

Florida GFOA

GASB—What Is Coming Down The Turnpike

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

Proposed Standards for Public Comment

Proposals

- Fiduciary Activities
- Asset Retirement Obligations
- Leases

Fiduciary Responsibilities: Exposure Draft

When Is a Government a Fiduciary?

- An activity is a fiduciary activity of a government if (1) the government controls the assets of the activity, (2) those assets are not derived solely from the government's own-source revenue, and (3) one of the following is met:
 - The assets result from a pass-through grant for which the government does not have administrative or direct financial involvement in the program
 - The assets are administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary
 - The assets are to be used for the benefit of individuals that are not required to be residents or recipients of the government's good and services as a condition of being a beneficiary
 - The assets are to be used for the benefit of organizations or other governments that are not part of the financial reporting entity

Pension and OPEB Plans

- An activity should be reported as fiduciary if:
 - Government controls the assets of the activity and
 - Activity is a pension or other postemployment benefit arrangement within the scope of Statement No. 67, *Financial Reporting for Pension Plans*, or Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, or is required to apply the provisions of paragraph 116 of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Focus on Control

- A government controls assets in a fiduciary capacity if those assets:
 - are used by the government (or its assignee) to provide benefits to specified or intended beneficiaries AND EITHER OF THE FOLLOWING IS TRUE
 - (1) The government holds the assets
 - (2) The government has the ability to administer or direct the
 - (a) Use
 - (b) Exchange, or
 - (c) Employed the present service capacity of the assets in any other way that provides benefits.

Other Proposals

- **Fiduciary fund types:**
 - New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
 - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
 - Custodial funds would report fiduciary activities for which there is no trust agreement or equivalent arrangement.
- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Governments engaged in fiduciary activities should be required to present additions disaggregated by source and deductions disaggregated by type in a statement of changes in fiduciary net position for all fiduciary funds.

Project Timeline

Pre-Agenda Research Starts	April 2010
Added to Current Technical Agenda	August 2013
Preliminary Views Approved	November 2014
Exposure Draft	December 2015
Final Statement Expected	December 2016

Asset Retirement Obligations: Exposure Draft

Scope

- Asset retirement obligation—A legal obligation associated with the retirement of a capital asset
 - Retirement of a tangible capital asset—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)
- Would include:
 - Nuclear power plant decommissioning
 - Coal ash pond closure (those that are not landfills)
 - Contractually required land restoration such as removal of wind turbines
 - Other similar obligations
- Would exclude:
 - Landfills (Statement 18)
 - Pollution remediation obligations from abnormal operation (Statement 49)
 - Conditional obligations to perform asset retirement activities, such as most asbestos removal

Initial Recognition

- ARO meets the definition of a liability
- Initial recognition of an ARO liability would happen when the liability is incurred and is reasonably estimable
 - Incurrence generally would be based on internal and external obligating events
- Corresponding debit meets definition of a deferred outflow of resources
 - Deferred outflow would be subsequently recognized as an expense in a rational, systematic manner

Project Approach and Measurement

- Project approach—General guidance, with specific guidance added as needed to operationalize the principles
- Measurement attribute—Settlement amount
- Measurement technique—Current cost

Project Timeline

Pre-Agenda Research Started	December 2013
Added to Current Technical Agenda	August 2014
Exposure Draft	December 2015
Final Statement Expected	October 2016

Leases Exposure Draft

Leases Project Background

- Objective – reexamine issues associated with lease accounting
 - FASB project and IASB project
 - Issuance of GASB Concepts Statement on Elements in 2007
 - Evaluate standards that have been in effect for a sufficient length of time
- Research project initiated April 2011
- Current agenda project added April 2013
 - Preliminary views issued November 2014
 - Exposure draft issued January 2016
 - Public hearing—June 2016

Definition and Scope

- **Definition**
 - A contract that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.
- **Scope exclusions**
 - Intangible assets (mineral rights, patents, software, copyrights)
 - Biological assets (timber)
 - Service concession arrangements (GASB Statement 60)
 - Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor

Single Model

- No classification of leases into operating/capital or other categories
- Underlying assumption that leases are financings

Lease Term

- Includes noncancelable period, plus
 - Periods covered by a lessee's option to extend, if the option is reasonably certain of being exercised
 - Periods covered by a lessee's option to terminate, 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
 - Periods for which only lessor has the option to terminate
- Fiscal funding/cancelation clauses should not be considered unless reasonably certain of being exercised

Short-term Leases

- **Practicality exception**
 - A short-term lease is one that, at the beginning of the lease, has a maximum possible term under the contract, including any options to extend, of 12 months or less
 - The maximum possible term for a cancellable lease defined as the noncancelable period, including any notice periods
 - Leases that transfer ownership do not qualify for the short-term lease exception, even if they meet the other criteria

Leasee

Recognition

- Liability for future payments
- Intangible asset for the right to use the underlying asset
- In governmental funds,
 - Payables when due
 - Do not report an asset

