Alabama Government Finance Officers Association

GASB Update

February 22, 2018

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

Presentation Overview

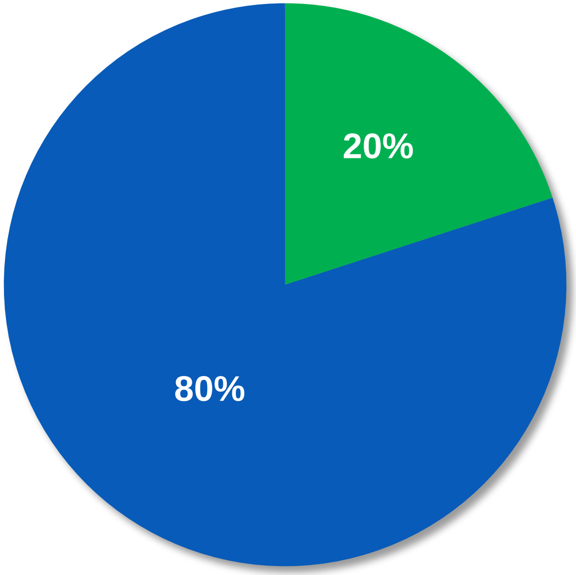
- Information about the GASB
- The "Big 3" projects
- Pronouncements currently being implemented
- Proposals currently being exposed for public comment
- Projects currently being deliberated by the Board

GASB Members

- David A. Vaudt (Chairman)
- Jeffrey J. Previdi (Vice Chairman)
- James E. Brown
- Brian W. Caputo
- Michael H. Granof
- Kristopher E. Knight
- David E. Sundstrom

2017

How Is the GASB Funded?

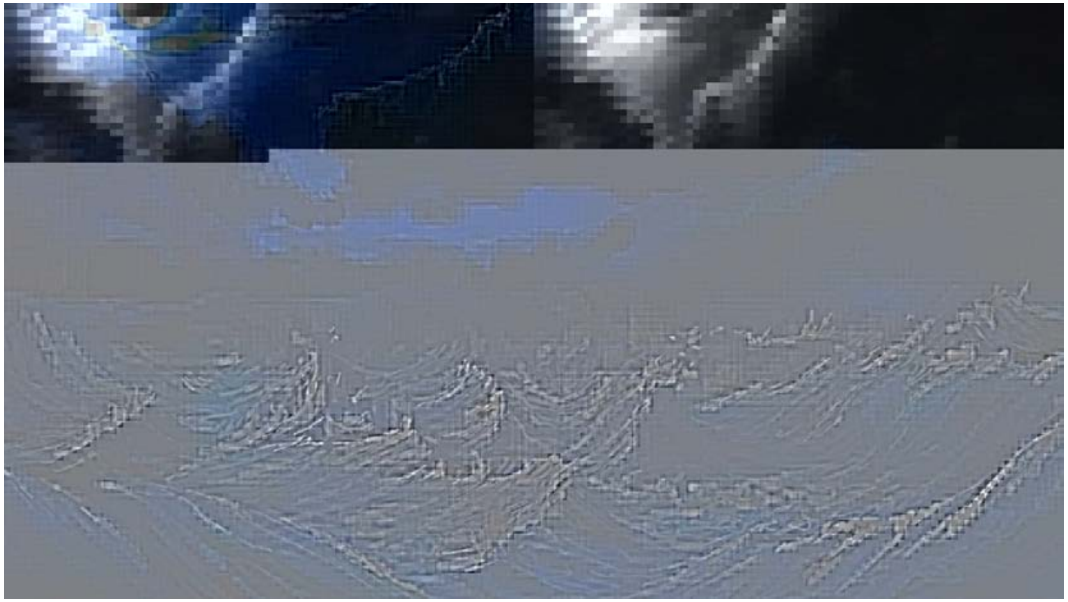


- Voluntary Reserve Fund Contribution (primarily derived from subscriptions & publications and investment income)
- GASB Accounting Support Fees (funds GASB recoverable expenses)

GASB 2017 Accounting Support Fee Assessment
Approx. 440 municipal bond broker-dealers (per Dodd-Frank)
$8.3 million (approx. $52 per firm per day)

What are the "Big 3" Projects

1) The Financial Reporting Model—Reexamination of Statement 34
2) Revenue and Expense Recognition
3) Note Disclosures Reexamination



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Financial Reporting Model—Reexamination of Statement 34

Preliminary Views—September 2018

Financial Reporting Model Reexamination

- **What:** The Board is redeliberating over comments received in response to the December 2016 Invitation to Comment, the first due process document in the project reexamining the effectiveness of the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6.

- **Why:** A review of these standards found that they generally were effective, but that there were aspects that could be significantly improved.

- **When:** A Preliminary Views is planned for September 2018.

Concerns with Governmental Funds Financial Statements

- Lack of conceptual consistency in recognition of assets and liabilities
- Lack of 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)
  - Focus on financial resources, rather than on economic resources
  - Shorter time perspective than information in government-wide financial statements

Topics Covered in the Invitation to Comment

- Three possible recognition approaches to replace current financial resources/modified accrual:
  - Near-term financial resources
  - Short-term financial resources
  - Long-term financial resources
- Format of governmental funds resource flows statement
  - Existing format v. Current and long-term activities format
- Governmental funds cash flows statement
  - Could be needed for short-term and long-term financial resources approaches because the time perspective is not close to cash

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Tentative Decisions for the Preliminary Views

The recognition approach for governmental funds be based on a combination of the near-term and short-term recognition approaches, be called the short-term financial resources measurement approach, and have the following characteristics:

- one-year from the inception of the transaction recognition timeframe
- accrued interest will be recognized when payable and normally due within one year, which may not necessarily align with the recognition of principal payments on the related debt
- recognition of tax and revenue anticipation notes as liabilities
- exclusion of the recognition of the current portion of long-term assets and liabilities.

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Tentative Decisions for the Preliminary Views – Messages of the short-term financial resources measurement approach

- Reports financial balance sheet elements and flows of financial resources of governmental fund activities from a short-term perspective.
- Provides information about spending for the period and inflows of resources from short-term transactions as they occur
- Provides information about long-term transactions as they mature, as well as period-end balances from short-term transactions
- Provides financial results that may be comparable to budgetary information, which usually relates to shorter periods of time as well

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Tentative Decisions for the Preliminary Views – What are short-term transactions?

- **The determination of whether a transaction is short-term or long-term is key to the recognition under the approach being proposed in the Preliminary Views**
- Short-term transactions are those that NORMALLY are DUE to convert to or require the use of cash (or other financial assets) within one year from the inception of the transaction.
  - Normally (consistent with its use in Interpretation 6, refers to circumstances for governments in general, not the potentially unique circumstances of a single government
  - Due refers to the date at which payment is scheduled or, if not scheduled, expected to be made

Tentative Decisions for the Preliminary Views – What are long-term transactions?

