Grant Thornton

2020 Audit Wrap Up Presentation and Discussion

City of San José

-- DRAFT (10/8/2020) --

Federated City Employees' Retirement System; and Police and Fire Department Retirement Plan (collectively, “the Plans”)

Audits for the year ended June 30, 2020

October 15, 2020 Meeting

Our Values are CLEARR

To achieve our global vision, we capitalize on our strengths by embracing the following values:

- Unite through global **Collaboration**
- Demonstrate **Leadership** in all we do
- Promote a consistent culture of **Excellence**
- Act with **Agility**
- Ensure deep **Respect** for people
- Take **Responsibility** for our actions

Our values serve as the foundation of each step we take toward achieving our vision. They guide our decision-making and provide a framework for our people to make correct and appropriate choices.

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Audit Timeline & Scope

April/May 2020	Client continuance	• Discuss with management any major changes in FY2020 • Issue engagement letters • Developed PBC list, project timelines, etc.
May 2020	Planning	• Held planning meetings with management to further discuss the timing to fieldwork and considerations for the audits • Presented audit plan to the Joint Audit Committee on May 21
May/June 2020	Preliminary risk assessment procedures	• Develop audit plan that addresses risk areas • Assessed financial reporting risk related to the Plans
July - September 2020	Interim fieldwork	• Perform walk-throughs of business processes and controls • Performed interim testing on contributions, eligibility, benefit payments and census data • Performed interim testing on investment purchases and sales
September/October 2020	Final fieldwork	• Performed testing on investments portfolios including fair value • Performed remaining testing on contributions, eligibility, benefit payments and census data • Reviewed financial statements
November 2020	Final Deliverables	• Issued opinion and other communications (target Nov 5, 2020)

Areas of Audit Focus

The following provides an overview of the areas of audit focus based on our risk assessments.

Areas of focus	Results
Fair value measurements of investments and related disclosures	• Confirmed investments held by the Plans with State Street as of year end. • Tested fair values at the end of the year. • Performed analytics on investment income • Reviewed fair value measurement for disclosure purposes. • Reviewed SSAE 16 report for State Street as well as management's complementary user controls. • Reviewed management's process for assessing fair value provided by investment manager's and the custodian • No significant issues noted
Actuarial amounts not determined properly	• Obtained census data and compared to the data maintained by management. • Performed testing around census data movement. • Engaged our Human Capital Resources Group to review the Cheiron actuarial valuation report and evaluate the underlying assumptions for reasonableness for both the pension and OPEB plans • No significant issues noted.

Areas of Audit Focus (continued)

The following provides an overview of the areas of audit focus based on our risk assessments.

Areas of focus	Results
Benefits payments improperly computed	• Tested eligibility requirements for the benefit payments • Recalculated the distributions to ensure they were allowable per the municipal code and that the amounts distributed were accurate. • No significant issues noted
Fraud related to journal entries • Auditing standards suggest that an auditor's identification of fraud risks should include the risk of management override of controls	• We made inquiries of management. • We made inquiries of State Street (the "Custodian") representative • We obtained an understanding of management's process relating to Plans' reporting. • We tested journal entries based on specific criteria • No significant issues noted.

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Other Key Areas

The following provides an overview of the other key areas of audit focus based on our risk assessments.

Areas of focus	Results
Participant data and eligibility	• Selected a sample of participants and tested for eligibility and recalculated contributions (both employee and employer). • Selected a sample of remittances during the year and agreed them to transmittal support to the custodian. • We randomly selected three employees and tested for proper exclusion. • No significant issues noted.
Financial statement presentation and disclosure	• Verified disclosures related newly implemented GASB Statements were included • No significant issues noted.

COVID-19 pandemic

Accounting considerations

- Fair value measurements and impairment of financial assets
- Disclosures regarding risks and uncertainties
- Accounting estimates rely on an entity's judgmental assumptions, which must be based on a reasonable interpretation of conditions or events that are either known or knowable as of the reporting date.

