial assets include land, buildings, vehicles, and equipment
GASB 87 & 88

GASB 87 - Leases

- In general, all leases will now be reported on the statement of net position:
  - Lessee - Leases payable and “right to use” asset
  - Lessors - Lease receivable and a deferred inflow

- Lease that are excluded from GASB 87:
  - Short term leases (maximum possible term less than 12 month)
  - Leases of intangible assets:
    - Rights to explore for or to exploit natural resources (oil and gas)
    - Licensing contracts (video recordings, manuscripts, plays)
GASB 87 & 88

GASB 87 - Leases

• Lease that are excluded from GASB 87 (concluded):
  • Licensing contracts for computer software
  • Leases of biological assets (timber, living plants and living animals)
  • Lease of inventory
  • Supply contracts, such as power purchase agreements

• Contracts that transfer ownership
  • Contract that (a) transfers ownership of the underlying asset to the lessee by the end of the contract and (b) does not contain termination options, should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor.
GASB 87 & 88

GASB 87 – Leases

• Lease term is defined as the period during which a lease has a noncancelable right to use an underlying asset, plus the following periods if applicable:
  • Periods covered by a lessee’s option to extend the lease if it reasonably certain, based on all relevant factors, that the lessee will exercise that option
  • Periods covered by a lessee’s option to terminate the lease if is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.
  • Periods covered by a lessor’s option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option.
  • Periods covered by a lessor’s option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.
GASB 87 & 88

GASB 87 - Leases

- Measurement:
  - Lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives)
  - Lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs

- Accounting:
  - Lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example expense) for interest on the liability.
  - The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.
GASB 87 & 88

GASB 87 - Leases

• Accounting (concluded):
  • In year of acquisition, governmental funds, report expenditure (typically capital outlay) along with other financing source
  • Subsequent years, lease payments continue as expenditure

• Start now by making a list of all leases. List out the item and terms of the leasing arrangement. This will make the implementation of GASB 87 much easier!
# GASB 87 & 88 – Accounting treatment

**Leases Overview—Initial Reporting**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LESSEE</strong></td>
<td>Intangible asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use</td>
<td>Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)</td>
</tr>
</tbody>
</table>

- Lease liability does not include lease payments that are dependent on lessee’s performance or usage of 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.
GASB 87 & 88 – Accounting treatment

### Leases Overview—Subsequent Reporting

<table>
<thead>
<tr>
<th>LESSEE</th>
<th>Assets</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>LESSEE</td>
<td>Amortize the intangible asset over shorter of useful life or lease term</td>
<td>Reduce by lease payments (less amount for interest expense)</td>
<td>NA</td>
</tr>
</tbody>
</table>

- Exception if adjustment is greater than carrying value of asset, difference is recognized in the flows statement
- If the underlying asset becomes impaired, apply capital asset impairment guidance of Statement 42 to the right-to-use lease asset
GASB 87 & 88 – Accounting treatment

### Leases Overview—Initial Reporting

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**LESSOR**
- Lease receivable (generally including same items as lessee liability)
- Continue to report leased asset

<table>
<thead>
<tr>
<th>N/A</th>
<th>Equal to lease receivable plus any cash received up front that relates to a future period</th>
</tr>
</thead>
</table>

- 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
## GASB 87 & 88 – Accounting treatment

### Leases Overview—Subsequent Reporting

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**LEASOR**
- Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)
- Reduce receivable by lease payments (less payment needed to cover accrued interest)

**NA**
- Recognize revenue over the lease term in a systematic and rational manner

**LEASOR**
- Discount the lease receivable using the rate the lessor charges the lessee
- Interest rate may be implicit in the lease
LESSEE – Bus Lease Example

The government has a long-standing process of leasing its buses.

- On January 1, 2021, the government enters into a contract for five buses. The contract states the term is 5 years, with monthly payments of $2,000 due every 1st of the month. Lessor provided the borrowing rate of 6%.
- After three years, the government may cancel the contract.
- After the fifth year, the purchase price for each bus is $12,000.
- The government regularly leases buses and has historically utilized the buses for the full term of the contract and have never terminated early. The contract does not provide the lessor an option to terminate. At the date of the contract, the government 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!**
LESSEE – Bus Lease Example (cont.)

