

GASB Update

North Carolina State Treasurer's Conference

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

FAF FINANCIAL ACCOUNTING FOUNDATION **FASB** FINANCIAL ACCOUNTING STANDARDS BOARD **GASB** GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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Effective Dates—June 30

2019

- Statement 83—Certain Asset Retirement Obligations
- Statement 88—Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Implementation Guide 2018-1

2020

- Statement 84—Fiduciary Activities
- Statement 90—Majority Equity Interests
- Implementation Guide 2019-1

2021

- Statement 87—Leases
- Statement 89—Interest Cost Incurred before the End of a Construction Period

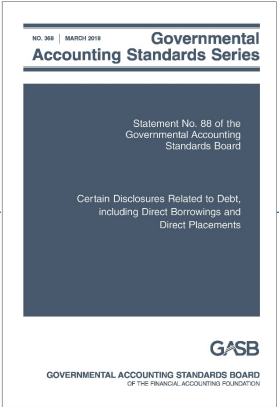
2022

- Statement 91—Conduit Debt

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Debt Disclosures



The image shows the cover of a document titled "Statement No. 88 of the Governmental Accounting Standards Board". The cover is white with a dark blue header and footer. The header contains the text "NO. 88 | MARCH 2018" and "Governmental Accounting Standards Series". The main body of the cover is dark blue with white text that reads "Statement No. 88 of the Governmental Accounting Standards Board" and "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements". The GASB logo is at the bottom right of the cover.

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Debt Disclosures

What:	Why:	When:
The Board issued Statement 88 to improve existing standards for disclosure of debt	A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made	Effective for periods beginning after June 15, 2018

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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.

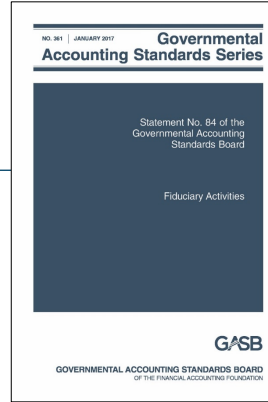
New Disclosure Requirements

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:
		<ul style="list-style-type: none"> Events of default with finance-related consequences Termination events with finance-related consequences Subjective acceleration clauses

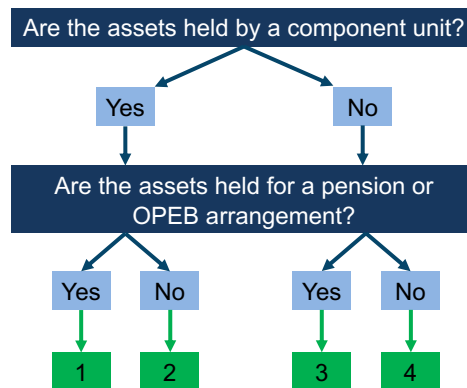
Fiduciary Activities: Statement 84



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When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



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Other Component Units Are Fiduciary if...

They have one or more of the following characteristics:

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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

All Other Activities Are Fiduciary if...

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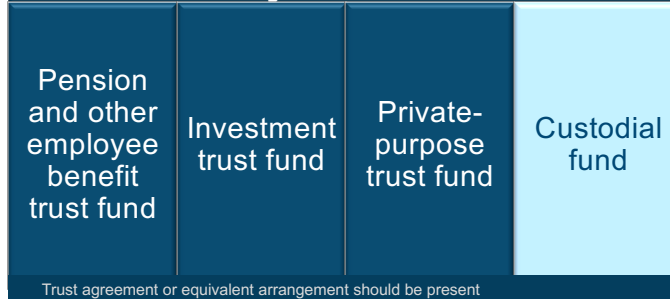
- Arrangement meets one or more of the criteria in 2 AND
- The government **controls** the assets AND
- Those assets are *not* derived either:
 - Solely from the government's own-source revenues, or
 - From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement

When Does A Government Control Assets?

- A government controls the assets of an activity if:
 - The government *holds* the assets.
 - The government (or its designee acting on behalf of the government) has the ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

A government uses an asset when it expends or consumes that asset for the benefit of individuals, organizations, or other governments, outside of the government’s provision of services to them.