- Long-term transactions are those that NORMALLY are DUE to convert to or require the use of cash (or other financial assets) **beyond one year** from the **inception of the transaction**.
  - Normally (consistent with its use in Interpretation 6), refers to circumstances for governments in general, not the potentially unique circumstances of a single government
  - Due refers to the date at which payment is scheduled or, if not scheduled, expected to be made

Tentative Decisions for the Preliminary Views – Recognition in the short-term approach

- Assets include those from ***short-term transactions*** that are ***receivable*** at period-end as well as cash and other financial assets that are available to be converted to cash or are expected to be consumed in lieu of cash within the subsequent operating cycle

- Liabilities include those arising from ***short-term transactions*** that are ***payable*** at period-end

- Assets arriving from ***transactions that are normally long-term*** would be recognized when payments come due

- Liabilities arriving from ***transactions that are normally long-term*** would be recognized when payments become due

Tentative Decisions for the Preliminary Views

- Separate presentation of operating and nonoperating revenues and expenses—in proprietary fund and business-type activity (BTA) financial statements
  - Operating activities are those other than nonoperating activities
  - Nonoperating activities include
    - Subsidies received and provided
    - Revenues and expenses of financing
    - Resources from the disposal of capital assets and inventory
    - Investment income and expenses

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Tentative Decisions for the Preliminary Views

- Separate presentation of operating and nonoperating revenues and expenses (continued)
  - 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
    - Includes resources for purchase of capital assets
  - Subtotal for *operating income (loss) and noncapital subsidies*

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Tentative Decisions for the Preliminary Views

- Budgetary comparisons
  - Would be presented in required supplementary information (no option for basic statements)
  - Required variances would be final-budget-to-actual and original-budget-to-final-budget

Tentative Decisions for the Preliminary Views

- Statement of Activities and Schedule of Natural Classifications
  - The existing format of the government-wide statement of activities be presented with a schedule of natural classification of expenses by function or program.
  - The information conveyed in a schedule of natural classification of expenses be presented in general purpose external financial reports as supplementary information.

Other Topics – Preliminary Views

- Permanent funds
  - Determine recognition approach and presentation for permanent funds when preliminary view for recognition approach in governmental funds is finalized
- Reconciliation to government-wide statements and use of specific terminology
- Format of the governmental fund resource flows statement
- Cash flow statement

Topics Expected to Be Addressed in an Exposure Draft

- Extraordinary and special items—explore options for clarifying the guidance for more consistent reporting
- Management's discussion and analysis (MD&A)
  - Enhance the financial statement analysis component
  - Eliminate boilerplate
  - Clarify guidance for presenting currently known facts, decisions, or conditions
- Debt service funds—explore options for providing additional information, either individually or in aggregate in the financial statements or the notes

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Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Expected	September 2018

Revenue and Expense Recognition

Invitation To Comment—January 2018

Revenue and Expense Recognition

- **What:** The Board is developing a comprehensive application model for recognition of revenues and expenses from a wide range of transactions.

- **Why:** The revenue recognition standards incorporated in Statement 62 have not been revised for governments in nearly 50 years; stakeholders have raised questions about how to account certain nonexchange revenues and expenses; other accounting standard setters are considering or implementing a "performance obligation" approach for revenue recognition.

- **When:** The Board added the project in April 2016.

Tentative Decisions: Project Scope

- The project scope broadly encompasses revenue and expense recognition but excludes the following:
  - Topics with guidance developed considering the current conceptual framework, such as pensions and other post-employment benefits
  - Topics related to financial transactions, such as investments, derivatives, leases, and insurance
  - Topics related to transactions arising from recognition of capital assets or certain liabilities, such as depreciation, asset retirement obligations, and pollution remediation obligations

Revenue and Expense Recognition Model

- The are three components of a revenue and expense recognition model:
  - ***Classification*** is the process of identifying a type of transaction, for example is the transaction exchange or nonexchange?
  - ***Recognition*** is the process of determining when and what element should be reported, for example, recognize revenue when the transaction is earned
  - ***Measurement*** is process of determining the value of the element to be recognized.
- For the Invitation To Comment, *measurement* would not be included.

Revenue and Expense Recognition Models (Cont.)

- The Invitation to Comment includes two primary models

	Exchange/Nonexchange Model	Performance Obligation/No Performance Obligation Model
Classification	Is the transaction an exchange or nonexchange transaction?	Does the transaction contain a performance obligation?
Recognition	***Exchange Transaction*** Recognize based on earnings approach	***Transaction contains performance obligation(s)*** Recognize based on performance obligation approach
	Nonexchange Transaction Recognize based on Statement 33 provisions	***Transaction does not contain a performance obligation*** Recognize based on Statement 33 provisions
Measurement	***Measurement is not addressed in this Invitation to Comment but will be addressed in a later due process document.***	

Exchange/Nonexchange Model (Cont.)

Exchange/Nonexchange Model		
Classification	Is the transaction an exchange?	
Recognition	**Yes**	**No**
	Exchange Transaction	***Nonexchange Transaction***
	Recognize based on the earnings recognition approach: • Government controls a resource, or incurs a liability ***and*** • The change in net assets is not applicable a future reporting period	Recognize based on Statement 33 provisions for: • Derived tax revenues • Imposed nonexchange revenues • Government-mandated nonexchange transactions • Voluntary nonexchange transactions
Measurement	*Measurement is not addressed in this Invitation to Comment but is expected to be addressed in a later due process document.*	

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Performance Obligation/No Performance Obligation Model

Performance Obligation/No Performance Obligation Model		
Classification	Does the transaction contain a performance obligation in a binding arrangement?	
	Yes	**No**
	Performance Obligation	***No Performance Obligation***
Recognition	Recognize based on performance obligation 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)	Recognize based on Statement 33 provisions for: • Derived tax revenues • Imposed nonexchange revenues • Government-mandated nonexchange transactions • Voluntary nonexchange transactions
Measurement	*Measurement is not addressed in this 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.
  - 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.

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Performance Obligation Recognition

- The performance obligation recognition approach would entail:

1. Determining the amount of consideration that a government expects to receive or pay pursuant to the binding arrangement
2. Allocate the consideration to each performance obligation identified in the binding arrangement
3. Recognize revenue or expense as each performance obligation is satisfied and the transaction is applicable to the reporting period.
    - Performance obligations can be satisfied at a point in time or over time.

