

Maryland GFOA Winter Conference



GASB Update

January 25, 2019

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The views expressed in this presentation are those of Mr. Mead.
Official positions of the GASB are reached only after extensive due process and deliberations.

Presentation Overview

- Preliminary Views on the financial reporting model
- Pronouncements currently being implemented
- Other documents issued for public comment
- Projects currently being deliberated by the Board
- Pre-agenda research activities

Preliminary Views: ***Financial Reporting Model Improvements***

Financial Reporting Model Reexamination

What:

The Board has proposed improvements to the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6

Why:

A review of those standards found that they generally were effective, but that there were aspects that could be significantly improved

When:

A Preliminary Views was issued September 2018; comment deadline is February 15, 2019

Concerns with Existing Reporting of Governmental Funds

Lack of conceptual consistency in recognition of assets and liabilities

Lack of conceptual foundation from which to develop standards for complex transactions

Some consider it ineffective in conveying that the information is related to fiscal accountability (rather than operational accountability)

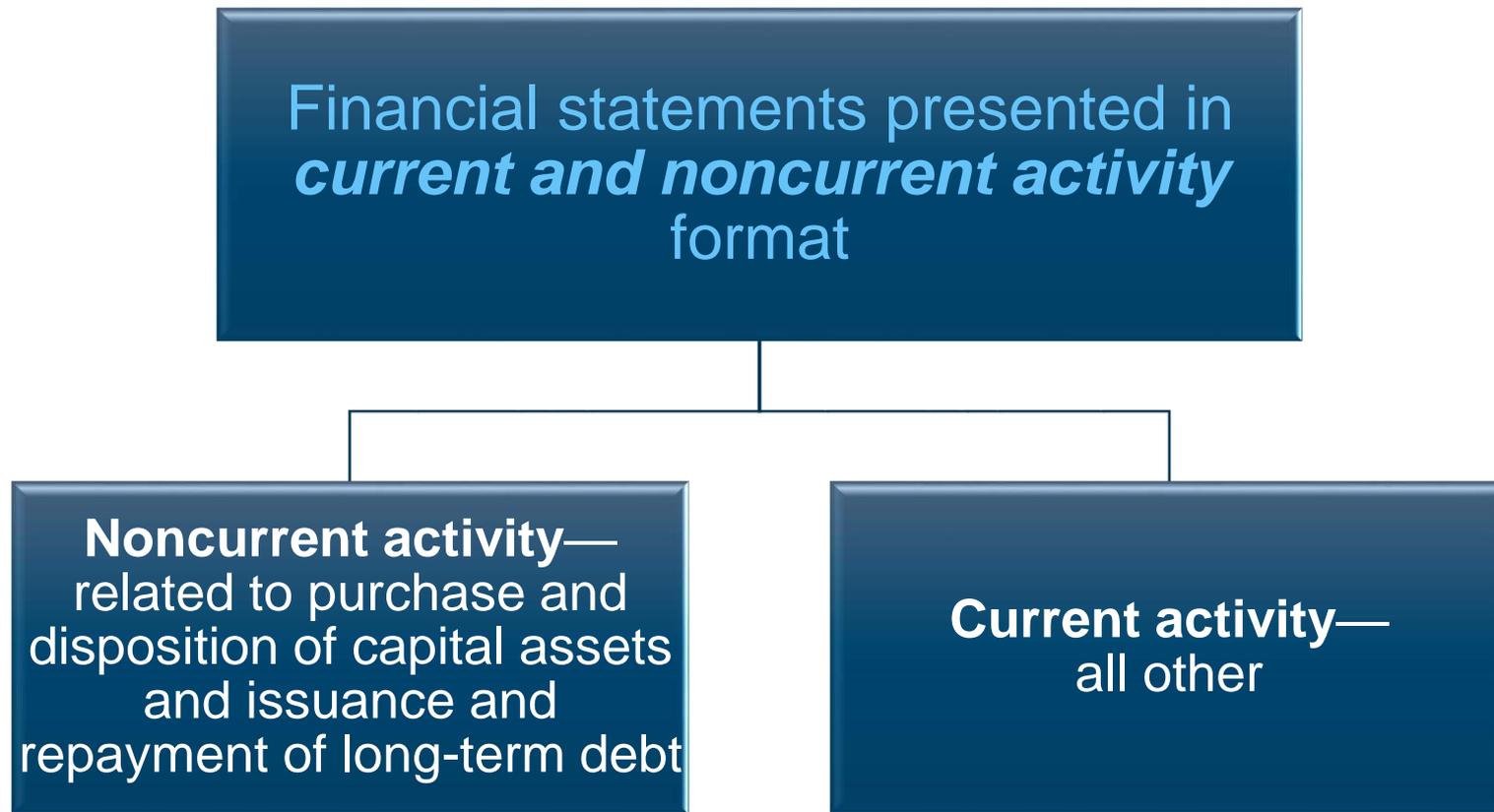
- Focuses on financial resources rather than on economic resources
- Shorter time perspective than information in government-wide financial statements

Lack of consistency in short-term perspective

Proposal: Recognition in Governmental Funds

| Short-Term Financial Resources Measurement Focus | |
|--|---|
| Items Arising from Short-Term Transactions and Events | Items Arising from Long-Term Transactions and Events |
| Those that normally are due to convert to or generate cash (or other financial assets) or require the use of cash (or other financial assets) entirely <i>within one year</i> from the inception of the transaction or other event | Those that normally are due to convert to or require the use of cash (or other financial assets) in periods that <i>extend beyond one year</i> from the inception of the transaction or other event |
| Recognized when the underlying transaction <i>occurs</i> | Recognized when the payments to be received or made become <i>due</i> |

Proposal: Presentation of Governmental Funds



Proposal: Presentation of Governmental Funds—New Terminology

These financial statements would present a short-term view of governmental fund activities and report items of a long-term nature differently from how they are reported in government-wide financial statements

| Short-Term Financial Resources Balance Sheet | Statement of Short-Term Financial Resource Flows |
|---|---|
| Short-term assets | Inflows of short-term financial resources for current activities |
| Deferred outflows of short-term financial resources | Outflows of short-term financial resources for current activities |
| Short-term liabilities | Net flows of short-term financial resources for noncurrent activities |
| Deferred inflows of short-term financial resources | |
| Short-term financial resources fund balances | |