Audit considerations

Our audit procedures included the review of valuation assumptions of financial assets and liabilities. Management has included its analysis of the impact of COVID-19 through its MD&A. The reports of the investment advisors also include consideration of the effects of the pandemic on the investment portfolio and the Plans as it relates to the reported value of investments at June 30, 2020. Management is conducting an ongoing re-evaluation of the impact of the pandemic on the portfolio. We note that the complete impact of the COVID-19 pandemic on the wider financial markets as a whole and as it relates to the valuations represented in the June 30, 2020 financial statements is unknown. The valuation of certain types of investments, such as those measured at NAV, may not reflect the impacts of events such as the pandemic as quickly as those that are measured routinely in liquid markets.

Summary of Misstatements – the System --DRAFT--

Description	Increase (Decrease) to: Assets	Liabilities	Equity	Net Income
Material, corrected misstatements				
None noted.				
Net impact	$ -	$ -	$ -	$ -
Uncorrected misstatements				
Cash and Securities - HCT	7,918,575			
Accounts Payable - HCT		7,918,575		
To reclass negative cash balance to liability				
Net Appreciation in FV				4,752,308
Investments	4,752,308			
To adjust the fair value of Alternative investment PE Strategic				
Net impact	$ 12,670,883	$ 7,918,575	$ -	$ 4,752,308

Management believes the uncorrected misstatements are immaterial to the financial statements. Uncorrected misstatements could be potentially material to future financial statements. As such, we request that these uncorrected misstatements be corrected.

Summary of Misstatements- the P&F Plan --DRAFT--

	Increase (Decrease) to:			
Description	**Assets**	**Liabilities**	**Equity**	**Net Income**
Material, corrected misstatements				
None noted.				
Net impact	$ -	$ -	$ -	$ -
Uncorrected misstatements				
Net appreciation in FV - HCT				107,548
Investment - HCT	107,548			
To adjust the fair value of Alternative investments				
Net Appreciation in FV - Pension				13,728,347
Investments - Pension	13,728,347			
To adjust the fair value of Alternative investments				
Net impact	$ 13,835,896	$ -	$ -	$ 13,835,896

Management believes the uncorrected misstatements are immaterial to the financial statements. Uncorrected misstatements could be potentially material to future financial statements. As such, we request that these uncorrected misstatements be corrected.

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Disclosure Adjustments – the System & Plan

Recorded disclosure adjustments

The following is a description of adjustments to disclosures identified during the audit that were made by the Plans:

- None noted.

Unrecorded disclosure adjustments

The following is a description of omitted, incomplete or inaccurate disclosures identified during the audit that were not made by the Plans:

- None noted.

Other Required Communications

Professional standards require that we communicate the following matters to you, as applicable.

Going concern matters – ***No issues noted***
Fraud and noncompliance with laws and regulations – ***No issues noted***
Significant deficiencies and material weaknesses in internal control over financial reporting – ***See following slides***
Use of other auditors – ***N/A***
Use of internal audit – ***No issues noted***
Related parties and related party transactions – ***City of San Jose***

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Other Required Communications
(continued)

Disagreements with management – ***No issues noted***
Management's consultations with other accountants – ***N/A***
Significant issues discussed with management – ***No issues noted***
Significant difficulties encountered during the audit – ***No issues noted***
Other significant findings or issues that are relevant to you and your oversight responsibilities – ***See following slides***
Modifications to the auditor's report – ***N/A***
Other information in documents containing audited financial statements – ***Required Supplementary Information and Other Supplementary information reviewed as part of the holistic CAFR financial statements review process.***

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Quality of Accounting Practices

Accounting policies	• (The significant accounting policies used by the Plans are disclosed in the notes to the financial statements. • Accounting policies and their application were appropriate and consistently applied. • There were no changes in significant accounting policies. • There were no accounting policies unique to the industry. • We noted no significant unusual transactions, or other significant transactions in controversial or emerging areas of which there is a lack of authoritative accounting guidance or consensus. • There were no effects of the timing of transactions in relation to the period in which they are recorded.

Quality of Accounting Practices

Accounting estimates	**<u>Fair value measurement</u>** The Plans' assets are held by State Street and management relies on State Street reports (quarterly and annually) as well as the various investment managers reports in determining fair value of the Plans' investments. Management has assessed the valuation techniques employed by State Street and the investment managers and determined them to be in accordance with GASB Statement No. 72. Grant Thornton's comments are addressed in the report on internal control. **<u>Actuarial assumptions</u>** Management makes significant estimates related to the actuarial valuations of the Plans. These valuations are completed by Cheiron and reviewed by management. There are inherent complexities surrounding the inputs, methods, and assumptions to the actuarial valuations of the Plans. Management has assessed the methods and assumptions employed by Cheiron in the valuation of the pension and OPEB reports and determined them to be in accordance with GASB Statements No. 67/68 and 74/75.

