

# 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***

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# 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)

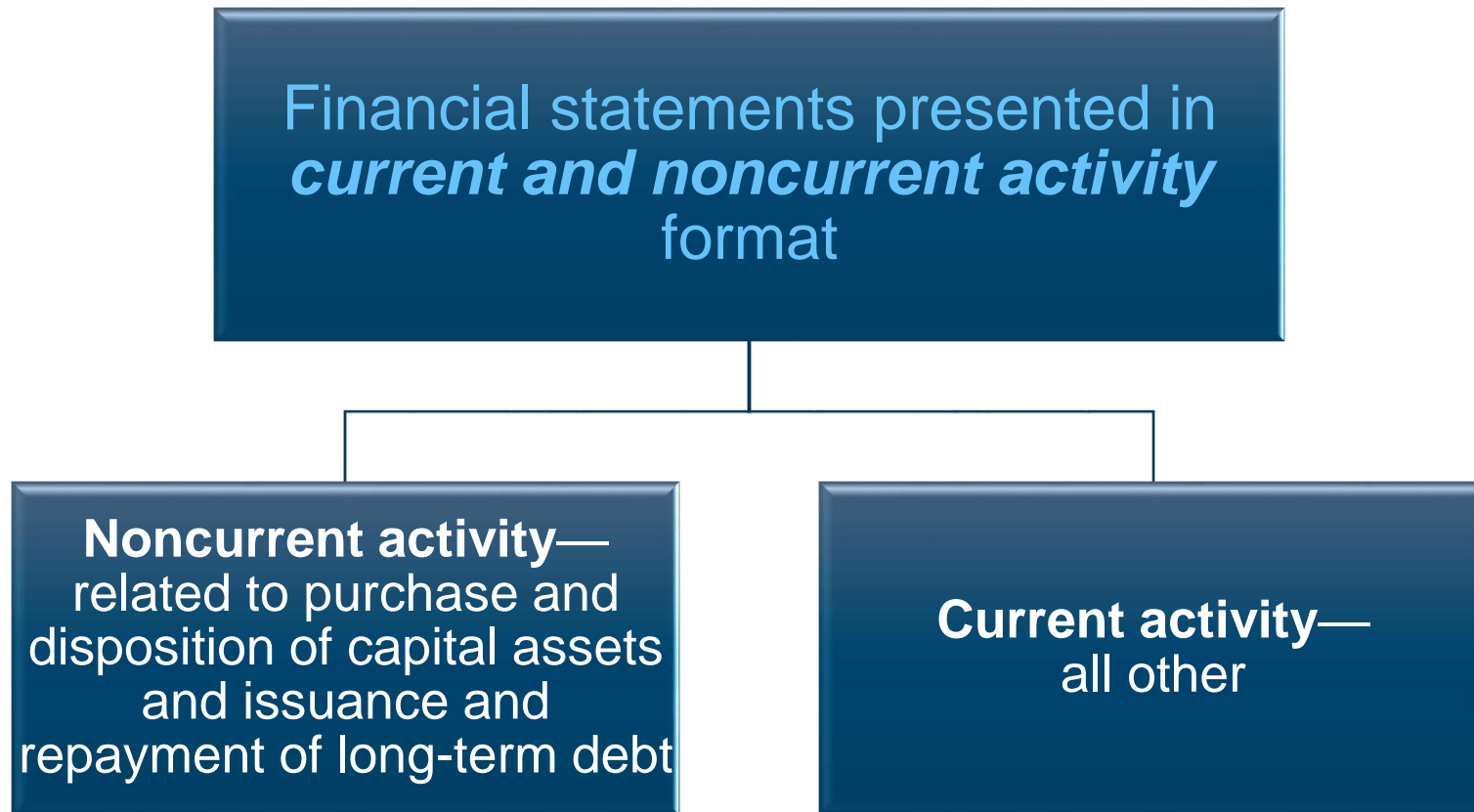
- Focuses on financial resources rather than on economic resources
- Shorter time perspective than information in government-wide financial statements

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**

<b>Short-Term Financial Resources Balance Sheet</b>	<b>Statement of Short-Term Financial Resource Flows</b>
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
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
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	106,760,279	5,977,022	19,516,177	132,253,478
<b>OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
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	101,304,999	7,296,860	13,201,992	121,803,851
Net flows of short-term financial resources for current activities	5,455,280	(1,319,838)	6,314,185	10,449,627
<b>NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES</b>				
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	(10,227,406)	(374,372)	(2,314,297)	(12,916,075)
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	\$ 4,547,495	\$ 8,082,264	\$ 31,892,480	\$ 44,522,239

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

	2016	2015
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

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# 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

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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

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## 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