Statement of Short-Term Financial Resource Flows

| | General Fund | Special Tax Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------|--------------------------|
| INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES | | | | |
| Taxes: | | | | |
| Property tax | \$ 20,322,167 | \$ 5,311,156 | \$ 2,015,047 | \$ 27,648,370 |
| Sales tax | 45,034,789 | - | 4,430,774 | 49,465,563 |
| Use tax | 3,586,753 | - | - | 3,586,753 |
| Motor fuel tax | - | - | 2,889,647 | 2,889,647 |
| Other taxes | 3,975,895 | - | 2,698,909 | 6,674,804 |
| Payments in lieu of taxes | 2,721,420 | - | - | 2,721,420 |
| Special assessments | - | - | 41,500 | 41,500 |
| Licenses and permits | 1,303,889 | - | - | 1,303,889 |
| Fees for services | 7,052,692 | - | 202,273 | 7,254,965 |
| Franchise fees | 1,968,522 | - | - | 1,968,522 |
| Fines and citations | 1,476,364 | - | - | 1,476,364 |
| Intergovernmental | 14,595,019 | - | 6,192,493 | 20,787,512 |
| Investment earnings | 5,829 | 11,384 | 119,043 | 136,256 |
| Transfers in | 500,000 | - | 155,204 | 655,204 |
| Miscellaneous | 4,216,940 | 654,482 | 771,287 | 5,642,709 |
| Total inflows of short-term financial resources for current activities | <u>106,760,279</u> | <u>5,977,022</u> | <u>19,516,177</u> | <u>132,253,478</u> |
| OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES | | | | |
| General government | 14,053,444 | 6,961,201 | 2,213,691 | 23,228,336 |
| Public health and safety | 70,880,913 | - | 590,383 | 71,471,296 |
| Highway and streets | 12,137,714 | - | 4,715,808 | 16,853,522 |
| Culture and recreation | 3,581,583 | 335,659 | 1,808,065 | 5,725,307 |
| Economic development | 496,141 | - | 3,374,045 | 3,870,186 |
| Transfers out | 155,204 | - | 500,000 | 655,204 |
| Total outflows of short-term financial resources for current activities | <u>101,304,999</u> | <u>7,296,860</u> | <u>13,201,992</u> | <u>121,803,851</u> |
| Net flows of short-term financial resources for current activities | <u>5,455,280</u> | <u>(1,319,838)</u> | <u>6,314,185</u> | <u>10,449,627</u> |
| NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES | | | | |
| Transfers in | - | - | 10,651,605 | 10,651,605 |
| Debt service | (2,434,544) | (366,412) | (9,198,505) | (11,999,461) |
| Capital outlay | (111,987) | (1,515) | (1,346,497) | (1,459,999) |
| Transfers out | (7,680,875) | (6,445) | (2,420,900) | (10,108,220) |
| Net flows of short-term financial resources for noncurrent activities | <u>(10,227,406)</u> | <u>(374,372)</u> | <u>(2,314,297)</u> | <u>(12,916,075)</u> |
| Net change in short-term financial resources fund balances | (4,772,126) | (1,694,210) | 3,999,888 | (2,466,448) |
| Short-term financial resources fund balances at beginning of year | 9,319,621 | 9,776,474 | 27,892,592 | 46,988,687 |
| Short-term financial resources fund balances at end of year | <u>\$ 4,547,495</u> | <u>\$ 8,082,264</u> | <u>\$ 31,892,480</u> | <u>\$ 44,522,239</u> |

Current and Noncurrent Activity Format

Proposals: Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

Operating

- Activities other than nonoperating activities

Nonoperating

- Subsidies received and provided
- Revenues and expenses of financing
- Resources from the disposal of capital assets and inventory
- Investment income and expenses

Proposals: Proprietary Funds (continued)

Add a new subtotal for *operating income (loss) and noncapital subsidies*

Subsidies are resources provided by another party or fund for the purpose of keeping the rates lower than otherwise would be necessary for the level of goods and services to be provided

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Operating revenues: | | |
| Tuition and fees (net of discounts) | \$ 574,168 | \$ 525,791 |
| Grants and contracts | 292,962 | 278,481 |
| Sales and services | 271,345 | 272,244 |
| Other operating revenues | 7,868 | 14,861 |
| Total operating revenues | <u>1,146,343</u> | <u>1,091,377</u> |
| Operating expenses: | | |
| [Natural or functional expenses] | | |
| Total operating expenses | <u>1,681,544</u> | <u>1,596,059</u> |
| Income (loss) generated by operations | <u>(535,201)</u> | <u>(504,682)</u> |
| Noncapital subsidies: | | |
| Appropriations | 407,702 | 394,767 |
| Taxes | 8,026 | 7,660 |
| Grants | 42,978 | 37,567 |
| Gifts | 99,395 | 90,063 |
| Total noncapital subsidies | <u>558,101</u> | <u>530,057</u> |
| Operating income (loss) and noncapital subsidies | <u>22,900</u> | <u>25,375</u> |
| Financing and investing activities: | | |
| Investment income | 235,820 | 138,649 |
| Interest expense | (12,412) | (12,853) |
| Loss from the disposition of capital assets | (2,385) | 518 |
| Total financing and investing activities | <u>221,023</u> | <u>126,314</u> |
| Income before other items | <u>243,923</u> | <u>151,689</u> |
| Other items: | | |
| Capital contributions | <u>23,231</u> | <u>74,830</u> |
| Increase (decrease) in net position | 267,154 | 226,519 |
| Net position—beginning | 3,061,111 | 2,834,592 |
| Net position—ending | <u>\$ 3,328,265</u> | <u>\$ 3,061,111</u> |

Proposal: Budgetary Comparisons

Would be presented as required supplementary information
(no option for basic statements)

Required variances would be final-budget-to-actual and
original-budget-to-final-budget

