2019 Rutgers Governmental Accounting and Auditing Update Conference

GASB Update

December 5, 2019

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Supervising Project Manager

The views expressed in this presentation are those of Ms. Dolan. Official positions of the GASB are reached only after extensive due process and deliberations.
New Process for Collecting Information about Implementation

Invitation to Participate
A key activity in the PIR process 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.
New PIR Process

Recruit participants in advance of implementation

Large random sample of various types and sizes of governments

Invite other governments to volunteer (including field test participants)

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 first applied

Second year of applying the standards

Special recognition of governments that complete the process by the GASB
Get More Information and Sign Up

- Two-page article explains the new process

- 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 process
  Statement 72 (fair value) and Statement 75 (OPEB)
Presentation Overview

- Pronouncements currently being implemented
- Projects currently being deliberated by the Board
- Pre-agenda research activities
Pronouncements Currently Being Implemented
Certain Asset Retirement Obligations

Statement No. 83
Certain Asset Retirement Obligations

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

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

**When?**
- Effective for periods beginning after June 15, 2018
- Earlier application is encouraged
Definitions and Scope

Asset retirement obligation

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

Retirement of a tangible capital asset

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

Examples

- Nuclear power plant decommissioning
- Coal ash pond closure
- Contractually required land restoration, such as removal of wind turbines
- Wastewater treatment plant renovations and closures
- Items involving radiation, such as x-ray machines
## Recognition & Measurement

<table>
<thead>
<tr>
<th>Initial Recognition</th>
<th>ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events.</th>
<th>Deferred outflow of resources—same amount as the ARO liability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Measured based on the best estimate of the current value of outlays expected to be incurred.</td>
<td></td>
</tr>
</tbody>
</table>
| 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. |
Measurement Exception for a Minority Owner of a Jointly Owned Capital Asset

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

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

Initial and Subsequent Measurement Exception

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

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

Specific disclosure requirements in this circumstance
Effects of Funding and Assurance

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

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

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

- General description of ARO and associated tangible capital assets, including source of AROs (such as federal laws or regulations, contracts, court judgments)
- Methods and assumptions used to measure ARO liabilities
- Estimated remaining useful life of tangible capital assets
- How financial assurance requirements, if any, are being met
- Amount of assets restricted for payment of ARO liabilities, if not separately displayed in financial statements
- If a government has an ARO (or portions of an ARO) that is incurred but not yet recognized because it cannot be reasonably estimated, that fact and the reasons therefor
Fiduciary Activities

Statement No. 84
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.
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:

1. Are the assets held by a component unit?
   - Yes
   - No

2. Are the assets held for a pension or OPEB arrangement?
   - Yes
   - No

3. Yes
   - 1
   - 2

4. Yes
   - 3
   - 4
When Is There a Component Unit?

- **Legally separate?**
  - Yes
    - **Voting majority?**
      - Yes
        - **Financial benefit/burden or imposition of will?**
          - Yes
            - Component Unit
          - No
            - Component Unit
    - No
      - Fiscal dependency
        - **and financial benefit/burden?**
          - Yes
            - Component Unit
          - No
            - Not a component unit

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Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if…

They are one of the following arrangements:

1. Pension plan administered through a trust that meets criteria
2. OPEB plan administered through a trust that meets criteria
3. Assets from entities not part of the reporting entity accumulated for pensions
4. Assets from entities not part of the reporting entity accumulated for OPEB
Other Component Units Are Fiduciary if…

They have one or more of the following characteristics:

- **Assets are:**
  - Administered through a trust in which government is *not* a beneficiary
  - Dedicated to providing benefits, AND
  - Legally protected from the creditors of government

- **Assets are for the benefit of individuals**
  - Assets are *not* derived from government’s provision of goods or services to the individuals AND
  - Government does *not* have administrative involvement or direct financial involvement with 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
Postemployment Benefit Arrangements That Are Not Component Units Are Fiduciary if...

- Arrangement is one of those in [1] AND
- The government **controls** the assets of the arrangement
  - (control will be explained in two slides)
All Other Activities Are Fiduciary if…

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
Control of Assets

- 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
<table>
<thead>
<tr>
<th>Fiduciary Fund Classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension and other employee benefit trust fund</td>
</tr>
<tr>
<td>Investment trust fund</td>
</tr>
<tr>
<td>Private-purpose trust fund</td>
</tr>
<tr>
<td>Custodial fund</td>
</tr>
</tbody>
</table>

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.
Statement of Changes in Fiduciary Net Position

All fiduciary funds should be included in the statement of changes in fiduciary net position.