Fiduciary Fund Classes



Liability Recognition

- A government should recognize a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources
 - Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.
 - County would recognize a liability when it collects taxes for other governments, even though it may not be required to distribute the taxes to those governments for a prescribed period
- Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus.

Business-Type Activities (BTAs)

- A BTA's fiduciary activities would be reported in separate fiduciary fund financial statements.
- Assets that are, upon receipt, normally expected to be held 3 months or less could be reported instead in the statement of net position with corresponding liabilities, and with inflows and outflows reported as operating cash flows in the statement of cash flows
- A BTA that chooses to report resources in its own statement of net position would separately report additions and deductions, if significant, as cash inflows and cash outflows in the operating activities category of its statement of cash flows

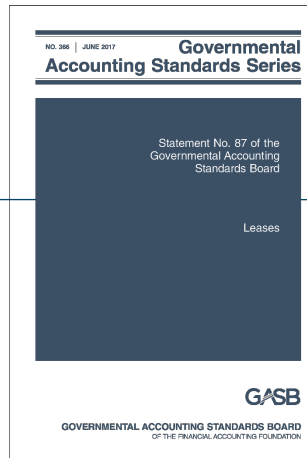
Other Reporting Requirements

- Additions would be presented disaggregated by source and, if applicable, separately display investment earnings, investment costs, and net investment earnings
- Deductions would be presented disaggregated by type and, if applicable, separately display administrative costs
 - Disaggregated additions and deductions requirement would apply to the statement of changes in fiduciary net position for all fiduciary funds *except* custodial funds held for three months or less
 - For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows



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Statement 87: Leases



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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

Leases—Implementation Suggestions

- Determine if bond covenants or debt limit provisions need to be modified
- Establish policies now so that those policies can be applied to leases that are currently being entered into and still will be in effect when Statement 87 becomes effective
- Potential policies that could be considered
 - Identify a working threshold for assessing leases
 - Operationalize “reasonably certain”
 - Operationalize allocation procedures for nonlease components
- Develop a system to capture data related to lease terms, estimated lease payments, and other components of lease agreements that could effect the liability being reporting
- Watch for implementation guide—August

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)

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

Lease Term

- For *financial reporting*, when does the lease start and end?
 - Starts with the noncancelable period, plus periods covered by lessees' and lessors' options to:
 - Extend the lease, if the option is *reasonably certain* of being exercised
 - Terminate the lease, if the option is *reasonably certain* of NOT being exercised
 - Excludes "cancelable" periods
 - Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend
 - Rolling month-to-month leases
 - Fiscal funding/cancellation clauses ignored unless *reasonably certain* of being exercised

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

LESSEE—Initial Measurement

- Initial measurement of a lease liability includes:
 - Fixed payments (less any lease incentives receivable from the lessor)
 - Variable payments based on an index or rate (such as CPI), using the rate as of the beginning of lease
 - Variable payments that are fixed in substance
 - Residual value guarantees *reasonably certain* of being required
 - Purchase options *reasonably certain* of being exercised
 - Termination penalties, if lease term reflects lessee exercising termination options/fiscal funding clauses
 - Any other *reasonably certain* payments

LESSEE—Initial Measurement (continued)

- Lease liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset
- Lease liability payments discounted using the rate the lessor charges the lessee (may be implicit) or, if that rate cannot be readily determined, the lessee's incremental borrowing rate

LESSEE—Lease Asset

- Lessee’s right-to-use lease asset
 - Initially measure lease asset as the sum of:
 - a. Initial lease liability
 - b. Any prepayments (amounts paid for the lease prior to measuring the lease liability)
 - Less any incentives *received* from the lessor
 - c. Initial direct costs that are necessary ancillary charges to place the leased asset into use
 - Other initial direct costs (for example, insurance, legal, administrative) should be expensed

