South Florida GFOA

GASB Update

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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.

FINANCIAL ACCOUNTING FOUNDATION
FINANCIAL ACCOUNTING STANDARDS BOARD
GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Presentation Overview

- New guidance in the past year
- Proposals for public comment
- Pronouncements currently being implemented
- Projects currently being deliberated by the Board
- Pre-agenda research activities

New Process for Collecting Information about Implementation

Invitation to Participate

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Issues with the Post-Implementation Review (PIR) Process

A key part of PIR is collecting information about staff hours and non-staff costs required to implement major Statements

That information is essential to weighing the costs and benefits of standards

GASB does not issue standards unless the expected benefits justify the perceived costs

But it is difficult to obtain usable data

Governments generally don't track the effort related to a particular Statement

Persons who implemented the standards may have changed jobs or retired

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New PIR Process

Recruit participants in advance of implementation

Large random sample of various types and sizes of governments

Invite other governments to volunteer

Conduct teleconferences to answer questions about how to participate

Collect information from governments at three stages

Year prior to implementation

First year that the standards are applied

Second year of applying the standards

Send official thank you letter from the GASB chairman to governments that complete the process

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Get More Information and Sign Up

- Two-page article explains the new process

https://bit.ly/2ZkfOke

https://bit.ly/2xhjDdS

- Volunteer to take part in the PIR for Statement 84 on fiduciary activities

- Answer the call if you are randomly selected to participate in two other PIR efforts under the former

Statement 72 (fair value) and Statement 75 (OPEB)

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New Guidance in the Past Year

Statements 89–91

Implementation Guides 2019-1 & 2019-2

Implementation Guidance Updates

What?

The 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

2019-1 is effective for periods beginning after June 15, 2019

Implementation Guide 2019-1

Adds new questions on standards regarding

- Cash flows reporting
- Derivative instruments
- Fund balance
- Insurance recoveries
- Irrevocable split-interest agreements
- Intra-entity transfers of assets
- Nonexchange transactions
- Pensions and OPEB
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Derivative instruments
- Financial reporting entity
- Pension and OPEB plan reporting

Implementation Guide to Statement 84 (2019-2)

What?

GASB has published an Implementation Guide to Statement 84 on fiduciary activities

Why?

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

When?

Available now to download free on the GASB website

Statement 84 Guide

52 questions and answers, including:

- Classifying fiduciary activities
- Applying the criteria for control and own-source revenues
- Applying the clarified definitions of fund classes, including determining eligibility for the custodial fund exception for BTAs
- Fiduciary fund financial statements, including the determining eligibility for the exception to disaggregating certain additions and deductions
- Reporting fiduciary component units

Revisions to 3 existing questions and answers

Forthcoming Leases Implementation Guide

What?

GASB is finalizing a freestanding Implementation Guide to Statement 87

Why?

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

When?

Board is expected to consider a final Guide for clearance in August 2019

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Statement 87 Guide

80 proposed questions and answers, including:	Scope and applicability issues
	Determining the term of the lease
	Eligibility for exception for short-term leases
	Recognition, measurement, and disclosure for lessees and lessors
	Lease incentives
	Contracts with multiple components and contract combinations
	Terminations and modifications
	Sale-leasebacks, lease-leasebacks, and intra-entity leases

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

Statement No. 89

Interest Cost

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

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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

Earlier application is encouraged

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

YES	NO
Report as an investment	Report as a component unit
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	Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205–209
Applied prospectively only	

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Conduit Debt Obligations

Statement No. 91

Conduit Debt

What?

The Board improved the existing standards related to conduit debt obligations by providing 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, improvements were needed to eliminate diversity in practice

When?

Effective for periods beginning after December 15, 2020

Earlier application is encouraged

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 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.