Liability—Initial Measurement

- Fixed payments (less any lease incentives received from the lessor)
- Variable payments
 - Based on an index or rate, using the rate in effect at beginning of lease
 - Fixed in substance (For example, minimum usage)
- 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
- Liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset

Initial Measurement—Discounting

- Lease liability payments be discounted using
 - Rate the lessor charges the lessee or, if that rate cannot be readily determined
 - Lessee's incremental borrowing rate

Initial Measurement of Lease Assets

- The value of the initial lease liability
- Any prepayments (amounts paid for the lease prior to measuring the lease liability)
- Initial direct costs
 - Capitalize ancillary charges to place the leased asset into use
 - Otherwise expense

Subsequent Recognition

- Lease liability reduced for actual payments less amortization of discount on lease liability (interest expense)
- Lease asset amortized (amortization expense) using a systematic and rational manner over the shorter of the useful life of the underlying asset or the lease term
 - If the lease transfers ownership or if a purchase option is determined to be reasonably certain of being exercised, amortize as if the lessee owns the underlying asset, using the lessee's depreciation policy

Reassessments

- Reassessment of a lease liability when certain judgments change (and change is expected to be significant)
 - There is a change in lease term
 - Likelihood that a residual value guarantee or purchase option has changed from reasonably certain to not (or vice versa)
 - There is change in the estimated amounts for payments already included in the liability
 - There is a change in the rate the lessor charges the lease, if used in the initial discount rate
- If liability reassessed, also reassess index or rate used to determine variable lease payments and the discount rate
- Adjustments to the lease liability generally should adjust the lease asset by the same amount

Lessor

Recognition

- Recognize a lease receivable and deferred inflow of resources
 - Do not derecognize the underlying asset and do not recognize a residual asset for all leases
- Exceptions to recognition and measurement
 - Leases of assets that are investments
 - Certain regulated leases (for example, airport-airline agreements)
- Continue to report the leased asset
 - Depreciate as normal, unless leased asset is required to be returned in its original or enhanced condition or leased asset has an indefinite useful life
- In governmental funds, report lease receivable and deferred inflow of resources

Initial Measurement—Lease Receivable

- Fixed payments
- Variable payments that depend on an index or rate (for example, CPI)
 - Use the rate in effect at beginning of lease
- Variable payments that are fixed in substance
 - Exclude variable lease payments that are dependent on a lessee's performance or usage of an underlying asset
- Residual value guarantees that are fixed in substance
- Less provision for uncollectible amounts
- Discount the lease receivable using the rate the lessor charges the lessee
 - Interest rate may be implicit in the lease

Subsequent Recognition and Measurement

- Residual value guarantees that are not fixed in substance recognized as a receivable when:
 - Payment is required, and
 - Amount can be reasonably estimated
- Purchase option payments or termination penalties recognized when exercised

Deferrals and Rent Revenue

- Initial measurement of the deferred inflow of resources includes:
 - Receivable amount
 - Any cash received up front that relates to future periods (for example, final month's rent)
 - Less provision for uncollectible amounts
- Recognize revenue over the lease term on a systematic and rational manner

Recognition of Interest Revenue

- Recognize amortization of the discount on the lease receivable (interest revenue) so as to produce a constant periodic rate of return on the receivable
- Lease payments allocated first to accrued interest receivable and then to the lease receivable

Subsequent Recognition and Measurement

- Remeasure the lease receivable and update the discount rate when the following occur and are expected to significantly affect the receivable amount:
 - a) There is a change in lease term, or
 - b) There is a change in the rate the lessor charges the lessee
 - If remeasured for a) or b), also remeasure for changes in an index or rate used to determine variable lease payments
- The deferred inflow of resources generally adjusted by the same amount as the lease receivable
- If the discount rate is updated, the receivable should be discounted using the revised rate