Quality of Accounting Practices

Disclosures	• We noted completeness of financial statements and disclosures. • We noted overall neutrality and consistency.
Other related matters	• None noted.

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Internal Controls Matters

Responsibility We are responsible for obtaining reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. Control deficiencies that are of a lesser magnitude than a significant deficiency will be communicated to management.

Definitions

- A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, misstatements on a timely basis.
- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.
- A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Internal Controls Matters

Our consideration of internal control was not designed to identify all deficiencies in internal control that, individually or in combination, might be material weaknesses. Therefore, material weaknesses may exist that were not identified.

Our findings are communicated to you in our draft letter dated November 5, 2020 (open for finalization) for the Plan and the System, respectively.

Control deficiencies that are of a lesser magnitude than a significant deficiency will be or have been communicated to management.

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The Company's response has not been subjected to our audit procedures and, accordingly, we express no opinion on it.

Open items as of October 8, 2020

The following items remain open for completion as of October [8], 2020:

Deliverable	Expected date - Federated	Expected date – Police & Fire
Audit Committee presentation	October 15, 2020	October 15, 2020
Management Representation letter	November 5, 2020	November 5, 2020
Issuance of Internal control report and summary of findings and deficiencies	November 5, 2020	November 5, 2020
Issuance of Audit Report	November 5, 2020	November 5, 2020

Other area's of the audit:

1. Completion of Investment's testing: Pending Partner/EQR review
2. Completion of Contribution & Benefits Testing : Pending Partner/EQR review
3. Receipt of legal letter
4. Review of actuarial assumptions
5. Completion of detail tie-out of CAFR
6. Review of the City CAFR

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Audit Wrap Up Presentation

Technical Updates – GASB

Selected pronouncements effective for the year ending June 30, 2020 or subsequent periods - GASB

Title	Effective date
GASB 84 – Fiduciary Activities	Periods beginning after December 15, 2019**
GASB 87– Leases	Periods beginning after June 15, 2021**
GASB 89 – Accounting for Interest Cost Incurred before the end of a Construction Period	Periods beginning after December 15, 2020**
GASB 90 – Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61	Periods beginning after December 15, 2019**
GASB 91 – Conduit Debt Obligations	Periods beginning after December 15, 2021**
GASB 92 – Omnibus 2020	Periods beginning after June 15, 2021*

** Reflective of effective date deferrals under GASB 95.

Selected pronouncements effective for the year ending June 30, 2020 or subsequent periods – GASB – continued

Title	Effective date
GASB 93 – Replacement of Interbank Offered Rates	Periods beginning after June 15, 2020
GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements	Periods beginning after June 15, 2022
GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance	Immediately
GASB 96 – Subscription-Based Information Technology Arrangements	Periods beginning after June 15, 2022
GASB 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans – an amendment of GASB Statements 14 and 84 (Supersedes GASB Statement 32)	Periods beginning after June 15, 2021*

GASB Statement 84, *Fiduciary Activities*

Summary	Potential impact

• Guidance addresses the following:
  ◦ The categorization of fiduciary activities for financial reporting
  ◦ How fiduciary activities are to be reported
  ◦ When liabilities to beneficiaries must be disclosed
• Types of fiduciary funds that must be reported include the following:
  ◦ Pension (and other employee benefit) trust funds
  ◦ Investment trust funds
  ◦ Private-purpose trust funds
  ◦ Custodial funds
• A government controls the assets of an activity if it holds the assets or "has the ability to direct the use, exchange or employment of the assets in a manner that provides benefits to the specified or intended recipients"
• Fiduciary activities must be disclosed in the basic financial statements of the government entity and a statement of fiduciary net position and changes in fiduciary net position should be presented (unless the period of custody is less than three months).
• Effective for periods beginning after December 15, 2019.
	Under this new requirement, the entity must report the fiduciary activity on its financial statements, where it may not have done so in the past. Management should identify which fiduciary activities it is engaged in to inventory the relationships which may need to be reported. Management may want to consider changing the terms of the relationships such that they are not subject to reporting on the financial statements of the entity when the requirement becomes effective.

