GASB 91 and 94 Practical Applications

Presented by:

Ryan Domino, CPA, Partner

August 17, 2023

lslcpas.com

Disclaimer

Lance, Soll and Lunghard, LLP is providing this material for information purposes only. The content within the presentation was developed based on information available as of August 17, 2023. The material provided is general and is not intended to be complete accounting, tax or business advice. Nothing herein should be relied upon or used without consulting accounting, tax or business advisor to consider your specific circumstances, possible changes to applicable laws, rules and regulations, and other tax or operational issues. Receipt of this material does not establish a client relationship.

About Me

- Partner, Government Services
- 11+ years with LSL
- GFOA Special Review Committee Member
- AICPA and CalCPA Member
- LSL's Government Services Dept. Training Lead
- Specialist in Yellow Book and Uniform Guidance audits
- Married with two children, ages 4 and 3

About the Webinar

- GASB 91
  - Expected impact to most governments
  - Changes to financial reporting requirements
  - How it will impact your 2023 fiscal year audits

- GASB 94
  - Expected impact to most governments
  - Changes to financial reporting requirements
  - How it will impact your 2023 fiscal year audits

GASB 91

Expected Impact of GASB 91

- In general, we expect minimal impact to most local governments
- GASB 91 is expected to impact states and state agencies to a greater extent
- Primary area impact will be in the footnote disclosures

GASB 91 - Summary

- The primary objectives of GASB 91 are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with:
  - Commitments extended by issuers
  - Arrangements associated with conduit debt obligations
  - Related note disclosures

GASB 91 - Summary

- Conduit debt obligations must have all the following:
  - At least 3 parties involved:
    - Issuer
    - Third-party obligor (TPO)
    - Debt holder
  - Issuer and TPO are not within the same reporting entity
  - Debt obligation is not a parity bond of the issuer or cross-collateralized with any other debts of the issuer
  - TPO ultimately receives the proceeds or the issuance
  - TPO is primarily obligated to make debt service payments

GASB 91 - Summary

- Issuers of conduit debts that meet the characteristics make a limited commitment to, minimally, maintain the issue’s tax-exempt status. Limited commitments also could consist of facilitating debt service payments.

- Additional commitments could include:
  - Extension of a moral obligation pledge
  - Extension of an appropriation pledge
  - Extension of a financial guarantee
  - Pledging of the issuer's own property, revenue, or other assets as security

GASB 91 - Summary

- If there is an additional or voluntary commitment, and it is more likely than not (>50% chance) that the issuer will make a debt service payment for the TPO, a liability should be recognized. Some qualitative factors include:
  - TPO is entering bankruptcy
  - TPO is in breach of contract related to the debt
  - TPO is experiencing significant financial difficulty
  - Termination of project that was to be source of funding for debt payments
  - Litigation
  - Issuer has history of fulfilling additional commitments
  - Issuer’s ability and willingness to support debt service payments

Polling Question #1

Does your agency have any conduit debts?
Yes or No?

Changes to Financial Reporting

- For local governments which made no additional or voluntary commitments, the changes will be solely to the footnotes:
  - Description of the conduit debt
  - Aggregate remaining principal amount of all conduit debt obligations
- For local governments which made additional or voluntary commitments, but have incurred no liability:
  - Same as above, but with additional description of the commitments

Changes to Financial Reporting

- For local governments which made additional or voluntary commitments, and liability has been incurred:
  - In the financial statements, accrue liability for present value of expected future payments
  - In the footnotes disclose:
    - Description of conduit debt
    - Description of commitments
    - Schedule of beginning balance, increase, decrease, and ending balance of liability
    - Disclosure of valuation method
    - Cumulative payments made on behalf of obligor

Audit Impacts

- Make sure you are evaluating your existing conduit debts for:
  - Additional or voluntary commitments beyond just maintaining tax exempt status
  - Estimated possibility of making payments on behalf of the TPO

- Should prepare PBC schedules which include:
  - Description of conduit debt
  - Description of commitments (if necessary)
  - Schedule of beginning balance, increase, decrease, and ending balance of liability
  - Disclosure of valuation method (if necessary)
  - Cumulative payments made on behalf of obligor (if necessary)

GASB 94

Expected Impact of GASB 94

- We expect increasing impact as public-private/public partnerships (P3 arrangements) become more common
- In conversations with our clients relatively few have been identified compared to leases or SBITAs, but several possible arrangements have been evaluated
- Accounting is the same as leases, the focus of the underlying asset is different.
- We expect most local governments to be in role of *transferor* (lessor)

GASB 94 - Summary

- GASB 94 governs transactions wherein a government and another entity (government or private) enter into an arrangement wherein the other entity is given rights to use an underlying capital asset to provide public service for a determined amount of time, in exchange for consideration.