Additions should be disaggregated* by source and, if applicable, separately display investment earnings, investment costs, and net investment earnings.

Deductions should be disaggregated* by type and, if applicable, separately display administrative costs.

*Disaggregation requirement applies to all fiduciary funds except custodial funds held for three months or less.

- For those custodial funds, governments may 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.
Implementation Guide 2019-2

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
## Key Issues about Fiduciary Activities and Component Units

### Legally Separate

- Questions 4.1-4.3 intended to clarify whether pension or OPEB plans (both defined benefit and defined contribution) that are administered through a trust or an equivalent arrangement are legally separate.

### Voting Majority and Financial Burden or Imposition of Will

- Statement 84, paragraph 7: A primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to the pension plan or OPEB plan.
- Statement 14, paragraph 26: The primary government has the ability to impose its will if it can significantly influence programs, projects, activities, or level of services performed or provided.
Key Issues about Fiduciary Activities and Component Units (continued)

Statement 14, paragraph 26 (continued)

Existence of any one of the following meets the imposition of will criteria:

• Ability to remove appointed members of the organization’s governing board at will
• The ability to modify or approve the budget of the organization
• The ability to modify or approve rate or fee changes affecting revenues
• The ability to veto, overrule or modify other decisions of the organization’s governing body
• The ability to appoint, hire, reassign or dismiss management of the organization
Key Issues about Fiduciary Activities and Component Units (continued)

Financial Accountability

- Q4.4-Q4.6: appointment of majority of board
- Q4.5: lack of board is equivalent to appointment of a majority if government performs the duties that the board normally would

Financial Burden

- Q4.7: being legally obligated or otherwise assuming the obligation to make contributions to a pension or OPEB plan constitutes a financial burden
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.
## Issues to Focus on as Soon as Possible

### Debt limits and bond covenants
- All leases lasting more than a year will be reported by lessees as long-term liabilities
- Review state and local laws and agreements to determine whether that could impact compliance with debt limitations and bond covenants

### Lease policies and procedures
- May need to consider changing policies and procedures for tracking and reporting leases, both as lessee and lessor
- May need better communication between departments that enter into leases and central accounting staff
- Need procedures that identify when lease agreements have been initiated and when existing leases are modified (such as changes in lease term or estimated payment amounts)
- Should review capital asset policies, such as the capitalization thresholds, especially in light of the need to report intangible right-to-use assets
Issues to Focus on as Soon as Possible (continued)

Transition provisions

- Statement 87 requires that leases be recognized and measured using the facts and circumstances as of the beginning of the period of implementation
- For example:
  - As of January 1, 2020 for FYE December 31, 2020
  - As of July 1, 2020 for FYE June 30, 2021
Statement 87 Implementation Guide

<table>
<thead>
<tr>
<th>Implementation Guide 2019-3: 77 questions and answers, including:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope and applicability issues</td>
</tr>
<tr>
<td>Determining the term of the lease</td>
</tr>
<tr>
<td>Eligibility for exception for short-term leases</td>
</tr>
<tr>
<td>Recognition, measurement, and disclosure for lessees and lessors</td>
</tr>
<tr>
<td>Lease incentives</td>
</tr>
<tr>
<td>Contracts with multiple components and contract combinations</td>
</tr>
<tr>
<td>Terminations and modifications</td>
</tr>
<tr>
<td>Sale-leasebacks, lease-leasebacks, and intra-entity leases</td>
</tr>
</tbody>
</table>
Statement 87 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)
- Arrangements associated with conduit debt obligations (Statement 91)
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)
Lease Term

- For financial reporting purposes, when does the lease start and end?
  - Start with the **noncancelable period**

2021 ................................................................. 2027 ................................................................. 2031

- Plus periods covered by options to:
  - **Extend lease**, if reasonably certain of being exercised
  - **Terminate lease**, if reasonably certain of *not* being exercised

- Excludes cancelable periods
  - Periods for which lessee and lessor both have option to extend or terminate (such as rolling month-to-month leases)

- Fiscal funding and cancellation clauses are ignored unless reasonably certain of being exercised
## Initial Reporting