**Identifying the Lease term**

<table>
<thead>
<tr>
<th>Lessee options</th>
<th>Lessor options</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Terminate</td>
</tr>
<tr>
<td>Year 1</td>
<td>N/A</td>
</tr>
<tr>
<td>Year 2</td>
<td>N/A</td>
</tr>
<tr>
<td>Year 3</td>
<td>N/A</td>
</tr>
<tr>
<td>Reasonably certain will</td>
<td>N/A</td>
</tr>
<tr>
<td>not exercise</td>
<td></td>
</tr>
<tr>
<td>Reasonably certain will</td>
<td>N/A</td>
</tr>
<tr>
<td>not exercise</td>
<td></td>
</tr>
</tbody>
</table>

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

LESSEE – Bus Lease Example (cont.)

**Assumptions for Lease Liability calculation:**
- Buses are delivered on January 1, 2021, date of 1st payment.
- Payment schedule 5 years, assuming a 6% interest rate.
- Purchase price, not certain of being exercised (exclude)
- Present value of $2,000 monthly payments for 5 years (60 months):
  - 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 = 97,678**
GASB 87 & 88 – Example continued

### LESSEE – Bus Lease Example (cont.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>17,270</td>
<td>6,730</td>
<td>24,000</td>
</tr>
<tr>
<td>2022</td>
<td>18,335</td>
<td>5,665</td>
<td>24,000</td>
</tr>
<tr>
<td>2023</td>
<td>19,466</td>
<td>4,534</td>
<td>24,000</td>
</tr>
<tr>
<td>2024</td>
<td>20,666</td>
<td>3,334</td>
<td>24,000</td>
</tr>
<tr>
<td>2025</td>
<td>21,941</td>
<td>2,059</td>
<td>24,000</td>
</tr>
<tr>
<td></td>
<td><strong>97,678</strong></td>
<td><strong>22,322</strong></td>
<td><strong>120,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Amortization</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>19,536</td>
<td></td>
</tr>
<tr>
<td>Year 2</td>
<td>19,536</td>
<td></td>
</tr>
<tr>
<td>Year 3</td>
<td>19,536</td>
<td></td>
</tr>
<tr>
<td>Year 4</td>
<td>19,536</td>
<td></td>
</tr>
<tr>
<td>Year 5</td>
<td>19,534</td>
<td></td>
</tr>
</tbody>
</table>

**97,678**
GASB 87 & 88 – Example continued

Journal Entries required:
- Government-Wide &
- Fund level

---

**LESSEE – Bus Lease Example (cont.)**

<table>
<thead>
<tr>
<th>Governmental Fund - Initial Journal Entry</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital outlay</td>
<td>97,678</td>
<td></td>
</tr>
<tr>
<td>Other financing sources - lease proceeds</td>
<td></td>
<td>97,678</td>
</tr>
<tr>
<td><em>To record capital expenditure and related proceeds from lease of buses</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Entity-wide - Initial Journal Entry</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other financing sources - lease proceeds</td>
<td>97,678</td>
<td></td>
</tr>
<tr>
<td>Lease liability – due within one year</td>
<td></td>
<td>17,270</td>
</tr>
<tr>
<td>Lease liability – due beyond one year</td>
<td></td>
<td>80,408</td>
</tr>
<tr>
<td>Intangible lease asset - vehicles</td>
<td>97,678</td>
<td></td>
</tr>
<tr>
<td>Capital outlay</td>
<td></td>
<td>97,678</td>
</tr>
</tbody>
</table>

*To record intangible asset and related liability from lease of buses*
GASB 87 & 88 – Example continued

Journal Entries required:
- Government-Wide &
- Fund level

### LESSEE – Bus Lease Example (cont.)

<table>
<thead>
<tr>
<th>Governmental Fund - Year 1 Journal Entry</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>6,730</td>
<td></td>
</tr>
<tr>
<td>Lease principal payment expenditure</td>
<td>17,270</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>24,000</td>
<td></td>
</tr>
</tbody>
</table>

*To record 12 monthly lease payments for first year*

<table>
<thead>
<tr>
<th>Entity-wide - Year 1 Journal Entries</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease liability – due within on year</td>
<td>17,270</td>
<td></td>
</tr>
<tr>
<td>Lease principal payment expenditure</td>
<td></td>
<td>17,270</td>
</tr>
<tr>
<td>Amortization expense</td>
<td>19,536</td>
<td></td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td></td>
<td>19,536</td>
</tr>
</tbody>
</table>

*To eliminate fund level activity for first year*
GASB 87 & 88 – Example continued