Other Proposals

Major component unit presentations

- If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements

Schedule of government-wide expenses by natural classification would be presented as supplementary information

- Governmental activities expenses by function or program
- Business-type activities expenses by different identifiable activity

Project Timeline

| | |
|-----------------------------------|---|
| Pre-Agenda Research Started | April 2013 |
| Added to Current Technical Agenda | September 2015 |
| Invitation to Comment Issued | December 2016 |
| Preliminary Views Issued | September 2018 |
| Comment Deadline | February 15, 2019 |
| Public Hearings | March 5, 2019 (Rosemont, IL) March 12, 2019 (Atlanta, GA) March 14, 2019 (Flushing, NY) |
| User Forums | March 6, 2019 (Rosemont, IL) March 14, 2019 (Flushing, NY) |

Pronouncements Currently Being Implemented

Effective Dates—June 30

2019

- Statement 83—certain asset retirement obligations
- Statement 88—certain debt disclosures
- Implementation Guide 2018-1

2020

- Statement 84—fiduciary activities
- Statement 90—majority equity interests

2021

- Statement 87—leases
- Statement 89—interest cost

Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Statement No. 88

Debt Disclosures

What:

The Board issued Statement 88 to improve existing standards for disclosure of debt

Why:

A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made

When:

Effective for periods beginning after June 15, 2018

Definition of Debt for Disclosure Purposes

“A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established”

- For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.

New Disclosure Requirements

Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures

New Disclosures about *All* Types of Debt

Amount of unused lines of credit

Assets pledged as collateral for debt

Terms specified in debt agreements related to significant:

- Events of default with finance-related consequences
- Termination events with finance-related consequences
- Subjective acceleration clauses

Fiduciary Activities

Statement No. 84

Fiduciary Activities

What:

The Board issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements

Why:

Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; BTAs are uncertain about how to report fiduciary activities

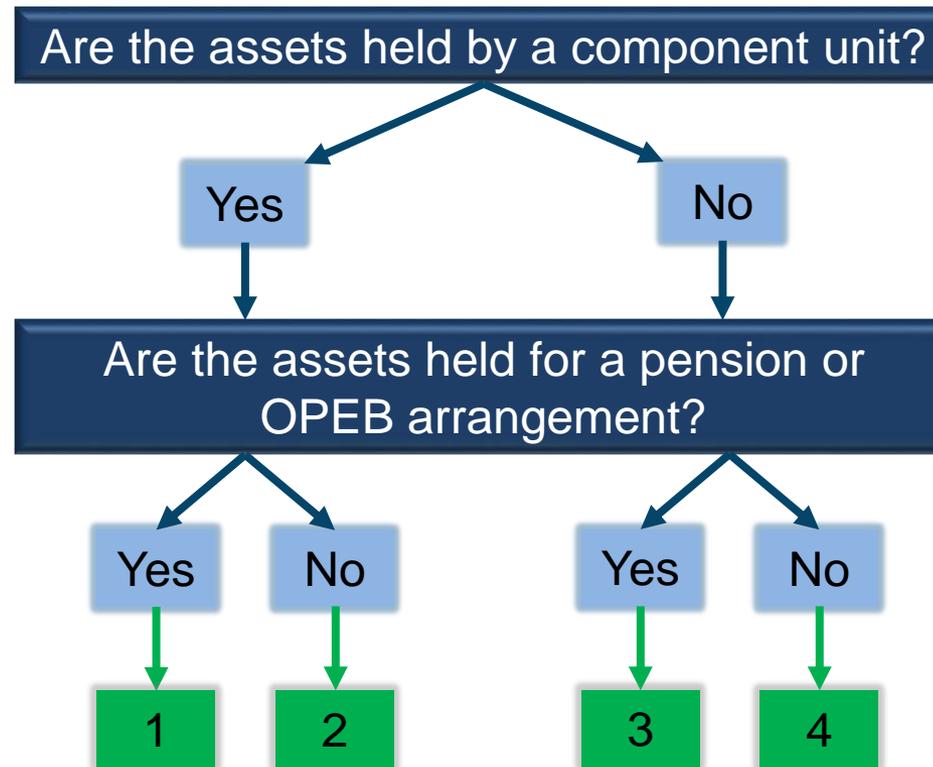
When:

Effective for fiscal years beginning after December 15, 2018

Earlier application is encouraged

When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if...

1

They are one of the following arrangements:

- St. 67
¶3** Pension plan administered through a trust that meets criteria
- St. 74
¶3** OPEB plan administered through a trust that meets criteria
- St. 73
¶116** Assets from entities not part of the reporting entity accumulated for pensions
- St. 74
¶59** Assets from entities not part of the reporting entity accumulated for OPEB

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



- 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



- 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

2

or

or

Postemployment Benefit Arrangements That Are Not Component Units Are Fiduciary if...

3

- Arrangement is one of those in **1** AND
- The government **controls** the assets of the arrangement
 - Control means one or both of the following is true:

- Government *holds* the assets

- Government has ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries

All Other Activities Are Fiduciary if...

4

- Arrangement meets one or more of the criteria in 2 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

Stand-Alone Business-Type Activities

A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.

Exception: Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

Proposed Implementation Guidance

What:

GASB has cleared for public comment an Exposure Draft of an Implementation Guide to Statement 84 on fiduciary activities

Why:

Guidance is needed by preparers and auditors for the implementation of Statement 84

When:

Comment deadline is February 28

Project Timeline

| | |
|------------------------|---------------------------|
| Deliberations Began | October 2018 |
| Exposure Draft Cleared | December 2018 (fiduciary) |
| Final Guide Expected | May 2019 (fiduciary) |

Accounting and Financial Reporting for Majority Equity Interests

Statement No. 90

Majority Equity Interests

What:

The Board issued Statement 90 to clarify whether a majority equity interest should be reported as an investment or as a component unit and to provide consistent measurement of elements of acquired organizations and 100% equity interests in component units

Why:

Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance

When:

Effective for periods beginning after December 15, 2018

Does the Majority Equity Interest Meet the Definition of an Investment?

