

GASB Update

Virginia GFOA

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

Effective Dates—June 30

2019

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

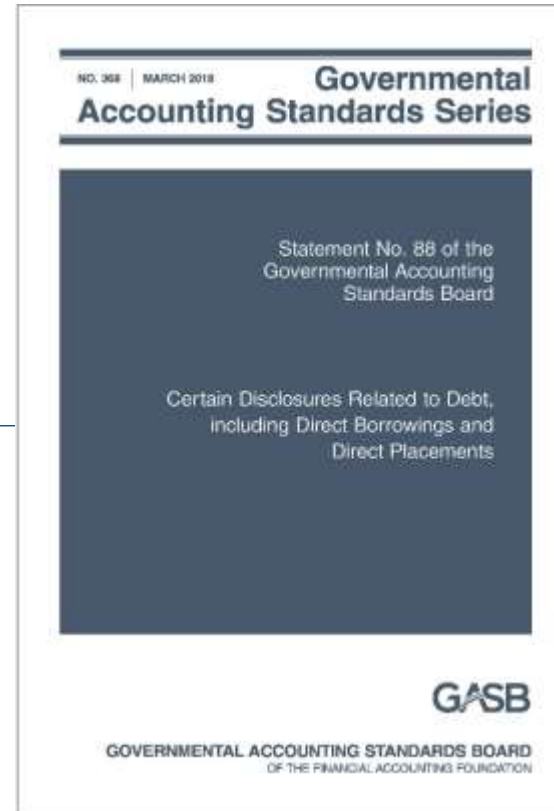
2020

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

2021

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

Debt Disclosures



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

Definition of Debt for Disclosure Purposes

“A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established”

- For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.

New Disclosure Requirements

Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures

New Disclosures about *All* Types of Debt

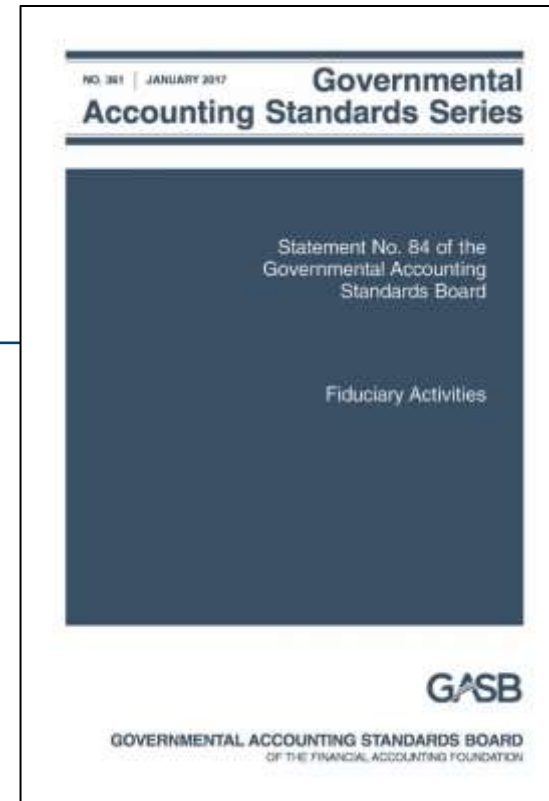
Amount of unused lines of credit

Assets pledged as collateral for debt

Terms specified in debt agreements related to significant:

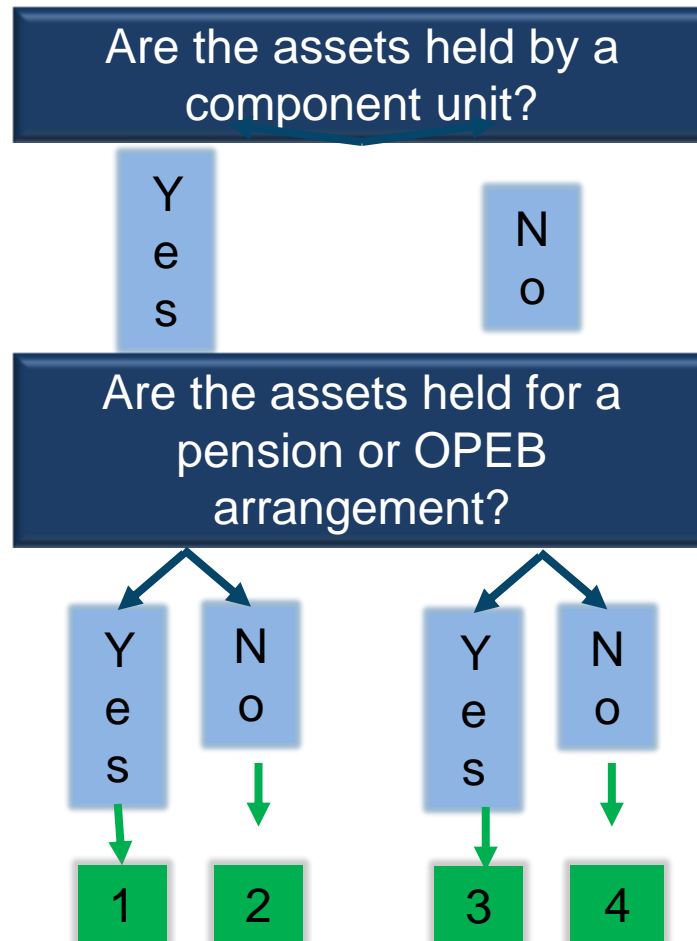
- Events of default with finance-related consequences
- Termination events with finance-related consequences
- Subjective acceleration clauses

Statement 84: Fiduciary Activities



When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



Other Component Units Are Fiduciary if...

They have one or more of the following characteristics:

2



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

or

- Assets are for the benefit of individuals
- Assets are *not* derived from entity's provision of goods or services to the individuals AND
- Entity does not have administrative involvement or direct financial involvement w/ the assets



- Assets are for the benefit of organizations *not* part of the reporting entity AND
- Assets are *not* derived from the entity's provision of goods or services to them

or

All Other Activities Are Fiduciary if...

4

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

Fiduciary Fund Classes

Pension
and other
employee
benefit
trust fund

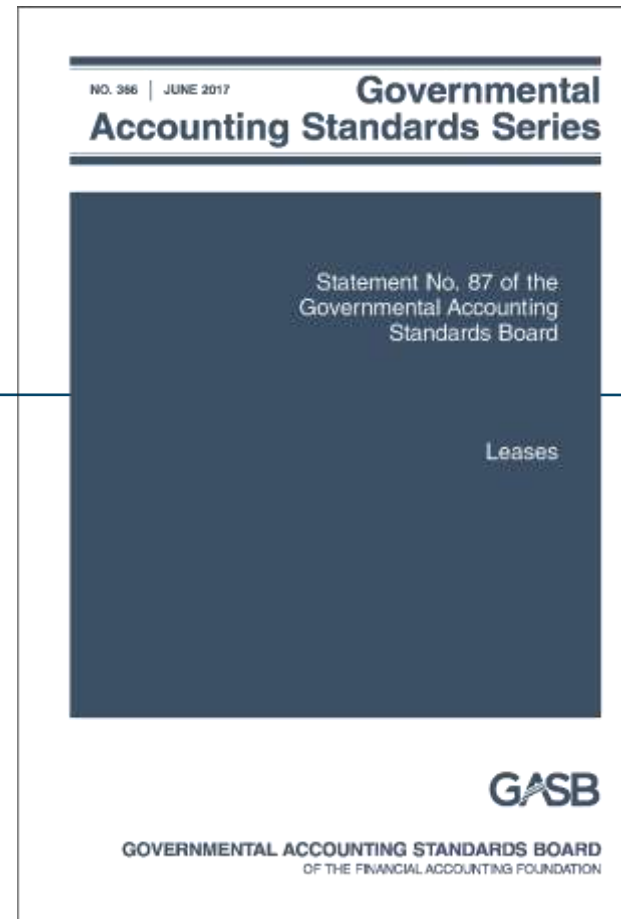
Investment
trust fund

Private-
purpose
trust fund

Custodial
fund

Trust agreement or equivalent arrangement should be present

Statement 87: Leases



Scope and Approach

- Capital/operating distinction is eliminated
- Statement 87 applies to any contract that meets the definition of a lease:

“A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”

- Leases are financings of the right to use an underlying asset



Single approach applied to accounting for leases with some exceptions, such as short-term leases