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Limited, Additional & Voluntary 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** 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 financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

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Recognition by the Issuer

- Do *not* recognize a conduit debt obligation as a liability
- May have a related liability arising out of an additional or voluntary commitment
- **Additional commitment**: report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- **Voluntary commitment**: if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments
- Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

If the issuer recognizes a related liability

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

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Proposals for Public Comment

- Deferred Compensation
- Omnibus
- P3s
- Subscription-Based IT Arrangements

Exposure Draft, *Internal Revenue Code Section 457 Deferred Compensation Plans That Meet the Definition of a Pension Plan and Supersession of GASB Statement 32*

Deferred Compensation Plans

What?

The GASB has proposed improvements to Statement 32 on IRC Section 457 plans, which became effective in 1999

Why?

Some plan characteristics have changed due, in part, to changes in the IRC

When?

Comment deadline is September 27, 2019

Proposals

All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan

All requirements relevant to pensions should be applied by employers to benefits provided through Section 457 plans that meet the definition of a pension plan

Investments would be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator would be eliminated)

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Exposure Draft, *Omnibus 20XX*

Omnibus Exposure Draft

What?

The Board has proposed amendments to existing standards covering multiple topics

Why?

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

When?

Comment deadline is October 4, 2019

Proposals

Leases

- Effective date of Statement 87 would be changed to “fiscal years beginning after December 15, 2019, and all reporting periods thereafter”

Government combinations and disposals of operations

- Statement 69 would be amended to provide an exception to the use of acquisition value in the measurement of an acquired asset retirement obligation

Derivative instruments

- Would amend NCGA and GASB pronouncements to standardize the terminology used to refer to derivative instruments.

Fiduciary activities (Statement 84)

- Would limit the requirements of paragraphs 22 and 25 to defined benefit pension and OPEB plans

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Proposals (continued)

Certain effects of Statement 84

- Would supersede guidance in Statements 73 and 74 regarding recognition of a liability to employers and NECEs for the excess of assets over liabilities for benefits payments and administrative expenses in custodial funds in circumstances in which assets are accumulated for the pensions and OPEB of other employers and NECEs
- Would amend Statements 73 and 74 to replace references to *control* of assets in those same circumstances, to avoid limiting the application of the associated requirements of those Statements

Fair value measurements

- Would amend paragraph 81 of Statement 72 to adjust the example of nonrecurring fair value measurements

Proposals (continued)

Intra-entity transfers of assets

- Would amend paragraph 15 of Statement 48 to clarify that amounts associated with the transfer of capital or financial assets from an employer or NECE to a defined benefit pension or OPEB plan within the same financial reporting entity should be reported as contributions to the plan, in accordance with Statements 68 and 75
- Would clarify that the provisions of paragraph 15 apply to all transfers of assets within a financial reporting entity

Reinsurance recoveries

- Would amend paragraph 37 of Statement 10 to clarify that amounts that are recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment expenses may be reported as reductions of expenses but are not required to be.

Exposure Draft, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

PPPs, APAs, and SCAs

What?

The Board has proposed standards for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87, and 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?

Comment deadline is September 13, 2019

Proposed Definitions: PPPs and APAs

Public-private partnerships and **public-public partnerships (PPPs)** are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate or use infrastructure or other nonfinancial assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's infrastructure or other nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

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Other Proposals

A PPP that meets the definition of a lease in Statement 87 – but not the definition of an SCA – would be reported under Statement 87.

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

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Exposure Draft, *Subscription-Based Information Technology Arrangements*

Subscription-Based IT Arrangements

What?

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

Why?

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

When?

Comment deadline is August 23, 2019

Proposals

A subscription-based information technology arrangement (SBITA) “is a contract that conveys control of the right to use another party’s (the vendor’s) hardware, software, or a combination of both, including IT infrastructure (the underlying hardware or software) as specified in the contract for a period of time in an exchange or exchange-like transaction.”