| YES | NO |
|--|---|
| Report as an investment | Report as a component unit |
| <p>Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205–209</p> <p><i>Exception:</i> the following should apply fair value in accordance with Statement 72, paragraph 64:</p> <ul style="list-style-type: none"> • Special-purpose governments engaged only in fiduciary activities • Fiduciary funds • Endowments (including permanent and term endowments) and permanent funds | <p>Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205–209</p> |
| Applied prospectively only | |

100% Equity Interest That *Does Not* Meet the Definition of an Investment



These provisions would be applied prospectively only

Leases

Statement No. 87

Leases

What:

The Board issued Statement 87 to improve lease accounting and financial reporting

Why:

Existing standards in effect for decades without review in light of GASB's conceptual framework; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers

When:

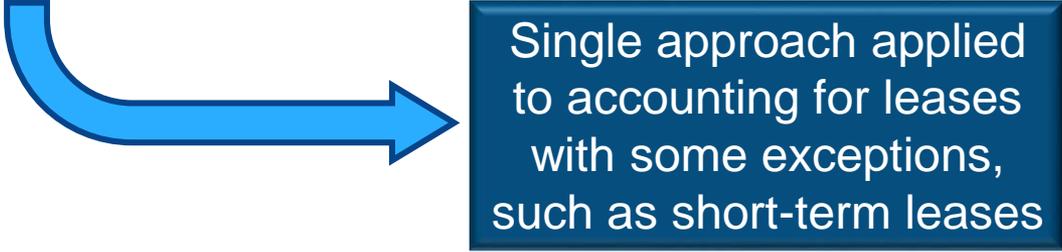
Effective for periods beginning after December 15, 2019

Scope and Approach

- Capital/operating distinction is eliminated
- Statement 87 applies to any contract that meets the definition of a lease:

“A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”

- Leases are financings of the right to use an underlying asset



Single approach applied to accounting for leases with some exceptions, such as short-term leases

Scope Exclusions



Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset



Biological assets (including timber, living plants, and living animals)



Inventory



Service concession arrangements (Statement 60)



Assets financed with outstanding conduit debt, unless both the asset and the debt are reported by the lessor



Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

Initial Reporting

| | Assets | Liability | Deferred Inflow |
|---------------|---|---|---|
| Lessee | Intangible lease asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use | Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.) | NA |
| Lessor | <ul style="list-style-type: none"> • Lease receivable (generally includes same items as lessee's liability) • Continue to report the leased asset | NA | Equal to lease receivable plus any cash received up front that relates to a future period |

Subsequent Reporting

| | Assets | Liability | Deferred Inflow |
|--------|---|---|---|
| Lessee | Amortize the intangible lease asset over shorter of useful life or lease term | Reduce by lease payments (less amount for interest expense) | NA |
| Lessor | <ul style="list-style-type: none"> • Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less amount needed to cover accrued interest) | NA | Recognize revenue over the lease term in a systematic and rational manner |

Short-Term Leases

| | |
|-------------------|---|
| Definition | At beginning of lease, <i>maximum possible term</i> under the contract is 12 months or less |
| Lessee accounting | <ul style="list-style-type: none">• Recognize expenses/expenditures based on the terms of the contract• Do not recognize assets or liabilities associated with the right to use the underlying asset |
| Lessor accounting | <ul style="list-style-type: none">• Recognize lease payments as revenue based on the payment provisions of the contract• Do not recognize receivables or deferred inflows |

Other Topics Covered by Statement 87

Disclosures

Lease term

Contracts with multiple components

Contract combinations

Lease modifications & terminations

Lease incentives

Subleases

Sale-leasebacks

Lease-leasebacks

Implementation Guide to Statement 87

What:

GASB is developing a freestanding implementation guide to Statement 87 on leases

Why:

GASB issues separate implementation guides for complex pronouncements to assist preparers and auditors to apply the standards

When:

And Exposure Draft is expected later in the first quarter of 2019

Accounting for Interest Cost Incurred before the End of a Construction Period

Statement No. 89

Interest Cost Incurred before the End of a Construction Period

What:

The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting

Why:

Accounting guidance has been based on FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of GASB's Concepts Statements

When:

Effective for periods beginning after December 15, 2019.

Earlier application is encouraged.

Recognizing Interest Cost

Financial statements prepared using the economic resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.

Financial statements prepared using the current financial resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.

Prospective application at transition

Implementation Guidance Update

2018-1

Implementation Guidance Updates

What:

GASB annually updates its Q&A implementation guidance

Why:

New guidance is added as new pronouncements are issued and new issues arise

When:

2018-1 is effective for periods beginning after June 15, 2018

Implementation Guide 2018-1

Adds new questions on standards regarding

- OPEB
- Pensions
- Regulated operations
- Statistical section
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Capital assets
- Cash flows reporting
- Investment disclosures
- Net position
- Pensions
- Statistical section
- Tax abatement disclosures

Other Documents Issued for Public Comment

Conduit Debt Obligations

In redeliberations

Conduit Debt

What:

In July 2018, the Board proposed improvements to the existing standards related to conduit debt obligations that would provide a single reporting method for government issuers

Why:

Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, the Board believes improvements are needed to eliminate diversity in practice

When:

Final Statement expected to be considered for issuance in May 2018

Proposal: Definition of Conduit Debt

1. There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or debt trustee.
2. The issuer and the third-party obligor are *not* within the same financial reporting entity.
3. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
4. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
5. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.
6. The issuer's commitment related to the debt service payments is limited.

Proposal: Limited and Additional Commitments Extended by Issuers

Generally, issuers' commitments are *limited* to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** of its own resources and agree to support debt service in the event of the third-party obligor's default.

For example:

- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a guarantee
- Pledging its own property, revenue, or other assets as security
- Requesting appropriations without a moral obligation pledge or appropriation pledge

Proposal: Recognition by the Issuer

Do *not* recognize a conduit debt obligation as a liability

May have a related liability arising out of an additional commitment

Report a liability only when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation

At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

Proposal: Arrangements and Capital Assets

Some conduit debt obligations include “arrangements” that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Payments from the third-party obligor are for debt service payments and are made to the debt holder or debt trustee.
- Payment schedule for the arrangement coincides with the debt service repayment schedule and sometimes is characterized as lease payments.
- Ownership (title) of the capital asset may pass to the third-party obligor at the end of the arrangement or remain with issuer.