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GASB Statement 87, *Leases*

Summary

- The GASB issued guidance which resembles the FASB guidance on leases
- To determine whether a lease exists, a government should assess whether it has both:
  1) The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and
  2) The right to determine the nature and manner of use of the underlying asset as specified in the contract
- For Lessees:
  - In general, all leases will be reported on the statement of net position (the distinction between operating and capital leases is no longer relevant) as a "right of use" intangible asset and a corresponding lease liability within long term debt
  - On the statement of changes, rent expense will be replaced by amortization expense of the right-of-use asset as well as interest expense on the lease liability (thus accelerating expenses in the beginning years of the lease term)
  - There is an exemption for short term leases (those with a term of 12 months or less, including extension options) as well as leases that transfer ownership at the end of the term
  - Disclosures regarding matters such as total leased assets by major class of underlying assets and related accumulated amortization (in total), principal and interest payments for each of the five subsequent fiscal years and in five year increments thereafter and commitments under leases before a lease commencement period, among other items

GASB Statement 87, *Leases (continued)*

Summary, continued	Potential Impact

• For Lessors:
  • Record a lease receivable and a deferred inflow of resources equal to the present value of future lease payments (which should generally equal the amount recorded as a liability by the lessee), and also continue to report the leased asset
  • The receivable will be reduce as cash is received, the asset will be depreciated (generally) and the deferred inflow will be recognized over the lease term
  • Disclosures include matters such as general description of leasing arrangements, total amount of inflows of resources, and those related to variable payments, residual guarantees, etc., and the existence, terms and conditions of options by the lessee to terminate the lease or abate payments in certain circumstances, among other disclosures
• Effective for periods beginning after June 15, 2021, with early adoption encouraged. Existing leases will be adjusted based on the remaining lease payments as of the beginning of the period of adoption or beginning of any earlier periods restated (for example, for June 30 year ends, adoption is June 15, 2022 so the beginning period is July 1, 2021).
	• For those entities which use operating leases to finance certain capital activities, this standard could have a significant impact on the financial statements of the entity upon adoption. Management should consider the impact on financial covenants, as well as ensuring a complete inventory of existing leases that will be subject to the new accounting and disclosures.

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GASB Statement 91, *Conduit Debt Obligations*

Summary	Potential Impact
• Eliminates the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. • Defines conduit debt obligations as a debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor), that includes specific characteristics. • An issuer should not recognize a conduit debt obligation as a liability. • To the extent the issuer has made a limited commitment with respect to the conduit debt obligation, the issuer should recognize a lability associate with the additional commitment if qualitative factors indicate it is more likely than not that the issuer will support one or more debt service payments. • The issuer of conduit debt obligations should not report arrangements as leases, regardless of whether the arrangement is labeled or otherwise referred to as a lease. If the arrangement meets the definition of a Service Concession Arrangement, however, the SCA should be reported in accordance with the relevant guidance. • Effective for periods beginning after December 15, 2020, with early adoption encouraged. Changes to adopt this standard should be applied retroactively.	• Entities should inventory outstanding conduit debt obligations, including related commitments and arrangements, and compare the associated terms against the new definitions within this Standard.

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GASB Statement 92, *Omnibus 2020*

Summary

- Addresses practice issues tat have been identified during implementation and application of certain GASB Statements
  - Effective date of GASB 87 and Implementation Guide 2019-3 clarified as fiscal years beginning after December 15, 2019, and all reporting periods thereafter
  - Presentation of transfers of capital or financial assets under GASB 48 updated to be consistent with the provisions of GASB 67 and 74, as applicable
  - Modifies the requirements of Statements 73 and 74 to remove the liability recognition provisions
  - Provides exception to the use of acquisition value for AROs in a government acquisition
  - Clarifies that recoveries from reinsurers may, but are not required to be, reported as a reduction of expenses
  - The terms derivative and derivatives in National Council on Government Accounting and GASB pronouncements are replaced with derivative instrument and derivative instruments, respectively
- Effective upon issuance for requirements related to the effective date of GASB 87, reinsurance recoveries, and terminology used to refer to derivative instruments.
- Effective for periods beginning after June 15, 2020 for all other topics, with early adoption encouraged and permitted by topic.