- The critical differences between GASB 87, Leases, and GASB 94 are in the focus of the use of underlying asset, and the status of the underlying asset.

GASB 94 - Summary

- Leases = underlying asset exists and may be used for lessee’s purposes.

- P3 arrangement = underlying asset does not currently exist, or will be improved upon by operator (lessee), and is used to serve public purpose of transferor (lessor).

GASB 94 - Summary

- Service Concession Arrangements
  - Operator pays transferor for right to operate the asset
  - Operator is compensated by recipients of services provided
  - Transferor retains rights to set fees and determine services
  - Asset reverts to the transferor at conclusion of arrangement

Polling Question #2

Does your agency have any P3 arrangements?
Yes or No?

Financial Reporting

- Present Value Calculation
  - Annual interest rate (incremental borrowing rate) divided by number of payments per year (rate)
  - Total number of payments (nper)
  - Total amount of each payment (pmt)
- In Microsoft Excel, the formula is **=PV(rate,nper,pmt)**

Financial Reporting

- If not using a software solution, Excel also has free templates to create loan amortization schedules which work for the receivable side in determining how much of the payment related to interest and how much related to principal on the receivable when payments are received from the operator.

- The deferred inflows of resources side should be amortized straight line (or some other generally accepted methodology) over the term of the arrangement.

Financial Reporting

Present value of future payments from calculation

Incremental borrowing rate

P3 Term

Loan Amortization Schedule

Enter Values

Loan amount	$556,524.00
Annual interest rate	3.00%
Loan period in years	5
Number of payments per year	12
Start date of loan	7/1/2023

Optional extra payments $0.00

Loan Summary

Scheduled payment	$10,000.01
Scheduled number of payments	60
Actual number of payments	11
Total early payments	$0.00
Total interest	$12,938.14

Lender name Woodgrove Bank

Payment Number	Payment Date	Beginning Balance	Scheduled Payment	Extra Payment	Total Payment	Principal	Interest	Ending Balance	Cumulative Interest
1	7/1/2023	$556,524.00	$10,000.01	$0.00	$10,000.01	$8,608.70	$1,391.31	$547,915.30	$1,391.31
2	8/1/2023	$547,915.30	$10,000.01	$0.00	$10,000.01	$8,630.22	$1,369.79	$539,285.08	$2,761.10
3	9/1/2023	$539,285.08	$10,000.01	$0.00	$10,000.01	$8,651.79	$1,348.21	$530,633.29	$4,109.31
4	10/1/2023	$530,633.29	$10,000.01	$0.00	$10,000.01	$8,673.42	$1,326.58	$521,959.86	$5,435.89
5	11/1/2023	$521,959.86	$10,000.01	$0.00	$10,000.01	$8,695.11	$1,304.90	$513,264.76	$6,740.79

Financial Reporting

- The recognition of the payments from the operator should NOT equal the amortization on the deferred inflow. If they match, something is not being calculated correctly!
- The three examples on the next slides demonstrate the journal entries for the following situations:
  - Asset exists at outset of arrangement and is being improved by operator.
  - Asset will be constructed/acquired by operator and arrangement meets service concession arrangement criteria.
  - Asset will be constructed/acquired by operator, but arrangement does not meet service concession arrangement criteria.