Journal Entries required:
- Government-Wide &
- Fund level

**LESSEE – Bus Lease Example (cont.)**

<table>
<thead>
<tr>
<th>Governmental Fund - Year 2 Journal Entry</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>5,665</td>
<td></td>
</tr>
<tr>
<td>Lease principal payment expenditure</td>
<td>18,335</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>24,000</td>
</tr>
<tr>
<td><em>To record 12 monthly lease payments for second year</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Entity-wide - Year 2 Journal Entries</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease liability – due within one year</td>
<td>18,335</td>
<td></td>
</tr>
<tr>
<td>Lease principal payment expenditure</td>
<td></td>
<td>18,335</td>
</tr>
<tr>
<td>Amortization expense</td>
<td>19,536</td>
<td></td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td></td>
<td>19,536</td>
</tr>
<tr>
<td><em>To eliminate fund level activity for second year</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
GASB 87 & 88 – Example continued

Journal Entries required:
• Enterprise Fund

<table>
<thead>
<tr>
<th>Enterprise funds - Initial Journal Entry</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible lease asset - vehicles</td>
<td>97,678</td>
<td></td>
</tr>
<tr>
<td>Lease liability – due within one year</td>
<td></td>
<td>17,270</td>
</tr>
<tr>
<td>Lease liability – due beyond one year</td>
<td></td>
<td>80,408</td>
</tr>
</tbody>
</table>
Journal Entries required:
• Enterprise Fund

**LESSEE – Bus Lease Example (cont.)**

<table>
<thead>
<tr>
<th>Enterprise funds - Year 1 Journal Entry</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease liability – due within one year</td>
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<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>6,730</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>24,000</td>
</tr>
<tr>
<td>To record 12 monthly lease payments for first year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization expense</td>
<td>19,536</td>
<td></td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td></td>
<td>19,536</td>
</tr>
<tr>
<td>To record annual amortization expense</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
GASB 87 & 88 – Example continued

Journal Entries required:
- Enterprise Fund

**LESSEE – Bus Lease Example (cont.)**

<table>
<thead>
<tr>
<th>Enterprise funds and Entity-wide Year 1 Journal Entry</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease liability – due beyond one year</td>
<td>18,335</td>
<td></td>
</tr>
<tr>
<td>Lease liability – due within one year</td>
<td></td>
<td>18,335</td>
</tr>
</tbody>
</table>

*To adjust due within one year liability*

Consider need for accrued interest based on payment schedule.
Journal Entries required:
- Enterprise Fund

### LESSEE – Bus Lease Example (cont.)

<table>
<thead>
<tr>
<th>Enterprise funds - Year 2 Journal Entry</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
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</tr>
<tr>
<td>Lease liability – due within one year</td>
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<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>24,000</td>
</tr>
<tr>
<td><em>To record 12 monthly lease payments for second year</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization expense</td>
<td></td>
<td>19,536</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>To record annual amortization expense</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Maner Costerisan**
Certified Public Accountants
Business & Technology Advisors
Three years remaining on bus lease

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease liability – due within one year</td>
<td>$19,466</td>
</tr>
<tr>
<td>Lease liability – due beyond one year</td>
<td>$41,607</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$62,073</td>
</tr>
<tr>
<td>Vehicle - leased asset</td>
<td>$97,678</td>
</tr>
<tr>
<td>Accumulated amortization - Vehicle - leased asset</td>
<td>$(39,072)</td>
</tr>
<tr>
<td>Vehicle NBV</td>
<td>$58,606</td>
</tr>
</tbody>
</table>
GASB 87 & 88

GASB 88 – Debt Disclosures

• Effective for reporting periods beginning after June 15, 2018 (school year 2018/19)

• Objective is to improve consistency in the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowing and direct placements, and to provide financial statement users with additional essential information about debt

• Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.
GASB 87 & 88

**GASB 88 – Debt Disclosures**

- Debt does not include:
  - Leases, except for contracts reported as a financed purchase of the underlying asset
  - Accounts payable

- Direct borrowing and direct placements of debt should be distinguishable from other types of debt for all disclosures.
GASB 87 & 88

GASB 88 – Debt Disclosures

- Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale.
  - Direct borrowings – loan agreement with a lender (direct bank loans)
  - Direct placement – issuing debt security directly to an investor

- New disclosures to the financial statements:
  - Amount of unused lines of credit
  - Assets pledged as collateral for debt
  - Terms specified in debt agreements related to significant (1) events of default with finance-related consequences (2) Termination events with finance-related consequences (3) Subjective acceleration clauses