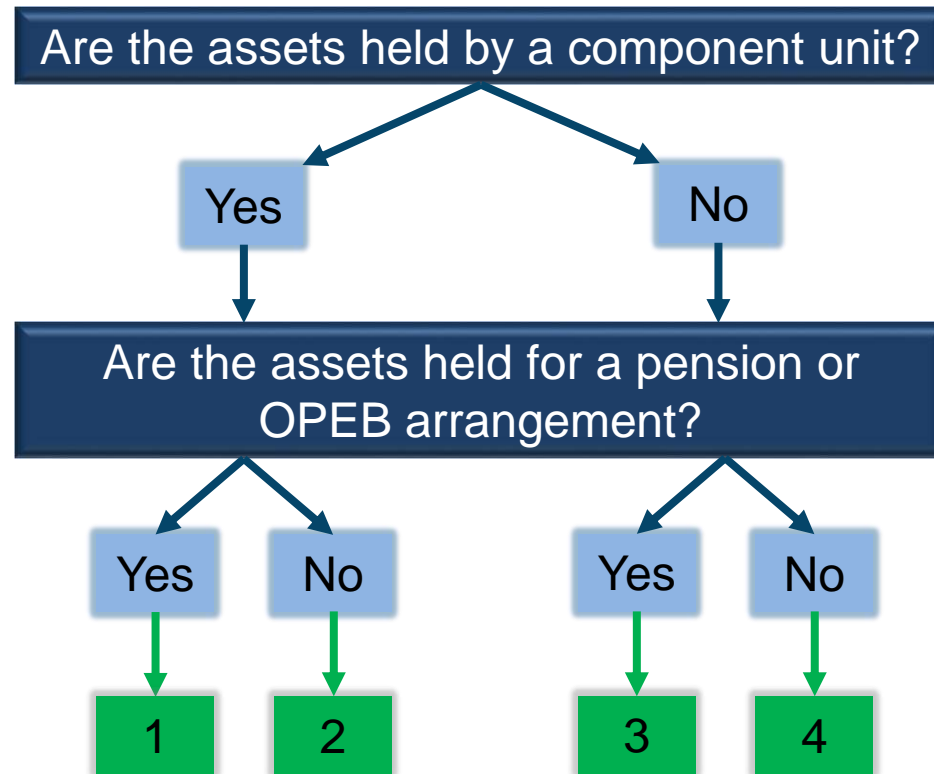
## When:

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...

They are one of the following arrangements:

1

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:

2



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

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

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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**

Report as an investment

Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205–209

*Exception:* the following should apply fair value in accordance with Statement 72, paragraph 64:

- Special-purpose governments engaged only in fiduciary activities
- Fiduciary funds
- Endowments (including permanent and term endowments) and permanent funds

Applied prospectively only

**NO**

Report as a component unit

Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205–209

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



These provisions would be applied prospectively only

# Leases

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## 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
<b>Lessee</b>	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
<b>Lessor</b>	<ul style="list-style-type: none"> <li>• Lease receivable (generally includes same items as lessee's liability)</li> <li>• Continue to report the leased asset</li> </ul>	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"> <li>• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)</li> <li>• Reduce receivable by lease payments (less amount needed to cover accrued interest)</li> </ul>	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"><li>• Recognize expenses/expenditures based on the terms of the contract</li><li>• Do not recognize assets or liabilities associated with the right to use the underlying asset</li></ul>
Lessor accounting	<ul style="list-style-type: none"><li>• Recognize lease payments as revenue based on the payment provisions of the contract</li><li>• Do not recognize receivables or deferred inflows</li></ul>

# 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

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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

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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

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# Conduit Debt Obligations

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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:

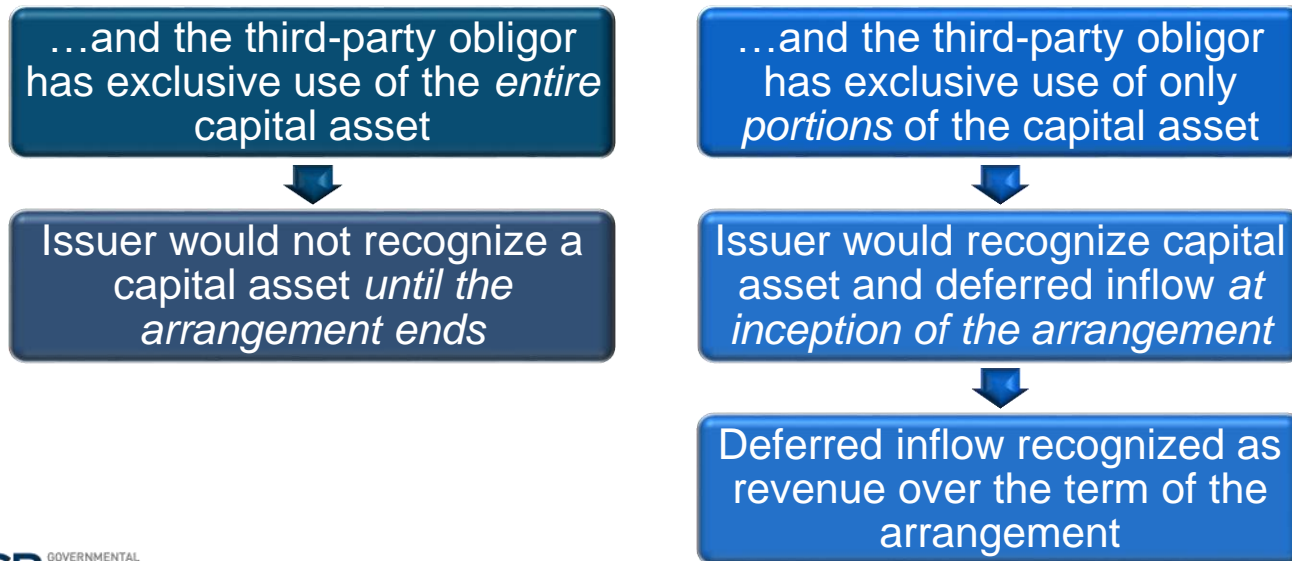
Do *not* report those arrangements as leases