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Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Expected	January 2018
Comment Period End	April 2018
Public Hearings	
Re-deliberations Expected to begin	June 2018

Note Disclosures Reexamination

Pre-agenda Research

Note Disclosures

- **What:** A review of existing standards related to note disclosures except for those (1) required by pronouncements that have not been effective for at least three years, and (2) related to leases, debt extinguishments, outstanding debt, conduit debt, and going concern (which are the subjects of separate projects or research)
- **Why:** A comprehensive review of note disclosures has not been conducted since 1997
- **When:** The Board added the pre-agenda research in April 2016

Topics to Be Considered

- Does Concepts Statement 3 provide a sufficient framework for establishing disclosure requirements or should additional framework criteria be developed for all disclosures? What approach, if any, would help to reduce repetition within disclosures and the overall length of the notes section?
- Do the required note disclosures meet their intended objectives and continue to provide information that is useful for making decisions and assessing accountability?
- What unmet user needs exist that might require new note disclosures? Alternatively, what existing disclosure requirements do not provide useful information to users of governmental financial reports?

Topics to Be Considered (continued)

- What is the nature and extent of disclosures that governments currently include in their financial reports that are not specifically required by existing financial reporting standards?
- Is there sufficient guidance for determining what information about component units should be included in a primary government's notes? If not, how can the existing guidance be improved?

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Pronouncements Currently Being Implemented

Effective Dates—June 30

- 2017
  - Statement 73—pensions not within the scope of 67/68
  - Statement 74—OPEB (plans)
  - Statement 77—tax abatement disclosures
  - Statement 78—certain multiple-employer pension plans
  - Statement 79—certain investment pools and participants*
  - Statement 80—blending requirements
  - Statement 82—pension issues+
  - Implementation Guide 2016-1
- 2018
  - Statement 75—OPEB (employers)
  - Statement 81—irrevocable split-interest agreements
  - Statement 85—omnibus#
  - Statement 86—certain debt extinguishment issues
  - Implementation Guide 2017-1

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Effective Dates—June 30 (continued)

- 2019—Statement 83—certain asset retirement obligations
- 2020—Statement 84—fiduciary activities
- 2021—Statement 87—leases

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Effective Dates—December 31

- 2017
  - Statement 73—pensions not within the scope of 67/68
  - Statement 74—OPEB (plans)
  - Statement 80—blending requirements
  - Statement 81—irrevocable split-interest agreements
  - Implementation Guide 2016-1
  - Statement 82—pension issues^{+}
- 2018
  - Statement 75—OPEB (employers)
  - Statement 85—omnibus$^{\#}$
  - Statement 86—certain debt extinguishment issues
  - Implementation Guide 2017-1
- 2019
  - Statement 83—asset retirement obligations
  - Statement 84—fiduciary activities
- 2020—Statement 87—leases

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Other Postemployment Benefits

Statements No. 74 and No. 75

Overview

- **What:** The Board issued Statements 74 (plans) and 75 (employers), making OPEB accounting and financial reporting consistent with the pension standards in Statements 67 and 68
- **Why:** Pension and OPEB standards were updated subsequent to a review of the effectiveness of the standards—objective was to establish a consistent set of standards for all postemployment benefits, providing more transparent reporting of the liability and more useful information about the liability and costs of benefits
- **When:** Effective for periods beginning after June 15, 2016 (plans) and June 15, 2017 (employers)

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Plan and Asset Reporting

- Scope includes defined benefit and defined contribution OPEB plans administered through trusts that meet specified criteria
- Also addresses assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are *not* administered through trusts that meet the criteria
  - Assets reported as assets in employer's governmental/ proprietary funds
  - Assets held for other government reported in an agency fund
- Few changes from Statement 43 for financial statement recognition
- Notes/RSI changes primarily to reflect changes in measurement of defined benefit liabilities of employers

Employer Scope and Applicability

- Applies same definition of OPEB as used in Statement 45
  - All postemployment healthcare benefits
  - Other forms of postemployment benefits not provided through a pension plan
- Addresses both defined benefit OPEB and defined contribution OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as those payments come due

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Liability to Employees for OPEB

- Based on total OPEB liability—the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service
- Is OPEB administered through a trust that meets the specified criteria?
  - Yes—recognize net OPEB liability (total OPEB liability, net of OPEB plan fiduciary net position)
  - No—recognize total OPEB liability
- Employer's liability to employees for OPEB measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the employer's current fiscal year
  - Based on an actuarial valuation obtained at least biennially no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end

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Measurement of the Total OPEB Liability—General Approach

- Three broad steps
  - Project benefit payments
  - Discount projected benefit payments to actuarial present value
  - Attribute actuarial present value to periods
- Methods and assumptions
  - Generally, assumptions in conformity with Actuarial Standards of Practice
  - Single attribution method—entry age, level percentage of pay

Measurement of the Total OPEB Liability: Projections of OPEB Payments

- Consider established pattern of practice with regard to sharing of benefit-related costs with inactive employees
- Based on claims costs or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice
- Includes taxes or other assessments expected to be imposed on benefit payments
- Consider legal or contractual benefit caps if determined to be effective

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Measurement of the Total OPEB Liability: Alternative Measurement Method

- Alternative measurement method may be applied if fewer than 100 employees (active and inactive) are provided benefits through plan as of the beginning of the measurement period
  - Generally, same simplifications to assumptions can be used as were permitted by Statement 45

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Changes in Liability

- Recognize most changes in liability for the current reporting period as OPEB expense immediately, except:
  - Changes in total OPEB liability:
    - Differences between expected and actual experience with regard to economic and demographic factors in the measurement of the total OPEB liability
    - Changes of assumptions in the measurement of the total OPEB liability
    - For OPEB not administered through a trust in which specified criteria are met, benefit payments
  - For OPEB administered through trust in which specified criteria are met:
    - Difference between projected and actual earnings on OPEB plan investments
    - Employer contributions

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Cost-Sharing Employers

- Relevant only for OPEB administered through trust in which specified criteria are met
- Recognize proportionate shares of collective net OPEB liability, OPEB expense, and deferred outflows of resources/deferred inflows of resources related to OPEB
- Proportion (%)
  - Basis required to be consistent with contributions
  - Use of relative long-term projected contribution effort encouraged
- Collective measure × proportion = proportionate share of collective measure

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Notes and RSI

- Similar to those required for pensions
- Disclosure of effect on net/total OPEB liability of a discount rate +/- 1 percent
- Disclosure of effect on net/total OPEB liability of a healthcare cost trend rate +/- 1 percent
- Single and agent employers: 10-year RSI schedules for changes in the net OPEB liability, ratios, and actuarially determined contributions (statutorily or contractually determined contributions, if no actuarially determined contribution is calculated)
- Cost-sharing employers: 10-year RSI schedules for proportionate share/ratios, and statutorily or contractually determined contributions

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Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)

OPEB Implementation Guidance

- **What:** An Implementation Guide for OPEB and certain issues related to OPEB plan reporting was published in December 2017.
- **Why:** The effective date for Statement 75 is periods beginning after June 15, 2017. An Implementation Guide to Statement 74 on OPEB plan reporting was published in April 2017.
- **When:** Generally effective for periods beginning after June 15, 2017, the same as for Statement 75.