Proposal: Arrangements and Capital Assets (continued)

Accounting by the issuer:

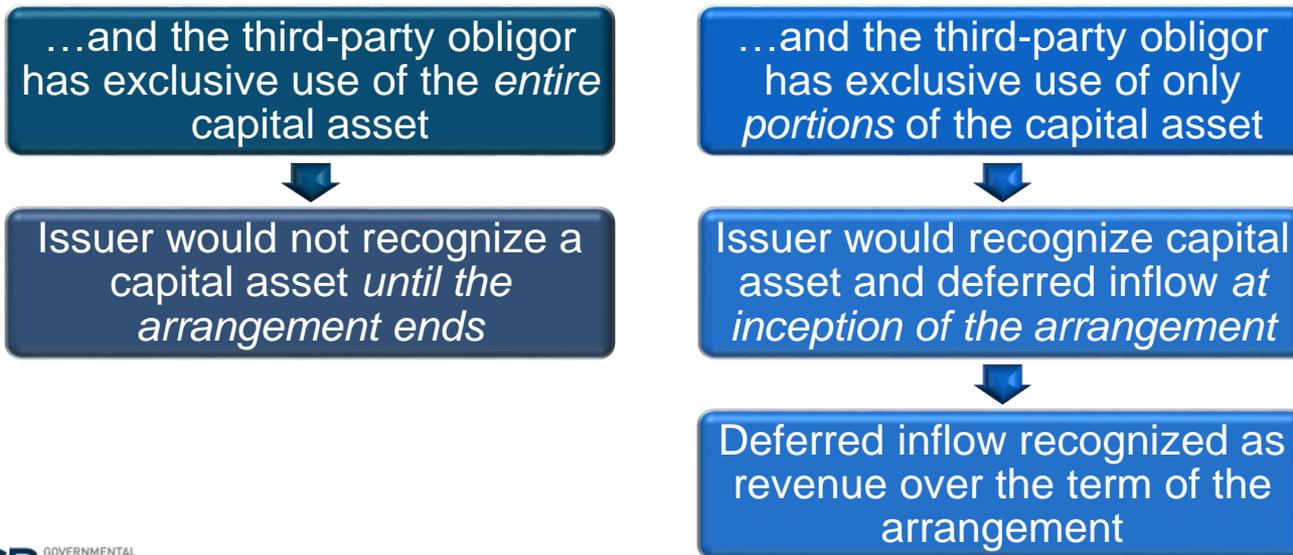
Do *not* report those arrangements as leases

Do not recognize a liability for the related conduit debt obligations

Do not recognize a receivable for the payments related to those arrangements

Proposal: Arrangements and Capital Assets (continued)

- If title passes to third-party obligor at the end of the arrangement, issuer would *not* report a capital asset either during the term of the arrangement or at the end of the arrangement.
- If title never passes to the third-party obligor:



Proposal: Arrangements and Capital Assets (continued)

| Does title pass to third-party obligor at end of arrangement? | Does the issuer recognize a capital asset? | Does the issuer recognize a deferred inflow of resources? |
|--|--|--|
| Yes | No | No |
| No, and third party has exclusive use of <i>entire</i> capital asset | Yes, when the arrangement ends | No |
| No, and third party has exclusive use of only <i>portions</i> of the capital asset | Yes, at the inception of the arrangement | Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement |

Proposal: Disclosures

A general description of the issuer's conduit debt obligations, organized by type of commitment

- Aggregate outstanding principal amount
- Each type of commitment extended by the issuer

If the issuer recognizes a related liability

- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts, if any, expected to be recovered for those payments

Proposal: Effective Date & Transition

- Would be effective for periods beginning after 12-15-20
 - That is, fiscal years ending 12-31-21 and later
 - For June 30 governments, 6-30-22 and later
- Earlier application encouraged
- Would be applied retroactively by restating financial statements, if practicable, to all prior periods presented

Project Timeline

| | |
|-----------------------------------|------------------|
| Added to Current Technical Agenda | August 2017 |
| Exposure Draft Approved | July 2018 |
| Comment Period Ended | November 2, 2018 |
| Final Statement Expected | May 2019 |

Preliminary Views: *Recognition of Elements of Financial Statements*

Recognition Concepts

What:

The Board has issued a Preliminary Views on concepts related to recognition of financial statement elements

Why:

Recognition concepts are one of the components needed to complete the conceptual framework

When:

A Preliminary Views was issued September 2018; comment deadline is February 15, 2019