To determine whether a contract conveys control of the right to use the underlying hardware or software, a government would assess whether it has both:

- The right to obtain the present service capacity from use of the underlying hardware or software as specified in the contract
- The right to determine the nature and manner of use of the underlying hardware or software as specified in the contract.

Proposals (continued)

An SBITA would be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

Measurement of the subscription asset would include certain capitalizable implementation costs based on stages like those for internally developed software in Statement 51:

- Preliminary project stage
- Initial implementation stage
- Post-implementation/operation stage

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Proposals (continued)

Preliminary project stage	Initial implementation stage	Post-implementation/ operation stage
• Outlays would be expensed as incurred	• In general, outlays would be capitalized • However, if no subscription asset is recognized (such as for a short-term SBITA), outlays would be expensed as incurred	• Outlays would be expensed as incurred

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Other Pronouncements Currently Being Implemented

Effective Dates—June & September 30

2019

- Statement 83—asset retirement obligations
- Statement 88—debt disclosures
- 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

2022

- Statement 91—conduit debt

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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 periods beginning after June 15, 2018

Earlier application is encouraged

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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	ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events. Measured based on the best estimate of the current value of outlays expected to be incurred.	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	• 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.

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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

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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

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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

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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 periods beginning after December 15, 2018

Earlier application is encouraged

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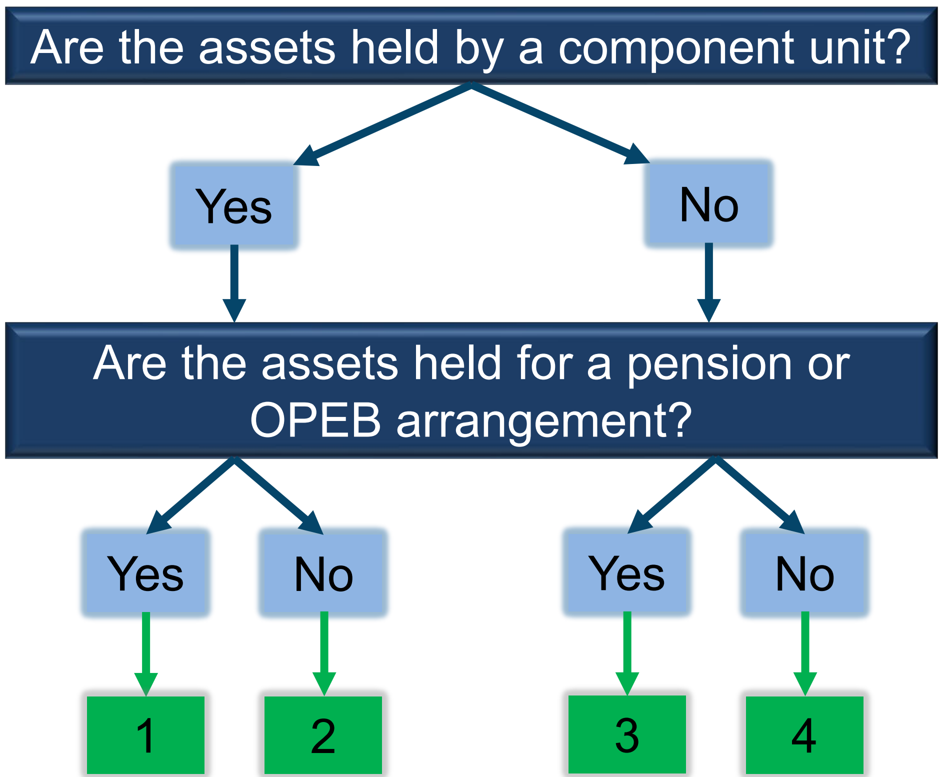
When Should a Government Report Assets in a Fiduciary Fund?

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:

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

or

- 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

or

- 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

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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

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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

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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

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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

Earlier application is encouraged

Scope and Approach

- 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

- Capital/operating distinction is eliminated

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	• 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

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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	• 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, *maximum possible term* under the contract is 12 months or less
Lessee accounting	• 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	• 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

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

Earlier application is encouraged

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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.