Implementation Guidance

- More than 500 questions and answers related to employer accounting and financial reporting for OPEB
- Additional questions and answers related to OPEB plan reporting (Statement 74)

Illustrations

- Determination of benefit payments if blended premium rates are stated
- Determination of the discount rate in circumstances in which benefits are paid by the employer with its own resources as they come due and the OPEB plan is administered through a trust that meets the criteria in paragraph 4 of Statement 75
- Determination of certain amounts to be presented in a single or agent employer's required supplementary information (RSI) schedule of contribution-related information
- Note disclosures, RSI, and calculation of certain recognized amounts for a cost-sharing employer

Effective Dates

- In general, the same as Statement 75: periods beginning after June 15, 2017
- Questions 4.85, 4.103, 4.108, 4.109, 4.225, 4.239, 4.244, 4.245, and 5.1–5.4 are effective for actuarial valuations as of December 15, 2017, or later
- Questions 4.484 and 4.491 are effective for an employer or nonemployer contributing entity in the first reporting period in which the measurement date of the (collective) net OPEB liability is on or after June 15, 2018.

Tax Abatement Disclosures

Statement No. 77

Tax Abatement Disclosures

- **What:** The Board issued Statement 77, which requires disclosures about a government's tax abatement agreements
- **Why:** Information about revenues that governments forgo is essential to understanding financial position and economic condition, interperiod equity, sources and uses of financial resources, and compliance with finance related legal or contractual requirements
- **When:** Effective for periods beginning after December 15, 2015

Definition and Scope

- Does not include all transactions that reduce tax revenues
- Emphasis is on the substance of the arrangement meeting the definition, not on its name or form
- Would apply only to arrangements meeting this definition:
  - A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

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Scope: Tax Increment Financings (TIF)

IG 2016-1, Question 4.77	IG 2017-1, Question 4.40
Government uses TIF to encourage economic development	Government enters into agreement with developer to stimulate economic growth
• Bonds issued by government to finance infrastructure in specific area • Baseline for sales tax revenues for the area, including proposed development, is established prior to the start of the project • Additional sales tax revenues above baseline are set aside for payment of the bonds	• Developer will construct building • Baseline for property tax revenues for the specific area will be established prior to the start of the project • Developer will receive amount from additional property tax revenues above baseline, based on certain costs incurred by the developer related only to the developer's building.
Disclose under 77? NO	Disclose under 77? YES

Scope: Existence of Property Tax Cap

- Government is subject to a property tax cap that limits the growth of property tax levy to 2 percent per year. Full amount allowed under the cap is levied on properties that are not subject to agreements to lower taxes of individual taxpayers. Therefore, *overall* tax revenues will not be reduced. Are those agreements tax abatements under Statement 77?

- Yes, if they meet the other parts of the definition. It is not necessary that the government forgo tax revenue in the aggregate. The fact that the government may effectively recoup the tax revenue associated with the agreements from other taxpayers is not relevant to determining whether the agreement meets the definition of a tax abatement.

  - Source: IG 2017-1, Question 4.39

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General Disclosure Principles

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments and reduce the reporting government's taxes
- Disclose own tax abatements by major program
- Disclose those of other governments by the government and specific tax abated
- May disclose individual tax abatements above quantitative threshold established by the government
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

Required Disclosures

Brief Descriptive Information	Government's Own Abatements	Other Government's Abatements
Name of program	✓	
Purpose of program	✓	
Name of government		✓
Tax being abated	✓	✓
Authority to abate taxes	✓	
Eligibility criteria	✓	
Abatement mechanism	✓	
Recapture provisions	✓	
Types of recipient commitments	✓	

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Required Disclosures

Other Disclosures	Government's Own Abatements	Other Government's Abatements
Dollar amount of taxes abated	✓	✓
Amounts received or receivable from other governments associated with abated taxes	✓	✓
Other commitments by the government	✓	
Quantitative threshold for individual disclosure	✓	✓
Information omitted due to legal prohibitions	✓	✓

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Pensions Provided through Certain Multiple-Employer Pension Plans

Statement No. 78

Pensions Provided through Certain Multiple-Employer Pension Plans

- **What:** The Board issued Statement 78 to address stakeholder concerns about application of Statement 68 to defined benefit pensions provided through federally sponsored or private multiple-employer pension plans (such as Taft-Hartley plans)
- **Why:** The Board addresses requests to revisit existing standards when the concerns are significant and raise new issues
- **When:** Effective for periods beginning after December 15, 2015

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Statement 78: Exception to Statement 68

- The Statement should be applied only to pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that has all of the following characteristics:
  - It is not a state or local governmental pension plan
  - It is used to provide defined benefit pensions both to employees of state or local governments and to employees of employers that are not state or local governmental employers
  - It has no predominant state or local governmental employer
- Statement 78 provides an exception to the general requirements of Statement 68, to be replaced with recognition of required contributions, descriptive note disclosures, and an RSI schedule of required contributions for the past 10 years

Certain External Investment Pools and Pool Participants

Statement No. 79

Certain External Investment Pools and Pool Participants

- **What:** The GASB has revised the accounting and financial reporting standards for 2a7-like investment pools
- **Why:** Securities and Exchange Commission changes to Rule 2a7 would make it difficult for external investment pools to meet the criteria to continue to report as 2a7-like
- **When:** Effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23−26, and 40, which are effective for reporting periods beginning after December 15, 2015

Criteria for Pools to Use Amortized Cost

- An external investment pool needs to meet all of the following in order to report investments at amortized cost:
  - Transact with participants at stable net asset value per share – $1.00 per share
  - Meet certain portfolio maturity requirements
  - Meet certain portfolio quality requirements
  - Meet certain portfolio diversification requirements
  - Meet certain pool liquidity requirements
  - Meet shadow price requirements

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Disclosures for Pools and Participants

- Pools that report at amortized cost should disclose the fair value measurements as required by paragraphs 80–82 of Statement 72
- Pools and pool participants that report at amortized cost should disclose the presence of any limitations or restrictions on participant withdrawals, such as redemption notice periods, maximum transaction amounts, and the pools' authority to impose liquidity fees or redemption gates