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lessee</strong></td>
<td>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</td>
<td>Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Lessor</strong></td>
<td>• Lease receivable (generally includes same items as lessee’s liability)</td>
<td>NA</td>
<td>Equal to lease receivable plus any cash received up front that relates to a future period</td>
</tr>
</tbody>
</table>
## Subsequent Reporting

<table>
<thead>
<tr>
<th>Lessee</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortize the intangible lease asset over shorter of useful life or lease term</td>
<td>Reduce by lease payments (less amount for interest expense)</td>
<td>NA</td>
</tr>
</tbody>
</table>

| 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

<table>
<thead>
<tr>
<th>Definition</th>
<th>At beginning of lease, <em>maximum possible term</em> under the contract is 12 months or less</th>
</tr>
</thead>
</table>
| 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 |
## Contracts with Multiple Components

### Statement 87
- Generally, account for lease and non-lease components as separate contracts and multiple underlying assets as separate lease components in certain circumstances (paragraphs 64 and 65)
- Allocate contract price to different components (paragraph 66)

### Implementation Guide 2019-3
- One component meets scope exclusions and one does not?
  - Separate and account for them individually (Q4.59)
- Separate utilities and janitorial costs of building lease?
  - Yes, if practicable to do so (Q4.60)
Other Topics Covered by Statement 87

- Disclosures
- 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
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

<table>
<thead>
<tr>
<th>Amount of unused lines of credit</th>
<th>Assets pledged as collateral for debt</th>
<th>Terms specified in debt agreements related to significant:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>- Events of default with finance-related consequences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Termination events with finance-related consequences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Subjective acceleration clauses</td>
</tr>
</tbody>
</table>
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
Majority Equity Interests

Statement No. 90

Statement No. 90 of the Governmental Accounting Standards Board

Majority Equity Interests

an amendment of GASB Statements No. 14 and No. 61
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.
## Does the Majority Equity Interest Meet the Definition of an Investment?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report as an investment</td>
<td>Report as a component unit</td>
</tr>
<tr>
<td>Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205–209</td>
<td>Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205–209</td>
</tr>
</tbody>
</table>

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

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

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

If a government acquires a 100% equity interest in a legally-separate entity that *does not* meet the definition of an investment

Component unit should remeasure assets, liabilities, and deferrals by applying acquisition value as described in Statement 69

Government holding the 100% equity interest would recognize an asset and measure by using acquisition value

These provisions would be applied prospectively only
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?
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.
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.
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
Some conduit debt obligations include arrangements* that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Capital asset is built or acquired with proceeds of the conduit debt obligation.
- Issuer retains title to the capital asset from the beginning of the arrangement.
- Payments from the third-party obligor are to cover debt service payments.
- Payment schedule of the arrangement coincides with the debt service repayment schedule.

*Often characterized as “leases”
Arrangements and Capital Assets (continued)

Accounting by the issuer:

- Do *not* report those arrangements as leases
- Do *not* recognize a liability for the related conduit debt obligations
- Do *not* recognize a receivable for the payments related to those arrangements
- If the arrangement meets the definition of a service concession arrangement, follow Statement 60
## Arrangements and Capital Assets (continued)

<table>
<thead>
<tr>
<th>Does title pass to third-party obligor at end of arrangement?</th>
<th>Does the issuer recognize a capital asset?</th>
<th>Does the issuer recognize a deferred inflow of resources?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>No, and third party has exclusive use of <em>entire</em> capital asset</td>
<td>Yes, when the arrangement ends</td>
<td>No</td>
</tr>
<tr>
<td>No, and third party has exclusive use of only <em>portions</em> of the capital asset</td>
<td>Yes, at the inception of the arrangement</td>
<td>Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement</td>
</tr>
</tbody>
</table>
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
Implementation Guidance Updates

2018-1 and 2019-1
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 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
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
Current Technical Agenda Projects
Conceptual Framework—Notes to Financial Statements
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.
Concepts Related to Note 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.
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 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.
## Project Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>Pre-Agenda Research Started</td>
<td>April 2016</td>
</tr>
<tr>
<td>Added to Current Technical Agenda</td>
<td>August 2018</td>
</tr>
<tr>
<td>Deliberations Began</td>
<td>October 2018</td>
</tr>
<tr>
<td>Exposure Draft Expected</td>
<td>February 2020</td>
</tr>
</tbody>
</table>
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
The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