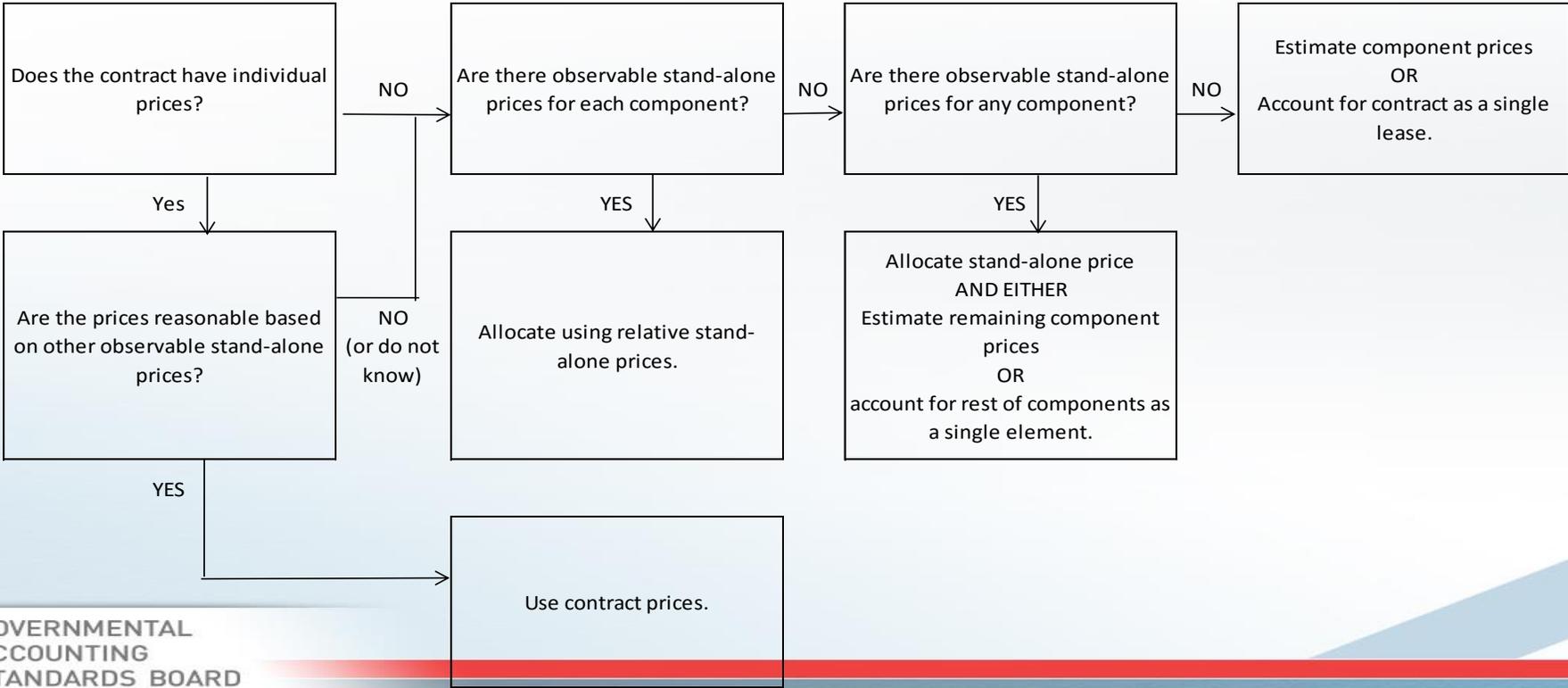
Other Issues

Other Issues

- Terminations and modifications
- Leases with multiple components
- Contract combinations
- Subleases
- Related-party leases
- Leases with or between component units
- Sale and leaseback
- Lease and leaseback

Leases with Multiple Components

- Separate contracts into lease and nonlease components or multiple lease components
- Allocate consideration to multiple components:



Proposed Effective Date and Transition

- **Effective Date**

- Effective for periods beginning after December 15, 2018
 - Two years after final standard expected to be issued
 - Earlier application permitted

- **Transition Provisions**

- Apply retroactively
 - Restate if practicable, cumulative effect if not
- Leases recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation
- Lessors would not restate the assets underlying their existing sales-type or direct financing leases
 - Any residual assets for those leases would become the carrying values of the underlying assets

Current Technical Agenda Projects

Financial Reporting Model— Reexamination of Statement 34

Financial Reporting Model Research

- **What:** In August 2013, the Board decided to begin pre-agenda research examining the effectiveness of the financial reporting model – Statements 34, 35, 37, 41, and 46, and Interpretation 6
- **Why:** The GASB is committed not only to establishing standards but also to ensuring that they continue to be effective; most of the requirements of Statement 34 became effective between 2002 and 2004; the provisions related to reporting existing general infrastructure assets were fully effective in 2006 and 2007
- **When:** The project was added to the current technical agenda at the September 2015 meeting.

Focus Of the Initial Deliberations

- First Due Process Document—December 2016
 - Governmental funds—what should they convey
 - Statement of activities—format
 - Role of cash flows statements

Governmental Fund Approaches Currently Being Considered

- Near term
- Working capital
- Total financial resources

Debt Refundings with Existing Resources

Debt Refundings

- **What:** A review of existing standards for debt extinguishments (Statement 62)
- **Why:** The debt extinguishment standards were incorporated from FASB literature “as is” and not reviewed to consider their appropriateness for governments
- **When:** The Board added the project to the current technical agenda in September 2015

Revenue and Expense Recognition

Revenue and Expense Recognition

- **What:** A review of existing standards for revenues and expenses (Statements 33 and 62)
- **Why:** The revenue standards were incorporated from FASB literature “as is” and not reviewed to consider their appropriateness for governments, the FASB has introduced new revenue recognition standards, and the non-exchange expense standards were recently subjected to a post-implementation review
- **When:** The Board added the project to the current technical agenda in April 2016

Research in Process

- Debt Disclosures
- Equity Interest Ownership Issues
- Going Concern
- Note Disclosures

Questions?

- Visit www.gasb.org