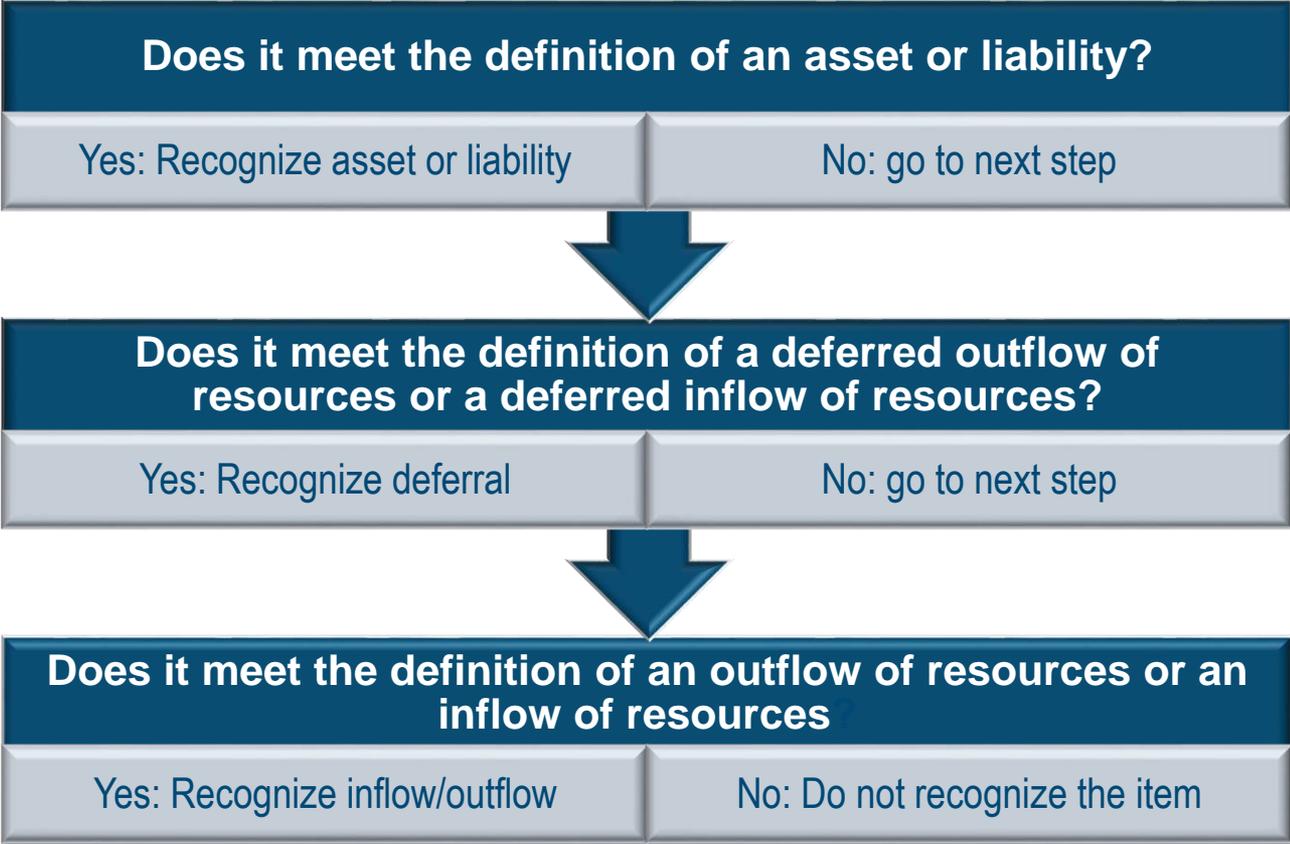
Recognition Concepts

The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

The related **basis of accounting** determines *when* those items should be reported.

Proposal: Recognition Hierarchy

Follow a specific order when evaluating an item for recognition:



Proposal: Recognition Framework

Two Measurement Focuses

Economic Resources

(applied in government-wide, proprietary fund, and fiduciary fund financial statements)

Short-Term Financial Resources

(would replace current financial resources in the governmental funds)

Proposal: Recognition Framework (continued)



Project Timeline

| | |
|--------------------------|---|
| Preliminary Views Issued | September 2018 |
| Comment Deadline | February 15, 2019 |
| Public Hearings | March 5, 2019 (Rosemont, IL) March 12, 2019 (Atlanta, GA) March 14, 2019 (Flushing, NY) |
| User Forums | March 6, 2019 (Rosemont, IL) March 14, 2019 (Flushing, NY) |

Implementation Guidance Proposals

Update and Fiduciary Activities

Implementation Guidance

What:

GASB has cleared Exposure Drafts of two Implementation Guides for public comment – the annual guidance update and a separate guide to Statement 84 on fiduciary activities

Why:

Guidance is needed by preparers and auditors for the implementation of Statement 84 and issues related to other standards

When:

Comment deadlines:

- Annual update, January 31
- Statement 84, February 28

Project Timelines

| | |
|-------------------------|---|
| Deliberations Began | October 2018 |
| Exposure Drafts Cleared | November 2018 (update) December 2018 (fiduciary) |
| Final Guides Expected | April 2019 (update) May 2019 (fiduciary) |

Other Pronouncements Being Implemented

Certain Asset Retirement Obligations

Statement No. 83

Certain Asset Retirement Obligations

What:

The Board issued Statement 83 to establish accounting and financial reporting standards for legal obligations to retire certain capital assets, such as decommissioning nuclear power plants and removing sewage treatment plants

Why:

Statement 18 addressed only municipal landfills but governments have retirement obligations for other types of capital assets; diversity exists in practice

When:

Effective for fiscal years beginning after June 15, 2018

Earlier application is encouraged

Definitions and Scope

Asset retirement obligation

Legally enforceable liability associated with the retirement of a tangible capital asset

Retirement of a tangible capital asset

The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)

Examples

- Nuclear power plant decommissioning
- Coal ash pond closure
- Contractually required land restoration, such as removal of wind turbines
- Other similar obligations

Recognition & Measurement

| | | |
|-------------------------------|--|---|
| Initial Recognition | <p>ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events.</p> <p>Measured based on the best estimate of the current value of outlays expected to be incurred.</p> | Deferred outflow of resources—same amount as the ARO liability |
| Subsequent Recognition | <ul style="list-style-type: none">• At least annually, adjust for general inflation or deflation• At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant | An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned. |

Measurement Exception for a Minority Owner of a Jointly Owned Capital Asset

Minority share (less than 50 percent) of ownership interest in an undivided interest arrangement is one of the following:

- A nongovernmental entity is the majority owner
- No majority owner, but a nongovernmental owner has the operational responsibility

Initial and Subsequent Measurement Exception

- The governmental minority owner should report its minority share of ARO using the measurement produced by the nongovernmental joint owner

The measurement date of such an ARO should be no more than one year and one day prior to the government's financial reporting date

Specific disclosure requirements in this circumstance

Effects of Funding and Assurance

If legally required to provide funding and assurance, disclose that fact

Do not offset ARO with assets restricted for payment of the ARO

Costs to comply with funding and assurance provisions are period costs separate from the ARO expense

Disclosures



General description of ARO and associated tangible capital assets, including source of AROs (such as federal laws or regulations, contracts, court judgments)

Methods and assumptions used to measure ARO liabilities

Estimated remaining useful life of tangible capital assets

How financial assurance requirements, if any, are being met

Amount of assets restricted for payment of ARO liabilities, if not separately displayed in financial statements

If a government has an ARO (or portions of an ARO) that is incurred but not yet recognized because it cannot be reasonably estimated, that fact and the reasons therefor

Current Technical Agenda Projects

Conceptual Framework— Disclosure Framework

Disclosure Framework

What:

The Board has added a conceptual framework project to further develop the concepts that guide standards-setting decisions regarding the information that should be disclosed in notes

Why:

The GASB reexamined existing note disclosure requirements and concluded that it was necessary to elaborate on the concept of “essential” as it relates to notes

When:

Deliberations will begin in October 2018

Concepts Related to Disclosures

Concepts Statements guide the Board's decisions when setting accounting and financial reporting standards

Concepts Statement 3 establishes criteria for what communication method should be used to report information – financial statements, notes to financial statements, required supplementary information, and supplementary information

Notes to financial statements are integral to financial statements and are **essential** to a user's understanding of financial position or inflows and outflows of resources.