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

Contracts with Multiple Components

- Separate contracts into lease and nonlease components or multiple lease components
- Allocate consideration to multiple underlying assets if:
 - Differing lease terms, or
 - Are in differing major asset classes for disclosure
- Allocation process:
 - First — use any prices for individual components if price allocation not unreasonable based on contract terms and professional judgment (maximizing observable information)
 - If no prices or if not reasonable, use best estimate based on professional judgment (maximizing observable information)
 - If not practicable to determine best estimate, may account for components as single lease unit

Other Topics Covered by Statement 87

- Disclosures
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks

Project Update

Major and Practice Issue Projects

Timetable		
Subscription-Based IT Arrangements	Exposure Draft—May 2019	Comment Deadline—August 23
Public-Private Partnerships	Exposure Draft—June 2019	Comment Deadline—September 13
Deferred Compensation Plans	Exposure Draft—June 2019	Comment Deadline—September 27
Omnibus	Exposure Draft—June 2019	Comment Deadline—October 4
Secured Overnight Financing Rate	Exposure Draft—August 2019	
Implementation Guide—Fiduciary	Final—June 2019	
Implementation Guide—Leases	Final—August 2019	

Big Three

Timetable	
Financial Reporting Model	Exposure Draft—June 2020
Revenue and Expense Recognition	Preliminary Views—May 2020
Note Disclosures	Concepts Due Process Document—February 2020

Financial Reporting Model—Reexamination of Statement 34

Background

Statement 34	June 1999
Reexamination Research	August 2013
Project Added to Technical Agenda	September 2015

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

Lack of consistency in short-term perspective

PV Versus AV



PV: 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>

PV: Recognition in Governmental Funds

Short-Term Financial Resources Measurement Focus

Operationalizing Short-Term Financial Resources Measurement Focus

- Transactions and other events are considered short-term or long-term for a class of transactions or other events, rather than individually for transactions and other events within a class.
- A class of transactions has common attributes that differentiate that class from others. For example, investment of idle cash and issuance of long-term debt are classes of transactions. Each investment purchased or debt issued would not be evaluated individually.
- Consistent with its use in Interpretation 6, *normally* is used in this measurement focus to refer to circumstances of **governments in general**, not the potentially unique circumstances of a single government or type of government.
- Therefore, the concept of *normally* is intended to enhance comparability by requiring governments to recognize assets and liabilities (a) in a manner consistent with other governments and (b) based on substance rather than form.

Alternative View: Recognition in Governmental Funds

Short-Term Financial Resources Measurement Focus

One Year or Less

- The stated or contractual maturities of financial assets and liabilities
- The best estimate of periods of receipt or payment of there is not stated or contractual maturities
- Recognized when the underlying transaction *occurs*
- *Exceptions—Capital assets, postemployment retirement benefits, asset retirement obligations*
- *AV also would introduce a government-wide cash flows statement*

Operating Versus Nonoperating



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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

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Proprietary Funds

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

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

Budgetary Comparisons



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

Management's Discussion and Analysis (MD&A)



Management’s Discussion and Analysis—Users

Users of MD&A are the broad types of users discussed in paragraph 63 of Concepts Statement No. 1, *Objectives of Financial Reporting*.

Users of governmental reports tend to have different levels of knowledge and sophistication about governmental accounting and finance. To be publicly accountable, a government should issue financial reports that can be understood by those who may not have a detailed knowledge of accounting principles.

Concepts Statement 3—responsible for obtaining a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting, for studying the messages with reasonable diligence, and for applying relevant analytical skills.

MD&A—Basic Proposals

Proposals

- Analysis should be presented in a manner that avoids unnecessary duplication
- If an explanation is provided for a government-wide financial statement change, it should not be repeated in the fund statement analysis.
- Discussion of significant variations between the original and final budget amounts and between the final budget amounts and actual results for the general fund should be located as notes to budgetary comparison information, which is proposed to be presented as required supplementary information.