The related **basis of accounting** determines *when* those items should be reported.
Proposal: Recognition Hierarchy

Follow a specific order when evaluating an item for recognition:

1. Does it meet the definition of an asset or liability?
   - Yes: Recognize asset or liability
   - No: go to next step

2. 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

3. 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
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)

Item meets definition of an element under the measurement focus + Measurement of item sufficiently reflects qualitative characteristics = Recognize the item in financial statement
## Project Timeline

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminary Views Issued</td>
<td>September 2018</td>
</tr>
<tr>
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<td>June 2019</td>
</tr>
<tr>
<td>Exposure Draft Expected</td>
<td>June 2020</td>
</tr>
</tbody>
</table>
Deferred Compensation Plans

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

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 3-33

Governmental Accounting Standards Board
Deferred Compensation Plans

**What?**
The GASB 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 was September 27, 2019.
Exposure Draft 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).
## Project Timeline

<table>
<thead>
<tr>
<th>Event</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Added to Current Technical Agenda</td>
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<td>June 2019</td>
</tr>
<tr>
<td>Comment Deadline</td>
<td>September 27, 2019</td>
</tr>
</tbody>
</table>
Exposure Draft, *Replacement of Interbank Offered Rates*
SOFR – LIBOR Replacement

**What?**
The Board has proposed amendments to facilitate the transition from using IBORs in derivative instruments and leases.

**Why?**
LIBOR in its current form is expected to effectively sunset in 2021.

**When?**
Comment deadline was November 27, 2019.
• Continue to apply hedge accounting to an effective hedging derivative instrument (HDI) with a variable payment based on an IBOR, if all criteria are met:

- HDI is amended or replaced to change the reference rate of its variable payment or add/change reference rate-related fallback provisions
- Any coefficient or constant applied to the rate is limited to what is necessary to essentially equate the replacement rate and the original rate
- The original HDI is ended and the replacement HDI entered into on the same date
- Terms that affect changes in fair values and cash flows in the original and replacement HDIs are identical, except for these term changes that may be necessary for the replacement of the reference rate:
  - The frequency with which the rate of the variable payment resets
  - The dates on which the rate resets
  - The methodology for resetting the rate
  - The dates on which periodic payments are made
Add 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.

- Remove LIBOR as an appropriate benchmark interest rate for taxable debt when applying the consistent critical terms method.

- Clarify the definition of *reference rate*, as it is used in Statement 53.

- Clarify that replacing an IBOR as the reference rate of the *hedged item* would not terminate hedge accounting.

- Clarify that uncertainty related to the continued availability of IBORs would not, by itself, affect the assessment of whether a hedged expected transaction is probable.

- Provide an exception to the lease modifications guidance in Statement 87 for certain lease contracts that are amended to replace an IBOR upon which variable payments depend.
## Project Timeline

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</tr>
</tbody>
</table>
Financial Reporting Model Reexamination
In September 2018, the Board proposed improvements to the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6.

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

Redeliberations and development of an Exposure Draft have commenced.
## Tentative Decisions: Key Factors in Recognition

<table>
<thead>
<tr>
<th>Key Recognition Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recognition Terms</strong></td>
</tr>
<tr>
<td>The applicable payment terms of the transaction or other event that are used in recognition</td>
</tr>
<tr>
<td><strong>Recognition Method</strong></td>
</tr>
<tr>
<td>How transactions will be recognized; begins with determining whether a transaction or other event is short term or long term</td>
</tr>
<tr>
<td><strong>Recognition Period</strong></td>
</tr>
<tr>
<td>Period associated with the recognized assets and liabilities</td>
</tr>
</tbody>
</table>
## Short-Term Financial Resources Measurement Focus

### Recognition Terms
- *Contractual terms* – the specific applicable contractual terms (or statutory terms) of the transaction or other event
  - Estimated payments when there are no contractual or statutory terms

### Recognition Method
- Items arising from *short-term* transactions or other events – recognize *when incurred*
- Items arising from *long-term* transactions or other events – recognize *when due*
  - The date at which payment is scheduled to be made (if not scheduled, expected) in accordance with the recognition terms

### Recognition Period
Will be converted to or generate cash (or other financial assets) or require the use of cash (or other financial assets) *within one year* from the inception of the transaction or other event
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

## INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

<table>
<thead>
<tr>
<th>Taxes:</th>
<th>General Fund</th>
<th>Special Tax Fund</th>
<th>Other Governmental Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property tax</td>
<td>$20,322,167</td>
<td>$5,311,156</td>
<td>$2,015,047</td>
<td>$27,648,370</td>
</tr>
<tr>
<td>Sales tax</td>
<td>45,034,789</td>
<td>-</td>
<td>-</td>
<td>49,465,663</td>
</tr>
<tr>
<td>Use tax</td>
<td>3,586,753</td>
<td>-</td>
<td>-</td>
<td>3,586,753</td>
</tr>
<tr>
<td>Motor fuel tax</td>
<td>-</td>
<td>-</td>
<td>2,889,647</td>
<td>2,889,647</td>
</tr>
<tr>
<td>Other taxes</td>
<td>3,975,895</td>
<td>-</td>
<td>2,698,909</td>
<td>6,674,804</td>
</tr>
<tr>
<td>Payments in lieu of taxes</td>
<td>2,721,420</td>
<td>-</td>
<td>-</td>
<td>2,721,420</td>
</tr>
<tr>
<td>Special assessments</td>
<td>-</td>
<td>-</td>
<td>41,500</td>
<td>41,500</td>
</tr>
<tr>
<td>Licenses and permits</td>
<td>1,303,889</td>
<td>-</td>
<td>-</td>
<td>1,303,889</td>
</tr>
<tr>
<td>Fees for services</td>
<td>7,052,692</td>
<td>-</td>
<td>202,273</td>
<td>7,254,965</td>
</tr>
<tr>
<td>Franchise fees</td>
<td>1,968,522</td>
<td>-</td>
<td>-</td>
<td>1,968,522</td>
</tr>
<tr>
<td>Fines and citations</td>
<td>1,476,364</td>
<td>-</td>
<td>-</td>
<td>1,476,364</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>14,595,019</td>
<td>-</td>
<td>6,192,493</td>
<td>20,787,512</td>
</tr>
<tr>
<td>Investment earnings</td>
<td>5,829</td>
<td>11,384</td>
<td>119,043</td>
<td>136,256</td>
</tr>
<tr>
<td>Transfers in</td>
<td>500,000</td>
<td>-</td>
<td>155,204</td>
<td>655,204</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>4,216,940</td>
<td>654,482</td>
<td>771,287</td>
<td>5,642,709</td>
</tr>
</tbody>
</table>

Total inflows of short-term financial resources for current activities: $106,760,279

## OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

<table>
<thead>
<tr>
<th>General government</th>
<th>General Fund</th>
<th>Special Tax Fund</th>
<th>Other Governmental Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>14,053,444</td>
<td>6,961,201</td>
<td>2,213,691</td>
<td>23,228,336</td>
<td></td>
</tr>
<tr>
<td>Public health and safety</td>
<td>70,880,913</td>
<td>-</td>
<td>590,383</td>
<td>71,471,296</td>
</tr>
<tr>
<td>Highway and streets</td>
<td>12,137,714</td>
<td>-</td>
<td>4,715,808</td>
<td>16,853,522</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>3,581,583</td>
<td>335,659</td>
<td>1,808,065</td>
<td>5,725,307</td>
</tr>
<tr>
<td>Economic development</td>
<td>496,141</td>
<td>-</td>
<td>3,374,045</td>
<td>3,870,186</td>
</tr>
<tr>
<td>Transfers out</td>
<td>155,204</td>
<td>-</td>
<td>500,000</td>
<td>655,204</td>
</tr>
</tbody>
</table>

Total outflows of short-term financial resources for current activities: $101,304,999

Net flows of short-term financial resources for current activities: $5,455,280

## NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES

<table>
<thead>
<tr>
<th>Transfers in</th>
<th>General Fund</th>
<th>Special Tax Fund</th>
<th>Other Governmental Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2,434,544)</td>
<td>-</td>
<td>-</td>
<td>10,651,605</td>
<td>10,651,605</td>
</tr>
<tr>
<td>Debt service</td>
<td>(366,412)</td>
<td>-</td>
<td>(9,198,505)</td>
<td>(11,564,917)</td>
</tr>
<tr>
<td>Capital outlay</td>
<td>(111,987)</td>
<td>(1,515)</td>
<td>(1,346,497)</td>
<td>(1,459,999)</td>
</tr>
<tr>
<td>Transfers out</td>
<td>(7,680,875)</td>
<td>(6,445)</td>
<td>(2,420,900)</td>
<td>(10,108,220)</td>
</tr>
</tbody>
</table>