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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

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Implementation Guidance Update

2018-1

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Implementation Guidance Updates

What?

The 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

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Current Technical Agenda Projects

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 began in October 2018

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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

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Tentative Decisions

The purpose of note disclosures is to provide information that explains, describes, or supplements the financial statements and is **essential** to users in making economic, social, and political decisions and assessing accountability.

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.

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Project Timeline

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

Conceptual Framework: Recognition

Preliminary Views: *Recognition of Elements of Financial Statements*

What?

The Board 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?

Redeliberations and development of an Exposure Draft have commenced

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.

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Proposal: Recognition Hierarchy

Follow a specific order when evaluating an item for recognition:

Does it meet the definition of an asset or liability?

Yes: Recognize asset or liability	No: go to next step

Does it meet the definition of a deferred outflow of resources or a deferred inflow of resources?

Yes: Recognize deferral	No: go to next step

Does it meet the definition of an outflow of resources or an inflow of resources?

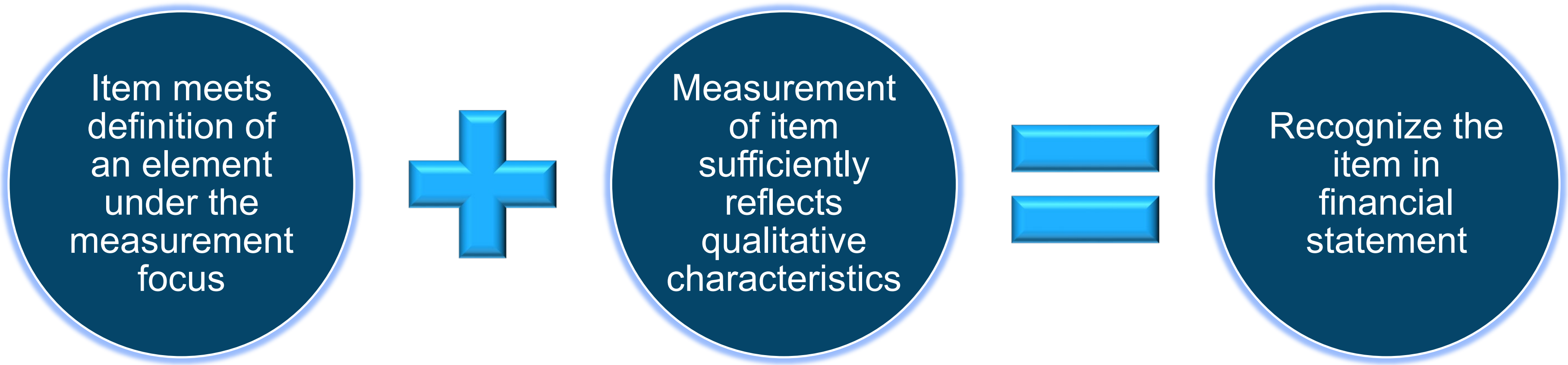
Yes: Recognize inflow/outflow	No: Do not recognize the item

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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, 12 & 14, 2019
User Forums	March 6 & 14, 2019
Redeliberations Begin	June 2019
Exposure Draft Expected	June 2020

Financial Reporting Model Reexamination

Preliminary Views:
Financial Reporting Model Improvements

What?

In September 2018, the Board 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?