MD&A—Currently Know Facts, Decisions, or Conditions

Proposals—Examples Provided

- Economic data, including population changes and unemployment rates
- Details of the subsequent year's adopted or approved budget, including:
 - Change in total amount available for appropriation with reference narratively to the types of revenues (taxes and fees) and changes in rates and bases
 - Changes in planned spending with reference to sources such as labor contracts and whether new programs were added
- Information related to actions the government has taken after the reporting period related to postemployment benefit plans, capital improvement plans, and long-term debt
- Information related to actions other parties have taken after the reporting period that affect the government, such as legislative changes, litigation, and new regulations or standards imposed on the government

Future Direction For This Project



Revenue and Expense Recognition

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Project Drivers



Philosophical Drivers

- Limited guidance
- Incongruent conclusions
- Gaps in GAAP



Environmental Drivers

- FASB and IASB
- IPSASB
- PIR of St. 33 and 36

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What is Wrong with Current Literature?



Statement 62:
 (1) Exchange revenue
 (2) Nonmonetary exchanges

Statement 33:
 Nonexchange revenue.

Exchange/Nonexchange:

- Value
- Benefit
- Cost Recovery



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Project Timeline



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Project Objective

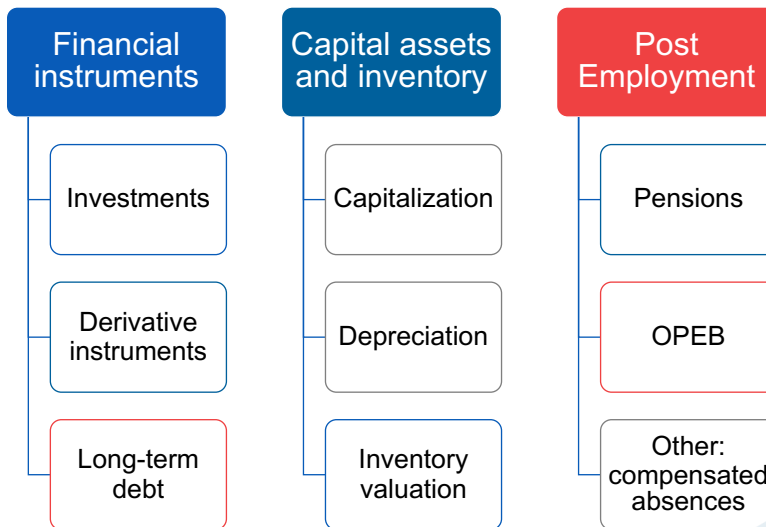
- Develop a comprehensive model
 - Not a concepts statement
 - Not a codification project
- Recognize revenues and expenses
 - Scope
- Applicable to a wide range of transactions
 - Current and future

Scope Defined in Negative Terms

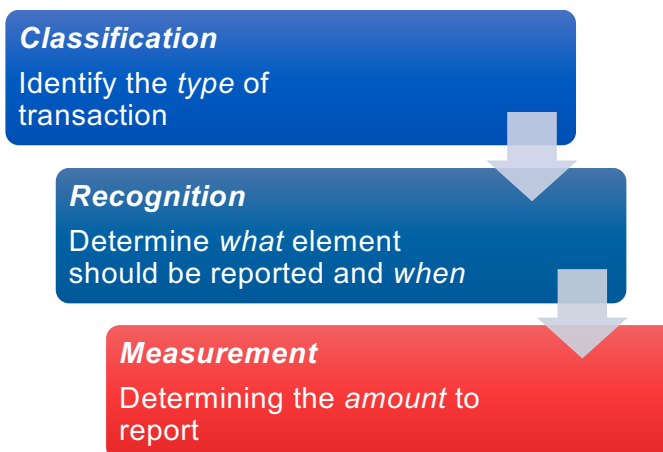
- Broadly inflows and outflows that are not explicitly excluded from the scope
- It is not the theory of everything, but it is the theory of many things



Scope (exclusions)



What is a Revenue and Expense Recognition Model?