Potential Topics to Consider



Purpose of note disclosures, including user needs related to note disclosures

Characteristics of essentiality

Limitations of note disclosures

Presentation and format of note disclosures, including consideration of the location of the information within the note disclosure section

Consideration of note disclosures individually and as a whole

Project Timeline

| | |
|-----------------------------------|--------------|
| Pre-Agenda Research Started | April 2016 |
| Added to Current Technical Agenda | August 2018 |
| Deliberations Began | October 2018 |

Deferred Compensation Plans: Reexamination of Statement 32

Deferred Compensation Plans

What:

The GASB has added a project to consider improvements to Statement 32 on IRC Section 457 plans

Why:

Statement 32 became effective in 1999 and the relevant portions of the IRC have changed significantly since then

When:

Deliberations are schedule to begin in April 2019

Key Issue to Be Considered

What standards should be applied to Section 457 plans that meet the definition of a pension plan – Statement 32, as amended, or the pension standards (Statements 67, 68, and 73, as amended)?

Project Timeline

| | |
|-----------------------------------|---------------|
| Added to Current Technical Agenda | December 2018 |
| Exposure Draft Expected | June 2019 |

Omnibus

Omnibus Project

What:

The Board added an Omnibus project in December 2018

Why:

Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

When:

An Exposure Draft is expected to be considered in June 2019

Topics to Be Considered

Effective Date of Statement 87: Should the effective date of Statement 87 be changed from *reporting periods* beginning after December 15, 2019, to *fiscal years* beginning after that date?

Definition of Collections: Should the definition in Statement 34 of “collections” be amended to reflect the updates introduced by the American Alliance of Museums?

Intra-Entity Transfers of Assets: Should the guidance in Statement 48 be clarified to address how the transfer of assets reported by the primary government at historical cost be reflected in the financial statements?

Certain Effects of Statement 84: Should the term “control” introduced by the Statement be replaced in instances when the guidance could be applied to the assessment of certain potential fiduciary component units associated with pensions and OPEB?

Topics to Be Considered (continued)

Available to Be Issued: Should the concept of a financial report being “available to be issued” be introduced in determining subsequent events?

Exceptions to Acquisition Value: Should Statement 69 be amended to exclude the use of acquisition value for measuring asset retirement obligations?

Technical Correction to Statement 72: Should Statement 72 be amended to correct a misidentified paragraph reference to Statement 62, as amended?

Reinsurance Recoveries: Should inconsistencies in how the insurance accounting standards refer to a netting provision for recoveries from reinsurers and excess insurers be resolved?

Project Timeline

| | |
|-----------------------------------|---------------|
| Added to Current Technical Agenda | December 2018 |
| Deliberations Began | January 2019 |
| Exposure Draft Expected | June 2019 |

Public-Private Partnerships, including Reexamination of Statement 60

Public-Private Partnerships

What:

The Board is considering (1) establishing standards for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87 and (2) making improvements to Statement 60

Why:

GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60's guidance for service concession arrangements (SCAs)

When:

Deliberations began in May 2018

Tentative Decisions

For Statement 60 on SCAs, the project will look at providing or improving guidance on:

The definition of SCAs

Assessing the term of SCAs

Initial measurement,
including variable payments,
the discount rate, and
amortization of the discount

Remeasurement

Asset classification and
application of impairment
guidance

Payments for construction
and other revenue
recognition

Disclosures

Public-public partnerships

Other Topics to Be Considered



Should Statement 60 be amended to address differences with Statement 87?

What is the definition of a public-private partnership?

Should recognition and measurement guidance for P3s be based on Statement 60, Statement 87, or some other model?

What disclosures should be required for P3s, if any?

Project Timeline

| | |
|-----------------------------------|------------|
| Pre-Agenda Research Approved | April 2017 |
| Added to Current Technical Agenda | April 2018 |
| Exposure Draft Expected | June 2019 |

Revenue and Expense Recognition

Revenue and Expense Recognition

What:

The Board is redeliberating stakeholder input on an Invitation to Comment as part of developing a comprehensive model for recognition of revenues and expenses

Why:

Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When:

Redeliberations began in June 2018

Project Scope

The project scope broadly encompasses revenue and expense recognition but *excludes* the following:

| Topics with guidance developed considering the current conceptual framework | Topics related to financial instruments | Topics related to transactions arising from recognition of capital assets or certain liabilities |
|---|--|--|
| For example, pensions and other post-employment benefits | For example, investments, derivatives, leases, and insurance | For example, depreciation, asset retirement obligations, and pollution remediation obligations |

Revenue and Expense Recognition Models

There are three components of a revenue and expense recognition model

Classification is the process of identifying the *type* of transaction (for example, is the transaction exchange or nonexchange?)

Recognition is the process of determining *what* element should be reported and *when* (for example, recognize revenue when earned)

Measurement is the process of determining the *amount* to report for the element (not addressed in the Invitation to Comment)

Exchange/Nonexchange Model

Classification

Is the transaction an exchange?

Recognition

YES

Earnings recognition approach:

- Government controls a resource, or incurs an obligation to sacrifice a resource,
and
- The change in net assets is not applicable to a future period

NO

Provisions of Statement 33:

- Derived tax revenue
- Imposed nonexchange revenue
- Government-mandated nonexchange transaction
- Voluntary nonexchange transaction

Measurement

Measurement was not addressed in the Invitation to Comment but is expected to be addressed in a later due process document.