Blending Requirements for Certain Component Units

Statement No. 80

Blending Requirements

- **What:** Statement 80 revises the standards regarding how certain component units should be presented in the financial statements of the primary government
- **Why:** There is diversity in practice, with some component units
- **When:** Effective for reporting periods beginning after June 15, 2016

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Reporting Entity Standards

- Most component units should be included in the financial reporting entity by discrete presentation. Before Statement 80, the blending presentation was required only when:
  - Primary government and component unit have substantively the same governing body AND
    - A financial benefit/burden relationship exists, OR
    - Management (below the elected official level) of the primary government has "operational responsibility" for the activities of the component unit
  - Services of the component unit exclusively benefit the primary government
  - Debt of the component unit is expected to be repaid entirely or almost entirely with resources of the primary government

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Additional Blending Criterion

- A component unit should be included in the reporting entity financial statements using the blended method if:
  - The component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member,* as identified in the component unit's articles of incorporation or bylaws, AND
  - The component unit is included in the financial reporting entity pursuant to the provisions in paragraphs 21–37 of Statement 14, as amended.

* The sole corporate member requirement should not be analogized to any other situations that may be considered similar to those in which the primary government is the sole corporate member, such as situations in which the primary government is the residual equity interest owner.

Irrevocable Split-Interest Agreements

Statement No. 81

Irrevocable Split-Interest Agreements

- **What:** Statement 81 addresses irrevocable split-interest agreements, which are particularly prevalent among public colleges and universities and public healthcare entities
- **Why:** Limited guidance exists for irrevocable split-interest agreements in which the government acts as trustee (and is one of the beneficiaries); no guidance exists for situations in which a third party is the trustee and the government is one of the beneficiaries; users need information about these arrangements
- **When:** Effective for periods beginning after December 15, 2016

Scope

- **Irrevocable split-interest agreements** for which the government is the intermediary (trustee or agent) and a beneficiary
  - Donor gives resources to government that also is a beneficiary in the agreement
  - Lead interest: payments during the life of the agreement, generally to non-governmental beneficiary (donor or donor's relative)
  - Remainder interest: assets remaining at termination of the agreement; generally goes to government
- **Beneficial interests** in resources held and administered by 3rd parties
  - Refers to the right to receive resources in a future reporting period, from resources administered by a 3^{rd} party

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Irrevocable Split-Interest Agreements with Resources Held by Government

Measurement	Asset	Liability	Deferred Inflow
Initial	Resources measured at fair value	For benefit of *nongovernmental* beneficiary: • Lead interest—measure directly at settlement amount	For *government's benefit* in resources: • Remainder interest—residual amount (assets less liability)
Subsequent	Investments remeasured at fair value; changes in assets will be reflected in deferred inflow	Distributions to lead interest beneficiaries reduce the liability	

Irrevocable Split-Interest Agreements with Resources Held by Third Party

Measurement	Asset	Deferred Inflow
Initial	Resources initially measured at fair value	Same as the asset
Subsequent	Changes in fair value of resources reflected in the deferred inflow	

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Pension Issues

Statement No. 82

Pension Issues

- **What:** Statement 82 addresses concerns raised by stakeholders during the implementation process of Statements 67 and 68
- **Why:** The Board addresses requests to revisit existing standards when the concerns are significant and raise new issues
- **When:** Effective for reporting periods beginning after June 15, 2016, except requirements related to selection of assumptions in a circumstance in which an employer's NPL is measured as of a date other than the employer's most recent FYE.
  - In that circumstance, those requirements are effective for that employer in the first reporting period in which the measurement date of the NPL is on or after June 15, 2017 or later

Provisions of Statement 82

- Return to the use of *covered payroll,* defined as the payroll on which contributions to a pension plan are based, for the RSI schedules required by Statements 67 and 68
- Clarify that a *deviation* from the guidance in Actuarial Standards of Practice, as the term is used in ASOPs, is not considered to be in conformity with the requirements of Statements 67, 68, or 73 for the selection of assumptions in determining the total pension liability
- Payments made by an employer to satisfy contribution requirements identified by plan terms as plan member contributions should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68
  - Also requires that an employer's expense/expenditures for those amounts be classified as a type of compensation expense/expenditures but not as pension expense/expenditures

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 fiscal years beginning after June 15, 2018. Earlier application is encouraged.

Definitions and Scope

- **Asset retirement obligation**—Legally enforceable liability associated with the retirement of a tangible capital asset
- **Retirement** of a tangible capital asset—The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)
- Includes:
  - 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.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Disclosures

- General description of ARO and associated tangible capital assets
  - Include source of AROs (federal, state, or local laws and regulations, contracts, or 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

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; business-type activities are uncertain about how to report fiduciary activities
- **When:** Effective for fiscal years beginning after December 15, 2018. Earlier application is encouraged.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

When Should a Government Report Assets in a Fiduciary Fund?

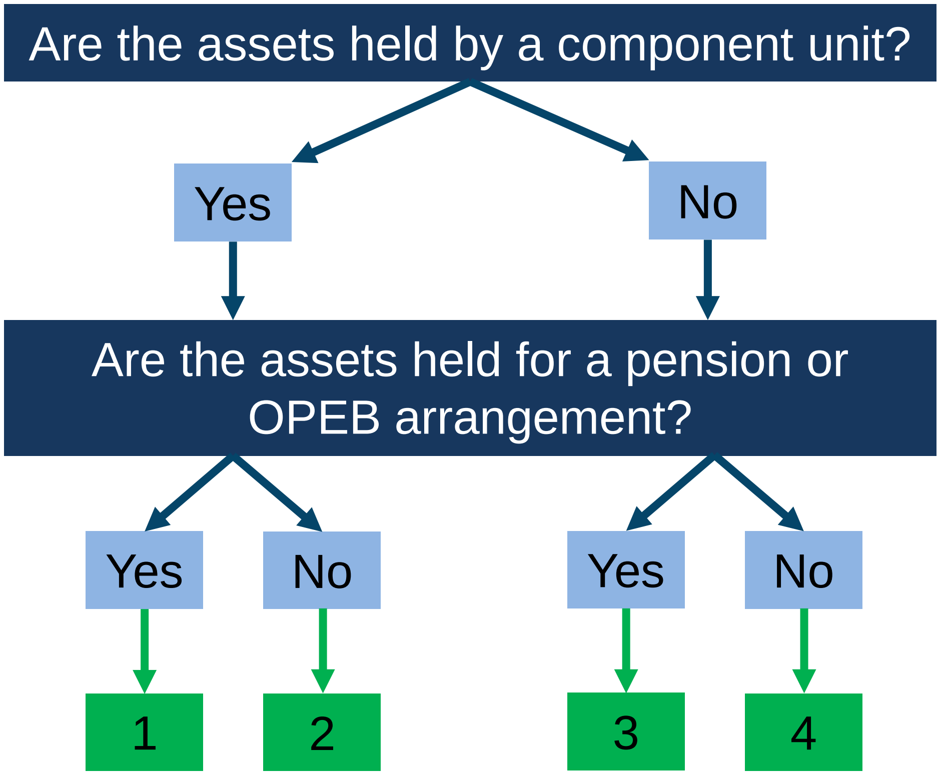
Four paths to making this determination:

- Component units that are postemployment benefit arrangements
- Component units that are not postemployment benefit arrangements
- Postemployment benefit arrangements that are not component units
- All other activities

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if…

- They are one of the following arrangements:
  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

Other Component Units Are Fiduciary if…

2

- They have one or more of the following characteristics:
  - The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
  - The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
  - The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

When Does a Government Have Administrative Involvement or Direct Financial Involvement?