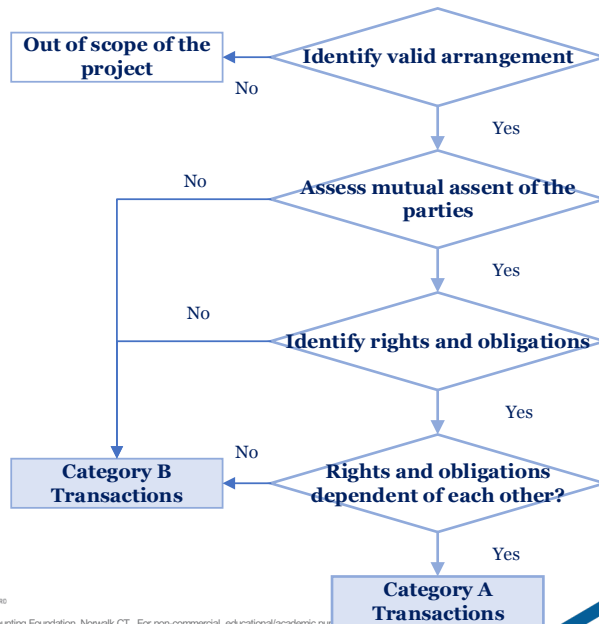
The AB Model—Conceptual

- **Category A**
 - An acquisition coupled with a sacrifice
 - Two-flows
 - Rights and obligations

- **Category B**
 - Either an acquisition or a sacrifice
 - Single-flows
 - Either rights or obligations



The AB Model—Operational



Conceptual Framework— Disclosure Framework

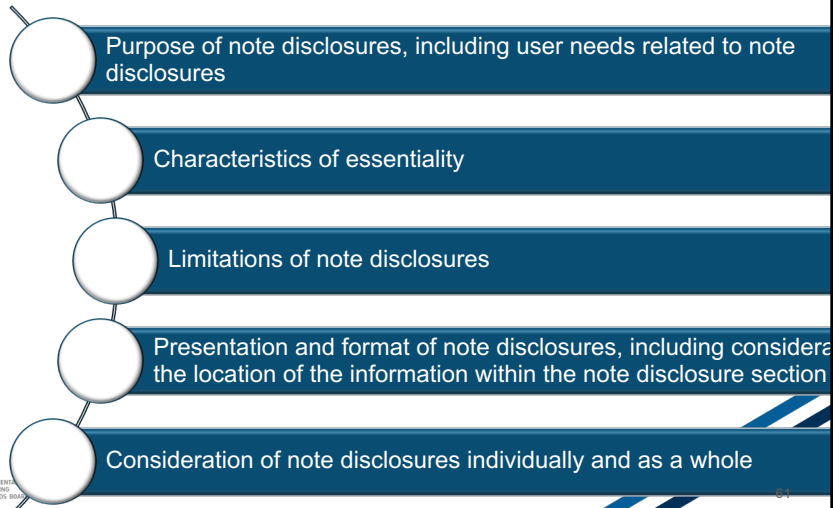
Concepts Related to Disclosures

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 a government's financial position or inflows and outflows of resources.

Topics Being Considered



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Essentiality

- Information that has one of the following characteristics is essential:
 - Characteristic A: Evidence that the information, regardless of its source, currently is being utilized in users' analyses for decision making or assessing accountability.
 - Characteristic B: Evidence that if the information becomes available, users would modify their analyses for decision making or assessing accountability to incorporate that information.
- Evidence supporting the determination of the characteristic of essentiality should be applied to individual pieces of information such that individual disclosures required by a

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Project Timeline

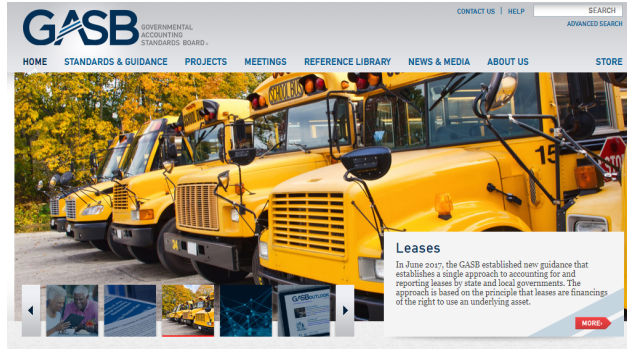
Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	August 2018
Due Process Document Scheduled	February 2020

Questions



Website information: www.gasb.org

www.gasb.org



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