Net flows of short-term financial resources for noncurrent activities: $(10,227,406)

## Net change in short-term financial resources fund balances

<table>
<thead>
<tr>
<th>General Fund</th>
<th>Special Tax Fund</th>
<th>Other Governmental Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>$(4,772,126)</td>
<td>$(1,694,210)</td>
<td>$3,999,888</td>
<td>$(2,466,448)</td>
</tr>
<tr>
<td>Short-term financial resources fund balances at beginning of year</td>
<td>$9,319,621</td>
<td>$9,776,474</td>
<td>$27,892,592</td>
</tr>
<tr>
<td>Short-term financial resources fund balances at end of year</td>
<td>$4,547,495</td>
<td>$8,082,264</td>
<td>$31,892,480</td>
</tr>
</tbody>
</table>
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 \textit{operating income (loss) and noncapital subsidies}

Subsidies are:

\begin{itemize}
  \item Resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided
  \item Resources provided to another party or fund that results in higher rates than otherwise would be established for the level of goods and services to be provided
\end{itemize}
<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees (net of discounts)</td>
<td>$574,168</td>
<td>$525,791</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>292,962</td>
<td>278,481</td>
</tr>
<tr>
<td>Sales and services</td>
<td>271,345</td>
<td>272,244</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>7,868</td>
<td>14,861</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>1,146,343</strong></td>
<td><strong>1,091,377</strong></td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Natural or functional expenses]</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>1,681,544</strong></td>
<td><strong>1,596,059</strong></td>
</tr>
<tr>
<td><strong>Income (loss) generated by operations</strong></td>
<td><strong>(535,201)</strong></td>
<td><strong>(504,682)</strong></td>
</tr>
<tr>
<td><strong>Noncapital subsidies:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriations</td>
<td>407,702</td>
<td>394,767</td>
</tr>
<tr>
<td>Taxes</td>
<td>8,026</td>
<td>7,660</td>
</tr>
<tr>
<td>Grants</td>
<td>42,978</td>
<td>37,567</td>
</tr>
<tr>
<td>Gifts</td>
<td>99,395</td>
<td>90,063</td>
</tr>
<tr>
<td><strong>Total noncapital subsidies</strong></td>
<td><strong>558,101</strong></td>
<td><strong>530,557</strong></td>
</tr>
<tr>
<td><strong>Operating income (loss) and noncapital subsidies</strong></td>
<td><strong>22,900</strong></td>
<td><strong>25,375</strong></td>
</tr>
<tr>
<td><strong>Financing and investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>235,820</td>
<td>138,649</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(12,412)</td>
<td>(12,853)</td>
</tr>
<tr>
<td>Loss from the disposition of capital assets</td>
<td>(2,385)</td>
<td>518</td>
</tr>
<tr>
<td><strong>Total financing and investing activities</strong></td>
<td><strong>221,023</strong></td>
<td><strong>126,314</strong></td>
</tr>
<tr>
<td><strong>Income before other items</strong></td>
<td><strong>243,923</strong></td>
<td><strong>151,689</strong></td>
</tr>
<tr>
<td><strong>Other items:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital contributions</td>
<td>23,231</td>
<td>74,830</td>
</tr>
<tr>
<td><strong>Increase (decrease) in net position</strong></td>
<td><strong>287,154</strong></td>
<td><strong>226,519</strong></td>
</tr>
<tr>
<td>Net position—beginning</td>
<td>3,061,111</td>
<td>2,834,592</td>
</tr>
<tr>
<td><strong>Net position—ending</strong></td>
<td><strong>3,328,265</strong></td>
<td><strong>3,061,111</strong></td>
</tr>
</tbody>
</table>
**Tentative decisions: Management’s discussion and analysis**

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 and discussion of infrastructure assets (if applicable) to the relevant parts of RSI

Add clarification and structure to the requirement for brief discussion of the basic financial statements, including their relationships and significant differences

Emphasize the level of thoroughness required for the analysis of year-to-year changes and the need to avoid unnecessary duplication