- Examples of administrative involvement
  - If it monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it has the ability to exercise discretion in how assets are allocated
- Example of direct financial involvement
  - If it provides matching resources for the activities

Postemployment Benefit Arrangements That Are Not Component Units Are Fiduciary if…

- The government **controls** the assets of the arrangement and the arrangement is one of the following arrangements:
  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

When Is a Government Controlling Assets?

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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All Other Activities Are Fiduciary if…

All three of the following are met:

- The government **controls** the assets
- Those assets are *not* derived either:
  - Solely from the government's own-source revenues, or
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have administrative or direct financial involvement
- One of the criteria on the next slide is met

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

All Other Activities (continued)

- The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
- The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
- The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Fiduciary Fund Types

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
  - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- *Custodial funds* would report fiduciary activities for which there is no trust agreement or equivalent arrangement.
  - External portions of investment pools that are *not* held in trust should be reported in a separate column under the custodial fund umbrella

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Stand-Alone Business-Type Activities

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- 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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Omnibus 2017

Statement No. 85

Omnibus 2017

- **What:** The Board issued Statement 85 which includes amendments to certain existing literature
- **Why:** The Board periodically reviews the need for amendments to existing literature based on stakeholder feedback and technical inquiries. Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project.
- **When:** Effective for periods beginning after June 15, 2017 (may be early implemented by topic)

Component Units & Government Combinations

- Component unit presentation: Requirements for blending component units for single-column business-type activities
  - Component units must meet a criterion for blending in paragraph 53 of Statement 14, as amended
- Government combinations: Treatment of goodwill and "negative" goodwill
  - Reclassify existing goodwill as deferred outflows of resources
  - Include existing negative goodwill as part of restatement of beginning net position

Fair Value Measurement & Application

- How to classify real estate held for both operations and investment purposes by insurance entities
  - Based on whether unit of account meets the definition of an investment
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
  - May be measured at amortized cost to the extent permitted by paragraph 9 of Statement 31

Pensions & OPEB

- Timing of the measurement of pension and OPEB liabilities and related expenditures in financial statements prepared using the current financial resources measurement focus
  - Based on reporting period (rather than measurement period)
- Recognition of on-behalf payments for pensions or OPEB in employer financial statements
  - Primarily clarifies that expenditures and revenue should be recognized in employers' financial statements prepared using the current financial resources measurement focus

OPEB

- Presentation of payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
  - OPEB plans present covered payroll, if contributions are based on pay; otherwise, no measure
  - Employers present covered payroll, if contributions are based on pay; otherwise, covered-employee payroll
- Requirements for employer-paid member contributions for OPEB
  - If employer makes payments to satisfy contribution requirements identified by OPEB plan terms as plan member contribution requirements, amounts should be classified as plan member (employee) contributions

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

OPEB (continued)

- Simplifications related to the alternative measurement method
- Applicability of Statement 75 for employers whose employees are provided with OPEB through multiple-employer defined benefit OPEB plans that have characteristics similar to those identified in Statement 78

Certain Debt Extinguishment Issues

Statement No. 86

Certain Debt Extinguishment Issues

- **What:** The Board issued Statement 86 to establish guidance for certain issues related to debt extinguishments, primarily in-substance defeasance of debt
- **Why:** Research found that Statements 7 and 23 on debt refundings and Statement 62 on debt extinguishments are working effectively, but that certain issues needed to be addressed
- **When:** Effective date is periods beginning after June 15, 2017.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

In-Substance Defeasance Using Only Existing Resources

- Debt is considered defeased in substance (like advance refundings) if only existing resources are used to fund an irrevocable trust that is restricted to owning only essentially risk-free monetary assets (like for refundings)
- Recognize the difference between the net carrying amount of the debt and the reacquisition price as a gain or loss in the period of defeasance (*unlike* advance refundings, which defer and amortize the difference)

In-Substance Defeasance Using Only Existing Resources (continued)

- Notes to the financial statements:
  - Describe the transaction in the period it occurs (like refundings)
  - Disclose remaining outstanding balance in each period the defeased debt remains outstanding (may combine with refunded amount)

Prepaid Insurance for *All* Debt Extinguishments

- At the time debt is extinguished/defeased, any related prepaid insurance that remains should be included in the net carrying amount of the debt for the purpose of calculating the difference between its reacquisition price and net carrying amount

Note Disclosure on Substitution Risk

- Applies to *all* in-substance defeasances
- If substitution of the essentially risk-free monetary assets in escrow with monetary assets that are not essentially risk-free is *not* prohibited, a government should disclose in the notes to the financial statements:
  - In the period of the defeasance: the fact that substitution is not prohibited
  - In subsequent periods: the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Leases

Statement No. 87

Leases

- **What:** The Board issued Statement 87 to improve lease accounting and financial reporting
- **Why:** The existing standards had been in effect for decades without review to determine if they remain appropriate in light of GASB conceptual framework and continue to result in useful information; 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 date is periods beginning after December 15, 2019

Scope and Approach

- Applied 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."
  - The right-to-use asset is that "specified in the contract"
  - Control is manifested by (1) the right to obtain present service capacity from use of the underlying asset and (2) the right to determine the nature and manner of use of the underlying asset
- Leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for leases with some exceptions, such as short-term leases

Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset
- Biological assets (including timber, living plants, and living animals)
- Inventory
- Service concession arrangements (Statement 60)
- Assets financed with outstanding conduit debt, unless both the asset and the debt are reported by the lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)

Short-Term Leases

- At beginning of lease, *maximum possible term* under the contract is 12 months or less
- Lessees 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 for short-term leases
- Lessors recognize lease payments as revenue based on the payment provisions of the contract
  - Do not recognize receivables or deferred inflows associated with the lease