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*

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# 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

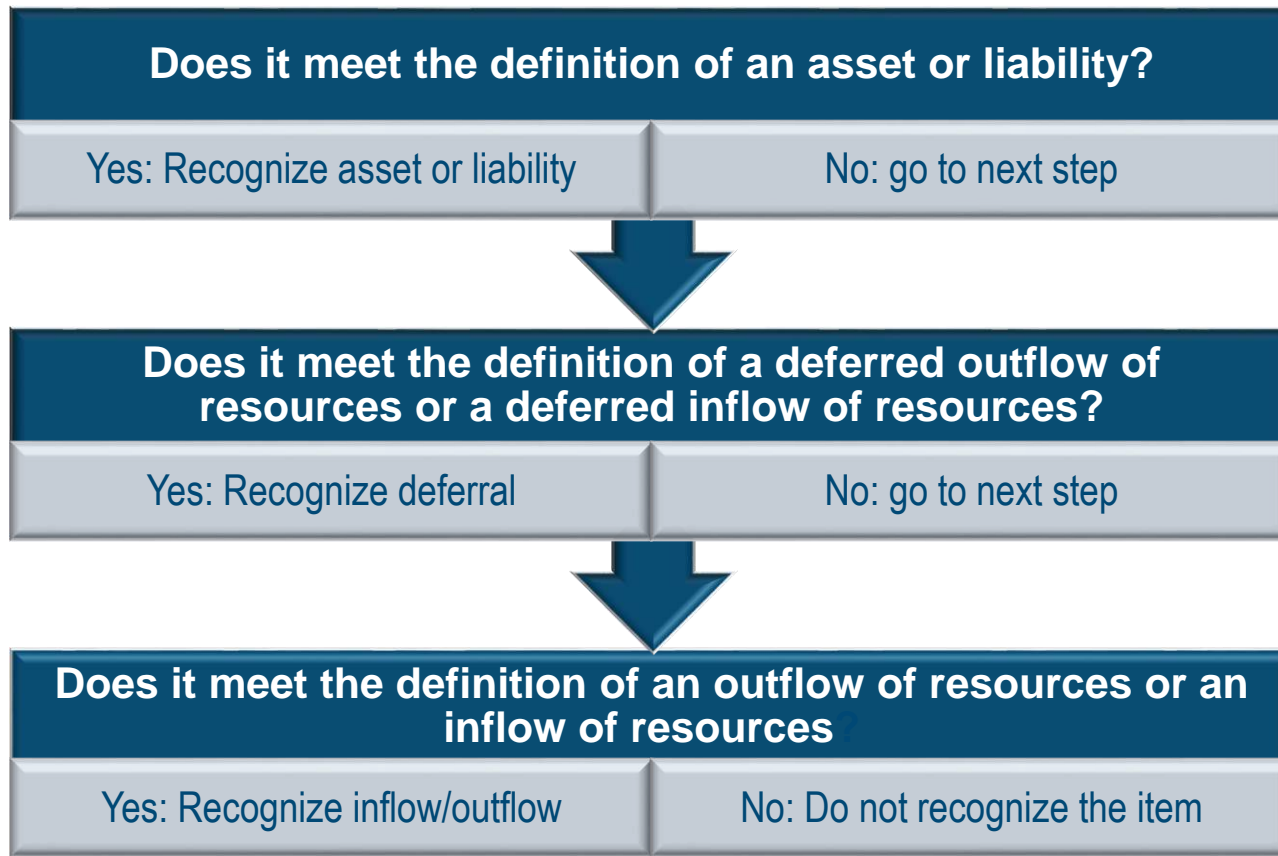
# Recognition Concepts

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

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## 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

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# Certain Asset Retirement Obligations

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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"><li>• At least annually, adjust for general inflation or deflation</li><li>• At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant</li></ul>	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

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# Conceptual Framework— Disclosure Framework

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# 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

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# 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 scheduled 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

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# 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

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# 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

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# 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*.