Performance Obligation Definition

A performance obligation is a promise in a *binding arrangement* between a government and *another party* to provide *distinct goods or services* to a *specific beneficiary*.

A binding arrangement is a legally enforceable mutual understanding between a government and another party.

Another party can be a customer, a vendor, a resource provider, an employee, and so on.

Distinct goods or services are separately identifiable and can provide benefits on their own.

A specific beneficiary would be identifiable and distinguished from the general public.

Performance Obligation/ No Performance Obligation Model

Classification

Does the transaction contain a performance obligation?

Recognition

YES

Performance recognition approach:

- Determine consideration
- Allocate consideration to performance obligation(s)
- Recognize revenue or expense as each performance obligation is satisfied (at a point in time or over time) and the transaction is applicable to the reporting period(s)

NO

Provisions of Statement 33:

- Derived tax revenue
- Imposed nonexchange revenue
- Government-mandated nonexchange transaction
- Voluntary nonexchange transaction

Measurement

Measurement is not addressed in the Invitation to Comment but is expected to be addressed in a later due process document.

Project Timeline

| | |
|-----------------------------------|------------------|
| Pre-Agenda Research Started | September 2015 |
| Added to Current Technical Agenda | April 2016 |
| Invitation to Comment Cleared | January 23, 2018 |
| Redeliberations Began | June 2018 |
| Preliminary Views Expected | May 2020 |

Secured Overnight Financing Rate – London Interbank Offered Rate Replacement

SOFR – LIBOR Replacement

What:

The Board added a project to consider amending existing standards that reference LIBOR

Why:

LIBOR – which is included as a reference rate in billions of dollars of financial instruments, including derivatives – effectively sunsets in 2021

When:

Deliberations will begin in April 2019

Topics to Be Considered

How should the replacement of LIBOR be addressed: (1) by replacing existing citations of LIBOR with SOFR or other new reference rates or (2) by describing the characteristics of an acceptable reference rate?

If the latter, what are the characteristics of an acceptable reference rate?

Do the circumstances related to the revision or replacement of derivative instruments in response to the end of LIBOR merit an exception to the hedge accounting termination provision of Statement 53, similar to exception in Statement 64?

Project Timeline

| | |
|-----------------------------------|---------------|
| Added to Current Technical Agenda | December 2018 |
| Exposure Draft Expected | August 2019 |

Subscription-Based Information Technology Arrangements

Subscription-Based IT Arrangements

What:

The Board is considering establishing standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts

Why:

Stakeholders are concerned that these transactions may not be covered by the guidance in Statements 51 or 87; diversity exists in practice

When:

Deliberations began in August 2018

Topics to Be Considered

How should SBITAs be defined for accounting and financial reporting purposes?

Does a SBITA result in an asset and a liability or an expense?

How should governments account for multiple components, including implementation costs, in SBITAs?

Project Timeline

| | |
|-----------------------------------|-------------|
| Pre-Agenda Research Approved | April 2017 |
| Added to Current Technical Agenda | April 2018 |
| Deliberations Began | August 2018 |
| Exposure Draft Expected | May 2019 |

Questions?

Visit www.gasb.org

Pre-Agenda Research Activities

Compensated Absences: Reexamination of Statement 16

Compensated Absences

What:

The GASB is evaluating the effectiveness of Statement 16 and consider whether additional guidance needs to be developed

Why:

The GASB routinely reviews whether existing standards are meeting their intended objectives; Statement 16 became effective in 1994

When:

The Board added the pre-agenda research in August 2018

Topics to Be Considered

What method(s) do governments use to calculate the liability for compensated absences: the termination payment method or the vesting method (as described in paragraph 8 of Statement 16)?

Should there continue to be a choice regarding how to calculate the liability? Should one method be eliminated?

Going Concern Disclosures: Reexamination of Statement 56

Going Concern Disclosures

What:

The GASB is reviewing existing standards related to going concern considerations, which were incorporated into GASB literature mostly as-is from the AICPA literature in Statement 56

Why:

As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; AICPA and others have asked the GASB to examine the issue

When:

The Board added the pre-agenda research in April 2015

Topics to Be Considered

Are the current going concern indicators presented in note disclosures appropriate for state and local governments, in light of the fact that, even under severe financial stress, few governments cease to operate even when encountering such indicators?

What other criteria might better achieve the objective of disclosing severe financial stress uncertainties with respect to governments?

What information do financial statement users need with respect to the disclosure of severe financial stress uncertainties?

Prior-Period Adjustments, Accounting Changes, and Error Corrections: Reexamination of Statement 62

Reexamination of Statement 62

What:

The GASB is reviewing existing standards related to prior-period adjustments, accounting changes, and error corrections, which are based on several sources of accounting standards, some of which have been superseded

Why:

Much of the relevant guidance has been in effect without review by the GASB for decades

When:

The Board added the pre-agenda research in August 2018

Topics to Be Considered

How prevalent are prior-period adjustments, accounting changes, and error corrections in state and local government financial statements?

What is the nature of those that are being reported? How large are the amounts involved?

Are users aware of their reporting? Do users understand what they mean?

Is the reported information valuable to users for making decisions and assessing accountability? How is it used?

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Leases

In June 2017, the GASB established new guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The approach is based on the principle that leases are financings of the right to use an underlying asset.

[MORE](#)

Website Resources

- Free download of Statements, Implementation Guides, Concepts Statements and other pronouncements
- Free access to the basic view of Governmental Accounting Research System (GARS)
- Free copies of proposals
- Up-to-date information on current projects
- Articles and Fact Sheets about proposed and final pronouncements
- Form for submitting technical questions
- Educational materials, including podcasts

Plain-Language Materials

- The GASB is committed to communicating in plain language with constituents about its standards and standards-setting activities.
- Revised version of “Why Governmental Accounting Is—and Should Be—Different” (October 2017)
- Fact Sheets are prepared for complex projects to answer commonly raised questions