Financial Reporting

- **Example 1:** City of Example enters into an arrangement on 7/1/X1 with XYZ Co., a golf management company to operate and improve Example's public golf course over 5 years. The improvements are expected to cost $50,000. XYZ will pay Example $10,000 per month for the rights to operate the golf course. The incremental borrowing rate is determined to be 3%.
  - DR – RECEIVABLE $556,524 (PV)
  - DR – CAPITAL ASSET (CAPITAL OUTLAY) $50,000
  - CR – DEFERRED INFLOW OF RESOURCES $606,524

LSL

Financial Reporting

- **Example 1:** Same background as previous slide, but now reporting at FYE 6/30/X2:

DR – CASH	$120,000	
DR – DEFERRED INFLOW OF RESOURCES	$121,304	
CR – RECEIVABLE		$104,737
CR – INTEREST REVENUE		$15,263
CR – REVENUE		$121,304

Financial Reporting

- **Example 2**: City of Example enters into a service concession arrangement on 7/1/X1 with LMNOP Co., a real estate developer company to construct and manage Example's low-mod housing over 50 years. The property is expected to be able to sell for $10,000,000 if placed on real estate market. LMNOP will pay Example $10,000 per month for the rights to manage the housing project and collect rents from tenants once completed. The incremental borrowing rate is determined to be 3%.
  - DR – CAPITAL ASSET $10,000,000
  - DR – RECEIVABLE $3,105,807
  - CR – DEFERRED INFLOW OF RESOURCES $13,105,807

LSL

Financial Reporting

- **Example 2:** Same background as previous slide, but now reporting at FYE 6/30/X2:

DR – CASH	$120,000	
DR – DEFERRED INFLOW OF RESOURCES	$262,116	
CR – RECEIVABLE		$27,198
CR – INTEREST REVENUE		$92,802
CR – REVENUE		$262,116

Financial Reporting

- **Example 3**: City of Example enters into an arrangement on 7/1/X1 with ABC Co., a telecommunications company to construct fiber optic internet lines throughout the City in exchange for exclusive access to provide services to customers for 5 years. The lines are expected to have a carrying value of $1,500,000 at the end of the arrangement. ABC will pay Example $10,000 per month for the rights to use the lines. The incremental borrowing rate is determined to be 3%.

  - DR – RECEIVABLE $2,056,524
  - CR – DEFERRED INFLOW OF RESOURCES $2,056,524

Financial Reporting

- **Example 3:** Same background as previous slide, but now reporting at FYE 6/30/X2:

• DR – CASH	$120,000	
• DR – DEFERRED INFLOW OF RESOURCES	$411,304	
• CR – RECEIVABLE		$104,736
• CR – INTEREST REVENUE		$15,264
• CR – REVENUE		$411,304

Financial Reporting

- **Example 3:** Same background as previous slide, but now reporting at FYE 6/30/X6:

DR – CASH	$120,000	
DR – DEFERRED INFLOW OF RESOURCES	$411,304	
DR – CAPITAL ASSET (CAPITAL OUTLAY)	$1,500,000	
CREDIT – RECEIVABLE		$1,618,048
CREDIT – INTEREST REVENUE		$1,952
CREDIT – REVENUE		$411,304

Financial Reporting

- Financial Statements
  - Transferor transactions will be in the fund level, not just government-wide
- Note Disclosures
  - General description of P3 arrangement
  - Nature and amounts of underlying assets and deferred inflows
  - Discount rate applied to measurement of receivable
  - Amount of deferred inflows recognized during period
  - Nature and extent of rights retained by the transferor or granted to the operator
  - Any provisions for guarantees or commitments

Polling Question #3

Have you evaluated your contracts for management services for possible P3 arrangements?
Yes or No?

Audit Impacts

- Make sure you are evaluating your agreements with management companies, developers, etc. for terms and conditions indicative of P3 arrangements.
- Connect with your auditors on agreements that appear to be P3 arrangements but you're unsure.
- Your auditors will likely request:
  - A listing of P3 arrangements active during the year
  - Agreements of selected P3s to validate terms and conditions
  - Your calculations of present value and amortization of receivable and deferred inflows
  - Other information necessary to properly disclose P3s

Polling Question #4

Do you like Present Value Calculations as much as the GASB?
Yes or No?

Questions

www.lslcpas.com

contact.us@lslcpas.com

CALIFORNIA: Brea | Santa Ana | Laguna Hills | Sacramento

TEXAS: The Woodlands

LSL