Redeliberations and development of an Exposure Draft have commenced

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

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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 *within one year* 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 *extend beyond one year* from the inception of the transaction or other event
Recognized when the underlying transaction *occurs*	Recognized when the payments are due to be received or paid

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposal: Presentation of Governmental Funds

Financial statements presented in ***current and noncurrent activity*** format

Current activity— all other

Noncurrent activity— related to purchase and disposition of capital assets and issuance and repayment of long-term debt

Statement of Short-Term Financial Resource Flows

Current and Noncurrent Activity Format

	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	106,760,279	5,977,022	19,516,177	132,253,478
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	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
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	(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

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	

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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		1,146,343		1,091,377
Operating expenses:				
[Natural or functional expenses]				
Total operating expenses		1,681,544		1,596,059
Income (loss) generated by operations		(535,201)		(504,682)
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		558,101		530,057
Operating income (loss) and noncapital subsidies		22,900		25,375
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		221,023		126,314
Income before other items		243,923		151,689
Other items:				
Capital contributions		23,231		74,830
Increase (decrease) in net position		267,154		226,519
Net position—beginning		3,061,111		2,834,592
Net position—ending	$	3,328,265	$	3,061,111

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Other Proposals

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

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

Tentative Proposals for the Exposure Draft: MD&A

Users of MD&A “have different levels of knowledge and sophistication about governmental accounting and finance,” “may not have a detailed knowledge of accounting principles” (as in Concepts Statement 1, paragraph 63)

Move budgetary analysis to be with the budgetary comparison schedule in RSI

Move discussion of infrastructure assets to be with RSI presentation on the modified approach (if applicable)

Tentative Proposals for the Exposure Draft: MD&A (continued)

Retain and Improve These Sections

- Brief discussion of the basic financial statements, including their relationships and significant differences – with additional clarification and structure
- Analysis of year-to-year changes – amended to emphasize the level of thoroughness of the analysis and the need to avoid unnecessary duplication
- Currently known facts, decisions, or conditions – requirements would be amended with examples, including:
  - Trends in economic data
  - Details of the subsequent year's adopted or approved budget
  - Actions government has taken on postemployment benefits, capital improvement plans, and long-term debt
  - Actions other parties have taken that affect the government

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Other Tentative Proposals for the Exposure Draft

Debt Service Funds

- Reporting requirements would not be changed to provide additional information because the expected benefits do not justify the perceived costs of providing and auditing the information

Special and Extraordinary Items

- Requirement to separately present them would be replaced with a requirement to separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence
- Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management

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
Public Hearings	March 5, 12 & 14, 2019
User Forums	March 6 & 14, 2019
Redeliberations Began	April 2019
Exposure Draft Expected	June 2020

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

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Revenue and Expense Recognition Models

The 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)

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Exchange/Nonexchange Model

Classification	Is the transaction an exchange?	
Recognition	**YES**	**NO**
	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	**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.*	

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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?	
	YES	**NO**
Recognition	**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)	**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.*	

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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 is considering amending existing standards that reference LIBOR

Why?

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

When?

Deliberations began in April 2019

Tentative Decisions

Will propose adding the Effective Federal Funds Rate and the Secured Overnight Financing Rate (SOFR) as appropriate benchmark interest rates for taxable debt when applying the consistent critical terms method for the purpose of hedge accounting

Will propose removing LIBOR as an appropriate benchmark interest rate for taxable debt when applying the consistent critical terms method

Other Topic to Be Considered

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 the exception in Statement 64?

Project Timeline

Added to Current Technical Agenda	December 2018
Deliberations Began	April 2019
Exposure Draft Expected	November 2019

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Pre-Agenda Research Activities

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Compensated Absences: Reexamination of Statement 16

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Compensated Absences

What?

The GASB is evaluating the effectiveness of Statement 16 to 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

To what extent do governments continue to separate vacation and sick time in their employment policies?

What method(s) do governments use to calculate the liability for sick leave and similar compensated absences: the t*ermination 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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Reexamination of Statement 62

What?

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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Questions?