GASB Statement 93, *Replacement of Interbank Offered Rates*

Summary

- Addresses accounting and financial reporting implications that result from the replacement of LIBOR
  - Provides exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
  - Clarifies the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
  - Clarifies that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
  - Removes LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
  - Identifies a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
  - Provides an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contractions that are amended solely to replace an IBOR as the rate upon which variable rates depend
- The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021.
- All other requirements are effective for periods beginning after June 15, 2021, with early adoption encouraged.

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GASB Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Summary

- Defines a PPP as an arrangement in which a government (the transferor)
  - contracts with an operator (a governmental or nongovernmental entity) to provide public services
  - by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time
  - in an exchange or exchange-like transaction.
- Transferor records the underlying PPP asset and/or a receivable for installment payments to be received from operator, with a related deferred inflow of resources.
- Defines an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.
  - In an APA with multiple components, each component shall be recognized as a separate arrangement.
- Effective for fiscal years beginning after June 15, 2022, with early adoption encouraged.

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GASB Statement 96, *Subscription-Based Information Technology Arrangements*

Summary

- Defines subscription-based information technology arrangements (SBITA) as a contract that conveys control of the right to use another party's IT software,
    - alone or with underlying tangible IT assets,
    - For a period of time (noncancelable period, plus options to extend),
    - In an exchange or exchange-like transaction.
- Government should recognize a right-to-use subscription asset and a corresponding subscription liability
    - Measured as the present value of expected subscription payments
    - Discounted using the rate the SBITA vendor charges, or the incremental borrowing rate
- Subscription asset to be amortized over the subscription term
- Activities associated with a SBITA, other than subscription payments, should be grouped into the following three stages and costs accounted for accordingly:
    - Preliminary project stage – expensed as incurred
    - Initial implementation stage – capitalized as an addition to the subscription asset
    - Operation and additional implementation stage – expensed as incurred, unless they meet specific capitalization criteria
- Effective for fiscal years beginning after June 15, 2022, with early adoption encouraged.

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GASB Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans*

Summary

- Clarifies, for purposes of determining whether a primary government is financially accountable for a potential component unit, if the primary government performs the duties that a governing board would typically perform, the absence of a governing board should be treated the same as the appointment of a voting majority
  - Exceptions for defined contribution pension and OPEB plans, or certain other employee benefit plans.
- Modifies the applicability of financial burden criteria to be limited to defined benefit pension and OPEB plans administered through trusts.
- Calls for Section 457 Plans to be classified as a pension plan if it meets the definition of a pension plan in paragraph 51 of Statement No. 67 or paragraph 128 of Statement No. 73 for accounting and financial reporting purposes.
  - Otherwise, classified as other employee benefit plan.
  - GASB 84 should be applied to determine whether a 457 Plan should be reported as a fiduciary activity in a government's fiduciary fund financial statements.
- Effective immediately for provisions related to component unit evaluation criteria.
- Effective for fiscal years beginning after June 15, 2021 for provisions related to Section 457 Plans.

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GASB projects

Project	Timing
Recognition (conceptual framework)	Final Concepts Statement expected 2022
Financial Reporting Model - Reexamination of Statements 34, 35, 37, 41 and 46, and Interpretation 6	Exposure draft issued June 2020
Compensated absences – reexamination of Statement 16	Exposure draft expected February 2021
Prior-period adjustments, accounting changes, and error corrections – a reexamination of Statement 62	Exposure draft expected March 2021
Disclosure framework (conceptual framework)	Final Concepts Statement expected Spring 2021
Revenue and expense recognition	Preliminary Views issued June 2020
Risks and Uncertainties Disclosures	Exposure draft expected January 2021

GASB major project – Financial Reporting Model

Summary

- GASB is revisiting its reporting model established in GASB 34 and 35, as well as other GASB standards, following the FASB project to revisit the reporting model of NFP entities.
- Although there is general consensus that most of the components of the financial reporting model are effective, the Board determined that there is a need to update guidance related to several categories, focusing on the following:
  - MD&A
  - Government-wide financial statements
  - Major funds
  - Governmental fund financial statements
  - Proprietary fund and business-type activity financial statements
  - Fiduciary fund financial statements
  - Budgetary comparisons
- Preliminary Views of (Preliminary Views was issued in September 2018):
  - Definition of non-operating activities includes i) subsidies received and provided, ii) revenues and expenses of financing, iii) resources from the disposal of capital assets and inventory and iv) investment income and expenses
  - A subtotal for "operating income/(loss) and noncapital subsidies"
  - Government-wide schedule of natural classification of expenses would be presented as supplementary information (BTA activities by segment)