Amend the requirements for currently known facts, decisions, or conditions with examples, such as economic trends; subsequent year’s budget; actions government has taken on postemployment benefits, capital improvement plans, and long-term debt; actions other parties have taken that affect the government
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
Other Tentative Proposals for the Exposure Draft

<table>
<thead>
<tr>
<th>Debt Service Funds</th>
<th>Special and Extraordinary Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 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</td>
<td>• 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</td>
</tr>
<tr>
<td></td>
<td>• 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</td>
</tr>
</tbody>
</table>
## Project Timeline

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
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<td>Pre-Agenda Research Started</td>
<td>April 2013</td>
</tr>
<tr>
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<td>September 2015</td>
</tr>
<tr>
<td>Invitation to Comment Issued</td>
<td>December 2016</td>
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Omnibus

GASB Exposure Draft

June 24, 2019
Comments Due: October 4, 2019

Proposed Statement
of the Governmental Accounting Standards Board

Omnibus 20XX

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 37-1

Governmental Accounting Standards Board
Omnibus Exposure Draft

What?
The Board 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
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.
Project Timeline

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</tr>
</tbody>
</table>
Public-Private and Public-Public Partnerships and Availability Payment Arrangements
PPP, APAs, and SCAs

What?
The Board 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 was September 13, 2019.
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
Other Proposals

A PPP that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (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.
# Proposed Transferor Reporting

For all PPPs, recognize:

- Receivable for installment payments to be received, if any
- Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the PPP term

If underlying PPP asset is a new asset or an existing asset that has been improved…

- …and the PPP is an SCA: also recognize the capital asset at acquisition value when placed into operation
- …and the PPP is not an SCA: also recognize a receivable for the capital asset, measured at operator’s estimated carrying value as of the future date of the transfer in ownership
### Proposed Operator Reporting

**For all PPPs, recognize:**
- Liability for installment payments to be received, if any

**If underlying PPP asset is (a) existing asset or (b) a new asset/improved existing asset and the P3 is an SCA…**
- …also recognize an intangible right-to-use asset

**If underlying PPP asset is a new asset/improved existing asset and the PPP is not an SCA…**
- Also recognize the underlying PPP asset until ownership is transferred
- And a liability for the underlying PPP asset, measured at the estimated carrying value as of the future date of the transfer
# Project Timeline

<table>
<thead>
<tr>
<th>Event</th>
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<tbody>
<tr>
<td>Pre-Agenda Research Approved</td>
<td>April 2017</td>
</tr>
<tr>
<td>Added to Current Technical Agenda</td>
<td>April 2018</td>
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<tr>
<td>Exposure Draft Approved</td>
<td>June 2019</td>
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<tr>
<td>Comment Deadline</td>
<td>September 13, 2019</td>
</tr>
<tr>
<td>Final Statement Expected</td>
<td>March 2020</td>
</tr>
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</table>
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.
Revenue and Expense Recognition Model

**Categorization**
Identify the *type* of transaction

**Recognition**
Determine *what* element should be reported and *when*

**Measurement**
Determine the *amount* to report
Categorization Component

Is there a binding arrangement?  
No: Out of scope of the project
Yes: 

Is there mutual assent of the parties of capacity?  
No: 
Yes: Yes: 

Can each party identify substantive rights and obligations?  
No: 
Yes: 

Are each set of rights and obligations interdependent?  
No: 
Yes: Category A Transactions

Category B Transactions
Categorization Details

Is there a binding arrangement?
- Economic substance
- Rebuttable presumption of enforceability

No → Out of scope of the project

Yes → Is there mutual assent of the parties of capacity?
- Parties to the transaction have approved the terms and conditions of the binding arrangement

No → Category B Transactions

Yes
Can each party identify substantive rights and corresponding substantive obligations?