Visit www.gasb.org

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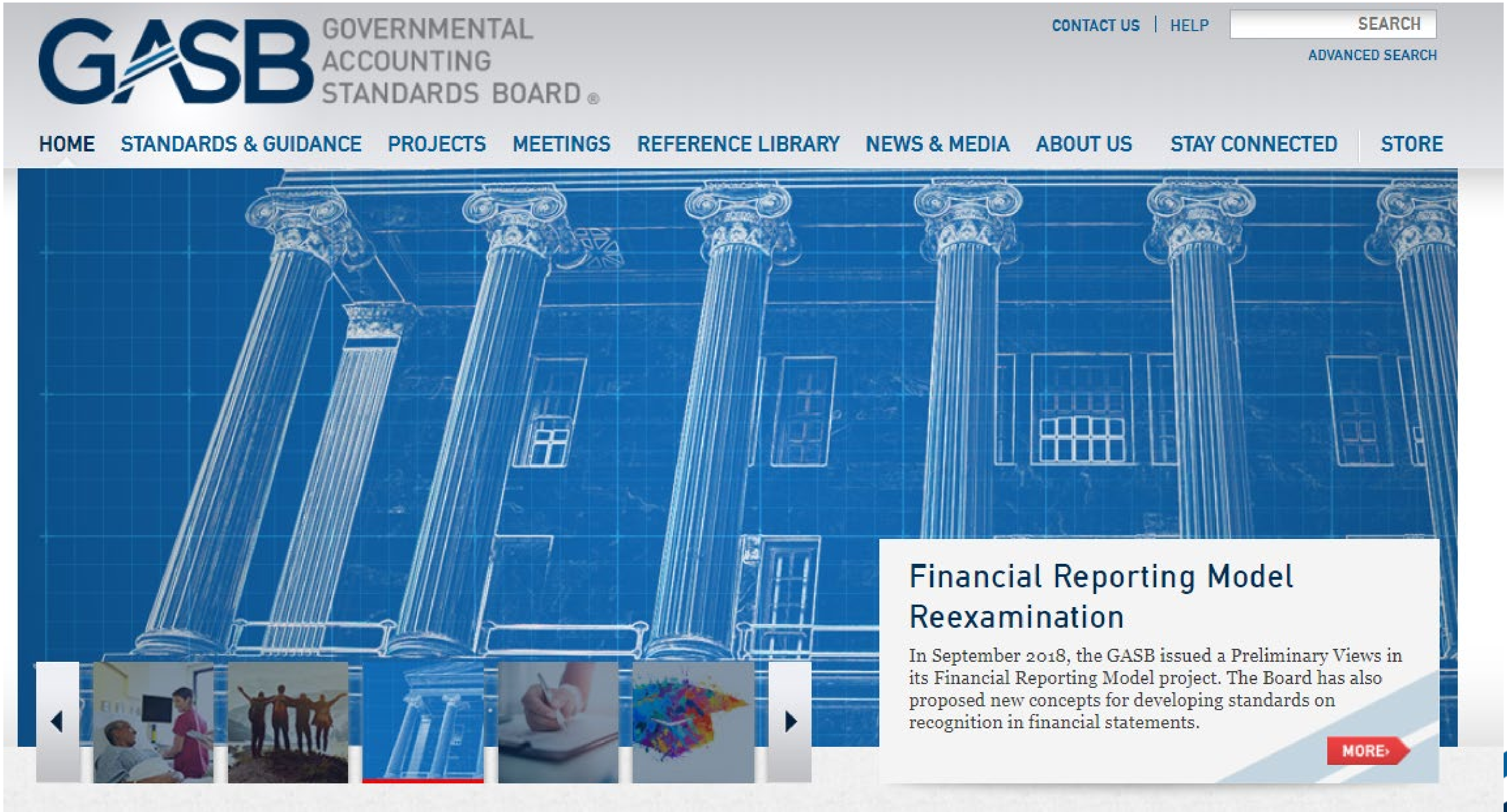

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Financial Reporting Model Reexamination
In September 2018, the GASB issued a Preliminary Views in its Financial Reporting Model project. The Board has also proposed new concepts for developing standards on recognition in financial statements.
MORE›

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)
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