# 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

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# 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

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# 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?

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# Pre-Agenda Research Activities

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# Compensated Absences: Reexamination of Statement 16

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# 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

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# 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

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# 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

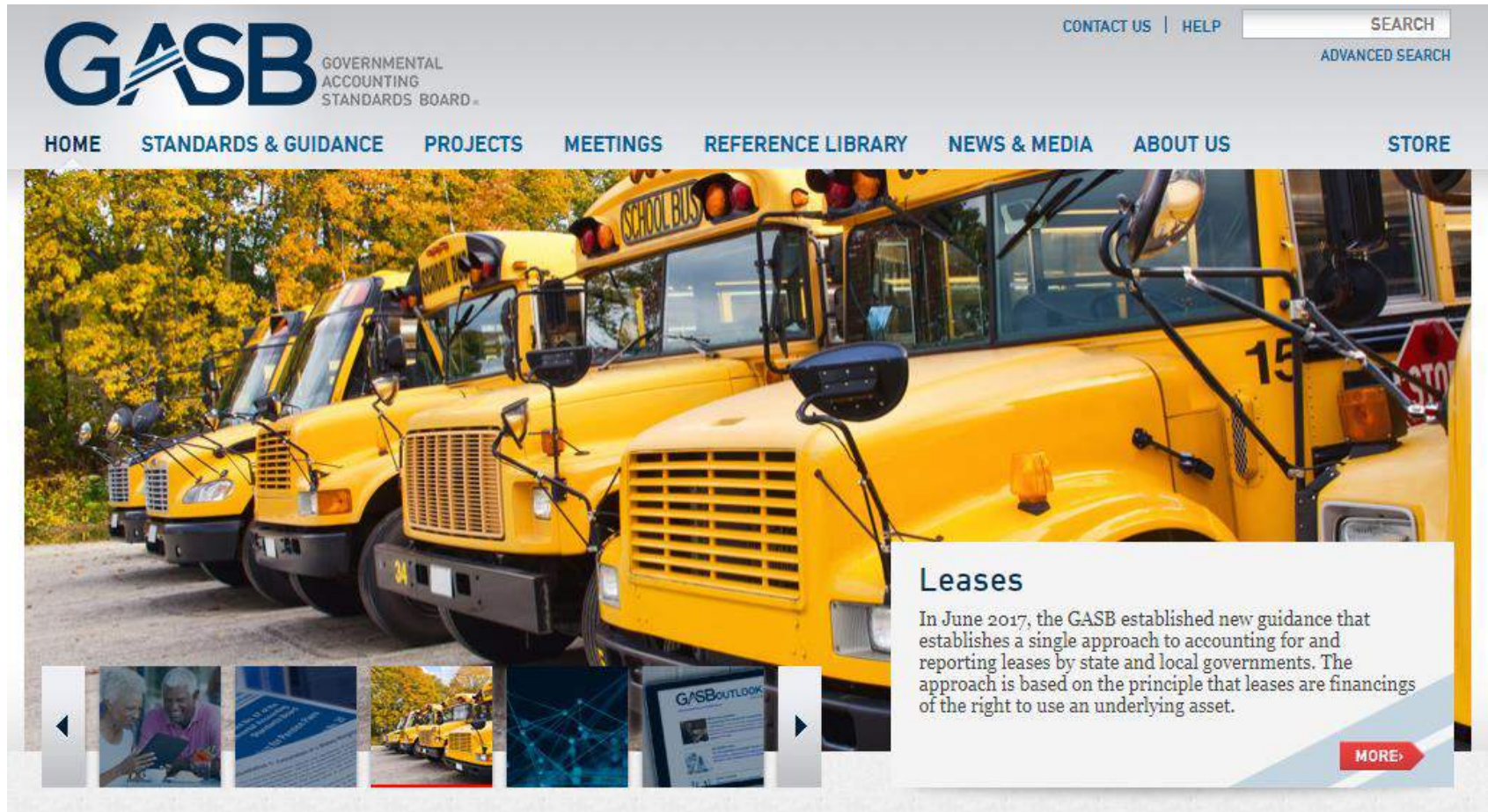
How prevalent are prior-period adjustments, accounting changes, and error corrections in state and local government financial statements?

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](#)

The banner image shows a line of yellow school buses parked outdoors. Below the banner is a row of six small thumbnail images: an elderly couple, a document, a school bus, a network diagram, a GASB Outlook magazine, and a navigation arrow.

# Website Resources



# 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