Attachment 3

Explanation of GASB 68 & 75

Governmental Accounting Standards Board (GASB) Statements No. 68 and No 75 establish accounting and financial reporting standards and requirements related to pension liability and post-employment benefits (Other Post-Employment Benefits or OPEB), respectively, for state and local government employers. GASB 68 applies to the District's pension program while GASB 75 applies to all OPEB programs, which include retiree medical, survivor benefits, and life insurance. The standards represent a shift from the "funding based approach" to an "accounting based approach" and are intended to provide standardization and additional transparency for public agency pension and OPEB reporting. The standards call for public agencies to report their present obligation to pay future benefits. These future benefits are recognized in the financial statements but not paid. Therefore, the expenses reported in the District's financial statements, which follow Generally Accepted Accounting Principles (GAAP) and GASB guidelines, will be different than the amounts required to be paid to CalPERS annually to fund the pension plans and contributions to OPEB. The District's annual operating budget accounts for actual payment to CalPERS as an expense based on the amount of funds contributed to pensions during the year and the amounts contributed to OPEB per actuarial calculations. The expenses determined under GASB 68 and GASB 75 are not funded by the District, so the recognized expenses are backed out as non-expense allocations to reconcile with the District's annual operating budget.

The main changes to financial statements from adopting the GASB 68 and 75 are that employers now report the pension and OPEB liabilities on their balance sheet, and expenses are calculated in a different manner than the payments required to fund the contributions. Local governments now receive two actuarial reports for each pension plan and OPEB program, one for funding contributions and a second valuation for financial reporting.

Explanation of GASB 87

In June 2017, GASB issued Statement No. 87, Leases, and the objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. There is no longer an operating versus capital classification. Beginning July 1, 2021, the District is required to record the lease assets and obligations of the lease for personal property (e.g., vehicle, office equipment leases) and real property (e.g., building, land, real estate leases).

The main changes to financial statements from adopting the GASB 87 is that leases extended beyond 12 months will have financial impacts on both the lessee and lessor. The District now recognizes Intangible Right-to-Use Assets and Lease Liabilities for lessee leases and recognizes Deferred Inflow of Resource and Lease Receivables for lessor leases on the Statement of Net Position. Additionally, Lease Revenues/Expenses and Interest Revenues/Expenses on Statement of Revenues, Expenses and Change in Net Position are calculated/recorded based on the amortization schedule of each lease. Prior to GASB 87 adoption, Lease Revenues/Expenses are recognized when lease payments are received/made/accrued, and Interest Revenue/Expense are not recognized on the financials.

Explanation of GASB 96

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs), and the objective of this Statement is to establish uniform accounting and financial reporting requirements for SBITAs, improves the comparability of government's financial statements and enhances the understandability, reliability, relevance, and consistency of information about SBITAs. As defined in GASB Statement No. 96, paragraph 6, a SBITA is a contract that conveys control of the right to use another entity's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets as specified in the contract for a period of time in an exchange or exchange-like transaction. Beginning July 1, 2022, BART is required to recognize subscription assets and the corresponding obligations on its financial statements for SBITAs that meet the criteria.

The main changes to financial statements from adopting the GASB 96 is that contracts extended beyond 12 months subscription terms will have financial impacts on the Statement of Net Position. The District now recognizes Intangible Right-to-Use SBITA Assets and Subscription Liabilities at the commencement of the subscription term on the Statement of Net Position. Additionally, Amortization Expenses and Interest Expenses on Statement of Revenues, Expenses and Change in Net Position are recorded based on the amortization schedule of each subscription contract. Prior to GASB 96 adoption, the District only recognizes Software & Technology Support Expenses when subscription payments are made.

Explanation of GASB 94

In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs), and the objective of this statement is to clarify the definitions and financial reporting requirements for PPPs and APAs. As used in this Statement, a PPP is 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 for a period of time in an exchange or exchange-like transaction. As defined in this Statement, 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. GASB 94 is required to be implemented by BART beginning in fiscal year 2023.

Under PPP, BART is required to determine and recognize the net book value of capital assets (e.g., parking garage, housing, retail space, etc.) constructed by the operator/lessee under a lease arrangement if ownership to those assets will be transferred to the District at termination of the agreement. When the capital assets are placed in service, the District recognizes a PPP Receivable and a corresponding Deferred Inflow of Resources. PPP Revenue is recognized when the Deferred Inflow of Resources is amortized over the lease term. Prior to adoption of GASB 94, a gain or contributions revenue associated with the book value of the capital assets are recognized by the District at the end of the lease term.

APAs are considered a financing transaction. The District has no contract that meets APA criteria as of the GASB 94 implementation date.