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

General Lessee Disclosures

- General description of leasing arrangements
- Total amount of lease assets (by major classes of underlying assets), and the related accumulated amortization
- Amount of outflows of resources recognized for the period for variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease liability
- Principal & interest requirements to maturity for each of the next 5 fiscal years and in 5-year increments thereafter
- Commitments under leases that have not yet begun (other than short-term leases)
- Components of any net impairment loss recognized on the lease asset during the period.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

General Lessor Disclosures

- General description of leasing arrangements
- Total amount of inflows of resources (such as lease revenue and interest revenue, if not otherwise displayed
- Amount of inflows of resources recognized for the period for variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease receivable
- The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Topics Covered by Statement 87

- Lease term
- Contracts with multiple components
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implementation Guidance Updates

2016-1 and 2017-1

Implementation Guidance Updates

- **What:** GASB annual updates its Q&A implementation guidance
- **Why:** New guidance is added as new pronouncements are issued and new issues arise; existing guidance is revised to reflect the effects of new pronouncements
- **When:** 2016-1 is effective for periods beginning after June 15, 2016. 2017-1 is effective for periods beginning after June 15, 2017.

Implementation Guide 2016-1

- Adds new questions on recent standards regarding fair value and tax abatement disclosures
- Reinstates certain previously superseded Q&As that have been updated for the effects of recent standards on pensions, other postemployment benefits, and fair value

Implementation Guide 2017-1

- Adds new questions related to pensions, tax abatements, external investment pools, and other topics
- Updates existing Q&A guidance related to pensions, the financial reporting entity, the financial reporting model, and other topics

Current Proposals

Exposure Draft, *Accounting for Interest Cost during the Period of Construction*

Capitalization of Interest Cost

- **What:** The Board proposed accounting and financial reporting standards for capitalization of interest cost, with the goal of enhancing the relevance of capital asset information and potentially simplifying financial reporting.
- **Why:** Accounting guidance historically has been based upon FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of the definitions of financial statement elements in GASB Concepts Statement 4.
- **When:** Comment deadline is March 5, 2018.

Proposals

- Construction-period interest would be recognized as an expense in the period incurred.
- Proposed requirements would be effective for periods beginning after December 15, 2018, with earlier application encouraged.
- Proposed requirements would be applied prospectively.

Exposure Draft: Implementation Guide 201Y-X, *Implementation Guidance Update—201Y*

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implementation Guidance Update

- **What:** GASB has issued an Exposure Draft of the 2018 annual update to its Q&A implementation guidance
- **Why:** New guidance is added as new pronouncements are issued and new issues arise
- **When:** Comment deadline is February 16, 2018.

Proposals

- Adds new questions related to pensions, OPEB plan reporting, the statistical section, regulatory accounting, and tax abatements
- Updates existing Q&A guidance related to foreign currency risk, cash flow reporting, pensions, the financial reporting model, the statistical section, and tax abatements
- Would be effective for periods beginning after June 15, 2018, with earlier implementation encouraged if the pronouncement addressed has been implemented

Project Timeline

Exposure Draft Cleared	November 2017
Comment Deadline	February 16, 2018
Final Guide Expected	May 2018

Current Technical Agenda Projects

Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Debt Disclosures

- **What:** The Board proposed improvements to 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:** The deadline for comments was September 15, 2017.

Proposed Definition of Debt

- The definition of debt for disclosure purposes would be "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 trade accounts payable would be excluded from the definition of debt.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed Disclosures

- Information about direct borrowings and direct placements of debt would be distinguishable from information about other types of debt
- In addition to existing debt disclosures, governments would disclose the following about all types of debt:
  - Amount of unused lines of credit
  - Collateral pledged as security 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.

Project Timeline

Pre-Agenda Research Started	April 2015
Added to Current Technical Agenda	August 2016
Exposure Draft Approved	June 2017
Comment Deadline	September 15, 2017
Final Statement Expected	March 2018

Conduit Debt: Reexamination of Interpretation 2

Conduit Debt

- **What:** The Board is considering improvements to the existing standards related to conduit debt.
- **Why:** Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated. Based on GASB research, the Board improvements are needed.
- **When:** The Board added the project to the current technical agenda in August 2017.

Tentative Board Decisions

- Elements of the definition of a conduit debt obligation:
  - Key characteristic – there are at least three participants: the government-issuer, the third-party obligor (borrower), and the bondholder
  - A third-party obligor and an issuer should not be within the same financial reporting entity
  - Purpose is not limited to capital financing
  - The terms *revenue bonds, limited obligation*, and *limited-obligation revenue bonds* should not be included in the definition of conduit debt
  - Whether a government-issuer is the recipient of debt proceeds or the provider of debt service payments should not be a defining characteristic

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Board Decisions

- Financial reporting of conduit debt
  - A conduit debt obligation—the total financing—should not be reported as a liability of the issuer
  - The issuer should report a liability only when a payment by the issuer is more likely than not.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Topics to Be Considered

- Given the definition of a liability in Concepts Statement 4, when should a conduit debt obligation be reported as a liability by a government-issuer, if ever?
- Are commitments by third-party borrowers to cover debt service or lease payments assets of government-issuers?
- What information should government-issuers disclose?

Project Timeline

Added to Current Technical Agenda	August 2017
Exposure Draft Expected	July 2018

Accounting and Financial Reporting for Majority Equity Interests

Equity Interest Ownership Issues

- **What:** The Board proposed revisions to Statement 14 to address ownership of an equity interest in a legally separate entity.
- **Why:** Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance.
- **When:** The comment deadline was January 19, 2018.

Background

- Current reporting is based on whether the intent of ownership is as an investment or to provide service; however, the intent of ownership is not always clear or may have multiple purposes.
  - How should the majority equity ownership in a legally separate entity be reported in the financial statements?
- Acquisition of an entity that ceases to exist is measured differently from the 100 percent acquisition of a legally separate entity that is reported as a component unit.
  - How should a government report the assets, deferred inflows of resources, liabilities, and deferred outflows of resources of a component unit when it is wholly acquired?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposals

- A majority equity interest in a legally-separate entity that meets the definition of an investment should be reported as an investment.
  - Measure by applying the equity method prescribed in Statement 62, paragraphs 205–209, except 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

Proposals (continued)

- A majority equity interest in a legally-separate entity that does *not* meet the definition of an investment should measure the majority equity interest by applying the equity method prescribed in Statement 62, paragraphs 205—209.
  - This provision would be applied prospectively only.
- A 100 percent equity interest in a legally-separate entity that continues to exist should be reported using acquisition value
  - This provision would be applied prospectively only.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	December 2016
Exposure Draft Approved	November 2017
Comment Deadline	January 19, 2018
Final Statement Expected	August 2018

Questions?