- Yes
  - Are each set of rights and obligations dependent on the existence of each other, such that there is recourse for failure of either party?
    - No → Category B Transactions
    - Yes → Category A Transactions
      - Rights are conditioned on obligations, and vice versa

- No → Category B Transactions
Categorization Details (continued)

**Category A Transactions**
- **Increase in net assets**
  - Category A revenue recognition
- **Decrease in net assets**
  - Category A expense recognition

**Category B Transactions**
- **Increase in net assets**
  - Category B expense recognition
- **Decrease in net assets**
  - Category B revenue recognition
# Model Outcomes*

<table>
<thead>
<tr>
<th>Category A</th>
<th>Category B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees for service (water, electric, garbage)</td>
<td>Taxes (property tax, income tax, sales tax)</td>
</tr>
<tr>
<td>Eligibility-based grants</td>
<td>Punitive fees</td>
</tr>
<tr>
<td>Research grants and revolving loans</td>
<td>Special assessments</td>
</tr>
<tr>
<td>Medicaid fees for services</td>
<td>Donations</td>
</tr>
<tr>
<td>Tuition fees</td>
<td>Regulatory fees (drivers licenses, building permits, marriage licenses, professional licenses)</td>
</tr>
<tr>
<td>Most expenses</td>
<td>Purpose-restricted grants</td>
</tr>
<tr>
<td></td>
<td>Capital fees (developer fees, PFCs)</td>
</tr>
<tr>
<td></td>
<td>Medicaid supplementary payments</td>
</tr>
</tbody>
</table>

* Transactions highlighted in blue would have different outcomes than under current literature
## Project Timeline

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<tr>
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<td>Pre-Agenda Research Started</td>
<td>September 2015</td>
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<td>Added to Current Technical Agenda</td>
<td>April 2016</td>
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<td>Invitation to Comment Cleared</td>
<td>January 23, 2018</td>
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<td>Redeliberations Began</td>
<td>June 2018</td>
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<tr>
<td>Preliminary Views Expected</td>
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</table>
Subscription-Based Information Technology Arrangements
What? The Board 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 was August 23, 2019.
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
<table>
<thead>
<tr>
<th>Preliminary project stage</th>
<th>Initial implementation stage</th>
<th>Post-implementation/operation stage</th>
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</table>
| • 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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Pre-Agenda Research Activities
Capital Assets
Capital Assets

What?
The GASB is evaluating existing guidance related to capital assets and the usefulness of information reported by governments.

Why?
Stakeholders have asked the GASB to review various aspects of capital asset reporting; the most relevant standards have been in effect 15-20 years.

When?
The Board added the pre-agenda research in August 2019.
# Topics to Be Considered

What choices do governments make with respect to their capital asset-related accounting policies? Why do they select those policies?

How do governments determine when outflows enhance the service capacity or extend the useful life of an asset?

How do governments report exchanges of capital assets?

How do depreciation and estimated useful lives compare with the actual diminution of service capacity?

What has been the experience with the modified approach to reporting infrastructure? How has it affected comparability of statement information?

Should changes in the condition of capital assets be reflected as flows of resources in the financial statements? How would it be measured?

What information do governments collect and report about deferred maintenance? How is it estimated?
Compensated Absences: Reexamination of Statement 16
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.
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 *termination payment method* or the *vesting method* (as described in paragraph 8 of Statement 16)?

Should there continue to be a choice regarding how to calculate the liability? Should one method be eliminated?
Going Concern Disclosures: Reexamination of Statement 56
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.
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?
Investment Fees
What?
The GASB is studying how governments report investment costs and what related information users need.

Why?
Stakeholders have asked the GASB to review current practice with respect to reporting investment-related fees.

When?
The Board added the pre-agenda research in August 2019.
Topics to Be Considered

What information do governments report regarding fees associated with investments? What fees are netted against investment income rather than recognized as expense?

What information about investment fees is made available to governments by the general partners or funds managing alternative investments? Can additional information be obtained if necessary?

What information do financial statement users need regarding investment fees? Do they need additional information about fees related to alternative investments? What characteristics of alternative investments, if any, would justify additional disclosure?
Interim Financial Reporting
Interim Financial Reporting

What?
The GASB is assessing the need for guidance on how to report on a GAAP basis for periods of less than a year.

Why?
There is no guidance in the GASB literature for preparing interim financial statements.

When?
The Board added the pre-agenda research in August 2019.
Topics to Be Considered

What is current practice with respect to interim financial reporting?

Do interim GAAP financial reports of general purpose or business-type governments provide users with valuable information?

Should specific recognition and measurement standards be developed for interim GAAP reporting?

Should separate reporting entity standards be developed for interim GAAP reporting?
Prior-Period Adjustments, Accounting Changes, and Error Corrections: 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?
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.
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
- Form for submitting technical questions
- Educational materials, including podcasts