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GASB major project – Financial Reporting Model, continued

Potential impact

- Proposed guidance could have sweeping effects on the reporting and disclosures by public entities.
- There could be an increase in comparability between the two types of entities that currently use very different reporting models.
- Three of the business type activities issues that the GASB is considering that are particularly relevant to public entities are:
    - Guidance on the operating indicator
    - MD&A
    - Extraordinary and special items
- Depending on the ultimate guidance, public entities may want to think about how the reporting of these expenses will be captured to be accurately reported in the financial statements.

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GASB major project – Revenue and Expense Recognition

Summary	Potential Impact

Summary

- Three primary areas of focus of the project are as follows:
  1. Common exchange transactions not specifically addressed in existing GASB guidance
     - ➢ Project plans to develop guidance or improve existing guidance regarding
     1. Exchange and exchange-like transactions having single elements
     2. Exchange and exchange-like transactions having multiple elements
     3. The differentiation between exchange-like and non-exchange transactions
  2. Post-implementation review of GASB 33 and 36
     - ➢ Areas to be considered include:
     1. Distinguishing between eligibility requirements and purpose restrictions
     2. Determining when a transaction is an exchange or a non-exchange transaction
     3. Using the availability period concept consistently across governments
     4. Applying time and contingency requirements
  3. Development of GASB conceptual framework
     - ➢ GASB 33 and 36 were developed prior to key parts of the conceptual framework, such as defining deferred inflows and outflows
     - ➢ An evaluation of the recognition of non-exchange transactions against the conceptual framework is necessary
- Currently in redeliberations, with Preliminary Views expected in June 2020.

Potential Impact

- As it relates to recognition of exchange and non-exchange transactions such as grants vs gifts vs contracts, there continues to be an element of judgment and interpretation of existing GASB and FASB guidance. This project could impact the current practices of higher education institutions as it relates to revenue recognition.

GASB pre-agenda research

Topics

- Going concern disclosures
- Capital assets
- Interim financial reporting
- Investment fees

GASB 87 Implementation Progress

Implementation will generally address the following key activities	Status		
	Not started	In progress	Complete
Understand the impact of the new standard on current accounting policies and the implications of the accounting changes on reporting and disclosure requirements		✓	
Establish an implementation team, identify necessary resources (internal and external) and develop internal resources		✓	
Analyze all contracts to identify leases, including reviewing service contracts to identify **embedded leases**		✓	
Assess and update accounting policies / positions and the processes and controls to support those policies		✓	
Determine and implement appropriate interim and/or ongoing technology solutions based on current organizational and information technology (IT) environment		✓	
Determine and formalize the appropriate accounting and transition approach for existing leases, including **practical expedients and transition method selected**		✓	
Document assumptions required for calculating lease values and formalize the process to calculate the impact of the change		✓	
Define processes for identifying future leases and develop a plan to periodically review the processes, controls, and systems implemented to properly account for leases under the new standard		✓	

Keys to successful implementation: Involve all stakeholders; Identify and commit appropriate resources; Focus on implementation now

GASB 87 disclosures after adoption

Qualitative disclosures

- General description of lease
- Basis and terms and conditions of variable lease payments, extension and termination options, and residual value guarantees
- Restrictions or covenants imposed by leases
- Significant assumptions and judgments made in identifying a lease, allocation of lease consideration, lease term, and discount rate
- Significant rights and obligations for leases not yet commenced

Quantitative disclosures

- Finance lease cost (separating amortization and interest cost)
- Operating lease cost
- Short-term lease cost
- Variable lease cost
- Separately for finance and operating leases: cash paid, weighted-average remaining lease term, weighted-average discount rate, supplemental noncash information about lease liabilities recognized from obtaining ROU assets, maturity analysis of undiscounted lease cash flows and a reconciliation of undiscounted cash flows to lease liabilities

Commitment to Promote Ethical and Professional Excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link can be accessed from our external website or through this link:
https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191

Disclaimer: EthicsPoint is not intended to act as a substitute for a company's "whistleblower" obligations.