

GASB PROPOSED IMPLEMENTATION GUIDANCE

Fiduciary Activities (GASB 84)
Leases (GASB 87)

Fiduciary Activities - Control Applicability



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

Fiduciary Activities - Control Applicability



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

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Fiduciary Activities - Control Applicability



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

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Fiduciary Activities - Control Applicability



Question 4.17	Answer
<p>The chess club of a high school is established in accordance with the school's operating policies and is not legally separate from the high school.</p> <p>Are proceeds from the chess club's fundraising activities and held by the school for the benefit of individuals or for the benefit an organization?</p>	<p>Because the club is not legally separate from the District, it is not itself an institution. As a result, the provisions in paragraph 11c(2) of Statement 84 should be applied:</p> <p style="padding-left: 40px;">"The assets associated with the activity are for the benefit of individuals and the government does <i>not</i> have administrative involvement with the assets or direct financial involvement with the assets."</p>

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Fiduciary Activities – Assets Are for the Benefit of Individuals



Question 4.18	Answer
<p>The District Board is responsible for establishing the fees charged by student clubs to their members.</p> <p>The Board has no other policies related to the disbursement of funds for various school clubs.</p> <p>Does the District have administrative involvement or direct financial involvement?</p>	<p>A government has administrative involvement with the assets if it (a) establishes guidelines, (b) determines eligible expenditures, or (c) directs how assets are allocated. A government has direct financial involvement with the assets if it provides matching resources for the activities.</p> <p>The establishment of fees is equivalent to determining eligible expenditures.</p> <p>Therefore, the District does have administrative involvement.</p> <p>This is not a fiduciary activity.</p>

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Fiduciary Activities – Assets Are for the Benefit of Individuals



Question 4.19	Answer
<p>A student club is established in accordance with District policies. Club fundraising proceeds are controlled by the District. Club members establish how the resources can be spent and approve disbursements.</p> <p>Does the District have administrative involvement?</p>	<p>No. A “substance versus form” consideration is appropriate.</p> <p>The District’s role would have substance if the Board, school administrator, or faculty advisor establishes how the resources can be spent through approved policies.</p> <p>In this case, the students (the beneficiaries) are establishing how the resources can be spent, and, therefore, the District does not have administrative involvement.</p>

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Fiduciary Activities – Assets Are for the Benefit of Individuals



Question 4.20	Answer
<p>Would the answer to 4.19 change if the parents of club members establish how the resources can be spent?</p> <p>Does the District have administrative involvement?</p>	<p>No. The District does <i>not</i> have administrative involvement.</p> <p>The parents of the students (representatives of the beneficiaries) and not the Board, school administrator, or faculty advisor are establishing how the resources can be spent.</p>

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Fiduciary Activities – Assets Are for the Benefit of Individuals



Question 4.21	Answer
<p>The District holds the funds raised by various student clubs. There is no Board or school administration policy related to the club's activities and how the resources can be spent. Fund spending is strictly at the discretion of the faculty advisor (who is representing the District) assigned to each club.</p> <p>Does the District have administrative involvement?</p>	<p>Yes. The District's role is considered to be substantive because in 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.</p> <p>The faculty advisor's approval is more than a formality and is equivalent to the District determining eligible expenditures.</p>

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Fiduciary Activities – Assets Are for the Benefit of Individuals



Question 4.22	Answer
<p>The Board establishes and approves a policy related to the receipt, disbursement, and holding of funds for various student clubs and organizations.</p> <p>The policy includes specific guidelines related to how funds raised can be spent.</p> <p>Does the District have administrative involvement?</p>	<p>Yes.</p> <p>The District's role is considered to be substantive because the District has established specific guidelines on how the resources can be spent in an approved policy.</p>

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Fiduciary Activities – Assets Are for the Benefit of Individuals



Question 4.24	Answer
<p>Does the answer to Question 4.22 change if the state is the entity that establishes specific guidelines on how the resources can be spent through administrative policy?</p>	<p>No.</p> <p>The District's role is considered to be substantive because the District is required to follow the specific guidelines established by the state, through legislation or policy, regarding how the resources can be spent.</p>

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Fiduciary Activities – Assets Are for the Benefit of Individuals



Question 4.27	Answer
<p>The District matches a student club's funds when a disbursement is approved.</p> <p>Does the District have direct financial involvement?</p>	<p>Yes.</p> <p>The matching of funds is a manifestation of direct financial involvement.</p>

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Fiduciary Activities – Assets Are for the Benefit of Other Organizations



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

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Fiduciary Activities – Control of Assets



Question 4.33	Answer
<p>The Touchdown Club is a NFP with its own board comprised of parents of high school football players and other program supporters. Funds raised by the association are not held by the District.</p> <p>Should the District report this activity?</p>	<p>No.</p> <p>The control criteria are not met because the District is not holding the funds, nor does it have the ability to direct the use, exchange, or employment of the funds.</p> <p>Also, the association is not a component unit of the District.</p>

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Fiduciary Activities – Control of Assets



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.</p> <p>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>

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Leases – Application



Question 4.1	Answer
<p>The District 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 33.</p>

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Leases – Application



Question 4.2	Answer
<p>The District 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 District required to have sole control of the right to use the facility?</p>	<p>No.</p> <p>If the contract specifies that the District 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>

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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>

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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>

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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 District determines that it is reasonably certain that the option will be exercised, the lease term would be 25 years.</p>

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Leases – Short-Term Leases



Question 4.16	Answer
<p>A District 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.</p> <p>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>

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Leases – Contracts That Transfer Ownership



Question 4.23	Answer
<p>A vendor installs equipment on a District's building to increase energy efficiency. The District makes payments to the vendor based on a percentage of the District's energy cost savings.</p> <p>The District 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.</p> <p>If title transfers to the District at the end of the contract, the transaction is a financed purchase.</p>

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Leases – Contracts That Transfer Ownership



Question 4.24	Answer
<p>The District leases computers. At the end of the lease term, students are given the option to purchase their computer from the District. Regardless of whether the students purchase their computers, the District is required to purchase all computers from the lessor.</p> <p>Should this arrangement be reported as a financed purchase of the computers by the District?</p>	<p>Yes. One criterion of a financed purchase is that the contract transfers ownership of the underlying asset to the lessee by the end of the contract.</p> <p>In this example, the lessee is the District, not the students. The sale of computers to the students is a separate transaction.</p>

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Leases – Lease Liability



Question 4.25	Answer
<p>The District adopts a capitalization threshold and expenses acquisitions, including lease assets, that fall below that threshold.</p> <p>Can the District 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>

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Leases – Lease Liability



Question 4.31	Answer
<p>A District leases buses for two years and is required to make variable payments based on the number of miles driven.</p> <p>The District 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 District or usage of the underlying asset are not be 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>

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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>

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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>

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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>

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Leases – Contracts with Multiple Components



Question 4.62	Answer
<p>The District 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 District 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>

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