Visit www.gasb.org

Pre-Agenda Research Activities

Going Concern Disclosures: Reexamination of Statement 56

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Going Concern Disclosures

- **What:** A review of 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?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Information Technology Arrangements, including Cloud Computing

Information Technology Arrangements

- **What:** Research current practices with respect to reporting cloud computing contracts and similar information technology (IT) arrangements and identify whether there is a need for specific guidance
- **Why:** Stakeholders are concerned that these transactions may not be covered by the guidance in Statement 51 or the forthcoming leases standards.
- **When:** The Board added the pre-agenda research in April 2017.

Topics to Be Considered

- What are the features of contracts for cloud computing and similar IT arrangements entered into by governments?
  - Do they contain components related to services, hardware, software, or a combination of all three?
- How are governments accounting for and reporting cloud computing contracts at present?
- Could existing standards be appropriately applied to these arrangements, or is there a need for specific guidance for cloud computing contracts?
- What information needs do users have, if any, with regard to these arrangements?

Public-Private Partnerships, including Reexamination of Statement 60

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Public-Private Partnerships

- **What:** Research to identify public-private partnerships (P3s) that may not be subject to Statement 60 on service concession arrangements or the forthcoming leases standards and to evaluate the effectiveness of Statement 60
- **Why:** The GASB routinely reviews whether existing standards are meeting their intended objectives. In addition, stakeholders are concerned that some P3 transactions outside the scope of Statement 51 also will not be covered by the forthcoming leases standards.
- **When:** The Board added the pre-agenda research in April 2017.

Topics to Be Considered

- What transactions, if any, are outside the scope of both Statement 60 and Statement 87 on leases?
  - If so, which standards should be applied to them?
- Do the existing standards continue to appropriately capture the economic substance of SCAs?
- Have disclosures presented in conformity with the requirements of Statement 60 sufficiently met user needs?

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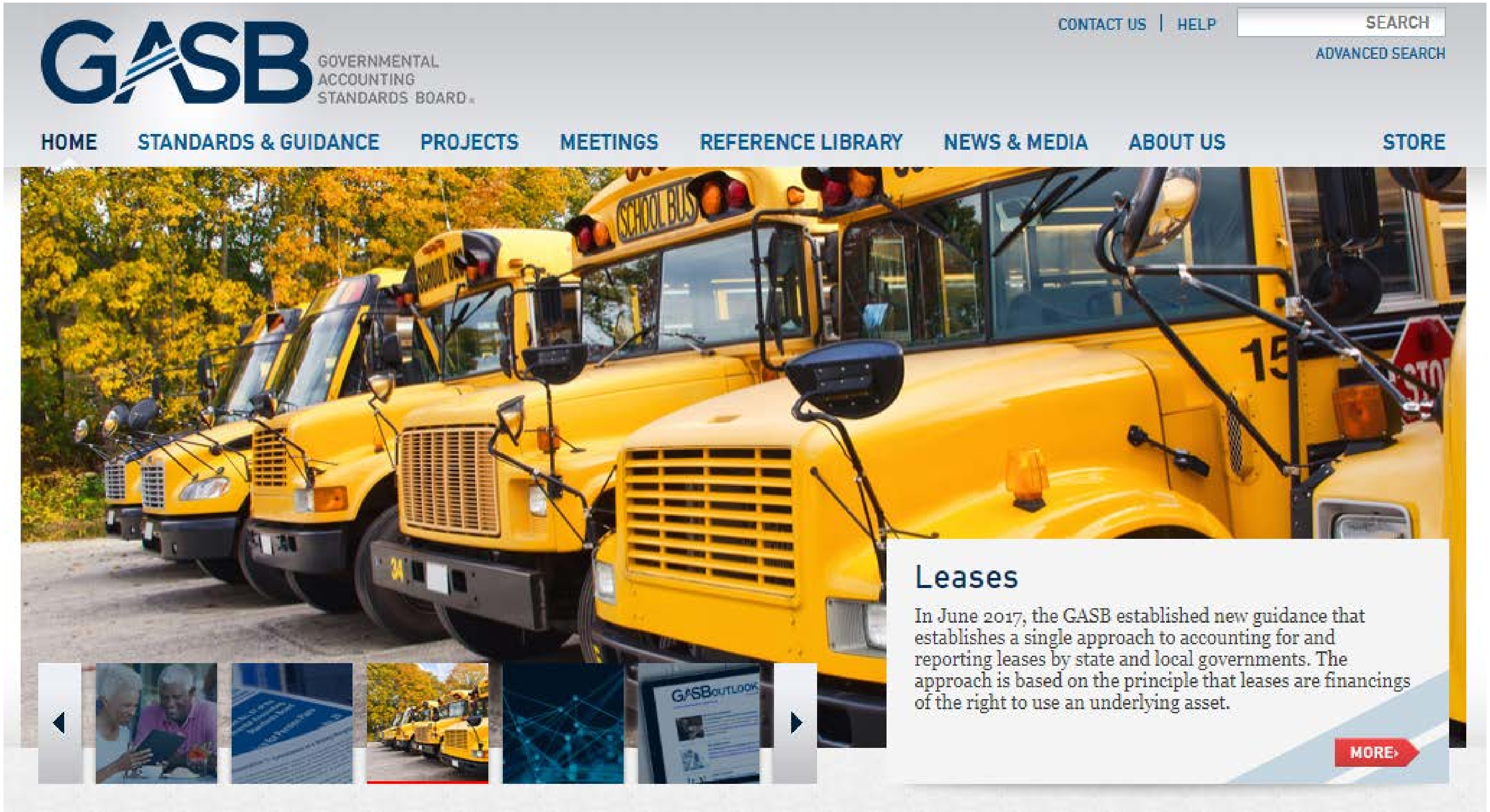
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Leases
In June 2017, the GASB established new guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The approach is based on the principle that leases are financings of the right to use an underlying asset.
MORE›

Website Resources

- Free download of Statements, Implementation Guides, Concepts Statements and other pronouncements
- Free access to the basic view of Governmental Accounting Research System (GARS)
- Free copies of proposals
- Up-to-date information on current projects
- Articles and Fact Sheets about proposed and final pronouncements
- Form for submitting technical questions
- Educational materials, including podcasts

Plain-Language Materials

- The GASB is committed to communicating in plain language with constituents about its standards and standards-setting activities.
- Newly revised version of “Why Governmental Accounting Is—and Should Be—Different” (October 2017)
- Fact Sheets are prepared for complex projects to answer commonly raised questions
  - Series of 8 fact sheets on Statements 67 & 68 on pensions
- Series of 7 brief videos developed regarding the Invitation to Comment on governmental fund financial statements

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