Scope Exclusions



Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset



Biological assets (including timber, living plants, and living animals)



Inventory



Service concession arrangements (Statement 60)



Assets financed with outstanding conduit debt, unless both the asset and the debt are reported by the lessor



Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

Short-Term Leases

Definition	At beginning of lease, <i>maximum possible term</i> under the contract is 12 months or less
Lessee accounting	<ul style="list-style-type: none">• Recognize expenses/expenditures based on the terms of the contract• Do not recognize assets or liabilities associated with the right to use the underlying asset
Lessor accounting	<ul style="list-style-type: none">• Recognize lease payments as revenue based on the payment provisions of the contract• Do not recognize receivables or deferred inflows

Lease Term

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

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible lease asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	<ul style="list-style-type: none"> • Lease receivable (generally includes same items as lessee's liability) • Continue to report the leased asset 	NA	Equal to lease receivable plus any cash received up front that relates to a future period

Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	<ul style="list-style-type: none"> • Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less amount needed to cover accrued interest) 	NA	Recognize revenue over the lease term in a systematic and rational manner

LESSEE—Initial Measurement

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

LESSEE—Initial Measurement (continued)

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

LESSEE—Lease Asset

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

Other Topics Covered by Statement 87

Disclosures

Contracts with multiple components

Contract combinations

Lease modifications & terminations

Lease incentives

Subleases

Sale-leasebacks

Lease-leasebacks

Project Update

Other Projects

Timetable	
Conduit Debt	Final Statement—May 2019
Subscription-Based IT Arrangements	Exposure Draft—May 2019
Public-Private Partnerships	Exposure Draft—June 2019
Deferred Compensation Plans	Exposure Draft—June 2019
Omnibus	Exposure Draft—June 2019
Secured Overnight Financing Rate	Exposure Draft—October 2019
Implementation Guide—Fiduciary	Final—June 2019
Implementation Guide—Leases	Final—June 2019?

The Big Three

Financial Reporting Model

Recognition in Governmental Funds

- Short-term financial resources measurement focus
- Elements from *short-term* transactions recognized as the underlying transaction *occurs*
- Elements from *long-term* transactions recognized when *payments are due*
- Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash



Recognition in Governmental Funds

Short-Term Transactions

- **Normally** are **due** to convert to or generate cash or require the use of cash within one year from the inception of the transaction

Long-Term Transactions

- **Normally** are **due** to convert to or require the use of cash beyond one year from the inception of the transaction

An entire class of transactions will either be short-term transactions or long-term transactions. Transactions within classes (for example, investments) are not treated differently.

Alternative Views

- Modify short-term financial resources
 - Recognize portion of long-term receivables due in the next reporting period (both as asset and inflows of resources)
 - Recognize portion of long-term liabilities due in the next reporting period (both as liability and outflows of resources) with exceptions:
 - Pensions and other postemployment benefits
 - Asset retirement obligations
- Replace concept of *normally* with contractual maturities (or amounts otherwise expected to be paid in cash or other fund financial resources)

ABC Government
Statement of Short-Term Financial Resource Flows
Governmental Funds
Year Ended June 30, 20XX

This financial statement presents a short-term view of the governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
Taxes				
Property tax	\$ 20,322,167	\$ 5,311,156	\$ 2,015,047	\$ 27,648,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Special assessments	-	-	41,500	41,500
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,192,493	20,787,512
Investment earnings	5,829	11,384	119,043	136,256
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	654,482	771,287	5,642,709
Total inflows of short-term financial resources for current activities	<u>106,760,279</u>	<u>5,977,022</u>	<u>19,516,177</u>	<u>132,253,478</u>
OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
General government	14,053,444	6,961,201	2,213,691	23,228,336
Public health and safety	70,880,913	-	590,383	71,471,296
Highway and streets	12,137,714	-	4,715,808	16,853,522
Culture and recreation	3,581,583	335,659	1,808,065	5,725,307
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of short-term financial resources for current activities	<u>101,304,999</u>	<u>7,296,860</u>	<u>13,201,992</u>	<u>121,803,851</u>
Net flows of short-term financial resources for current activities	<u>5,455,280</u>	<u>(1,319,838)</u>	<u>6,314,185</u>	<u>10,449,627</u>
NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES				
Transfers in	-	-	10,651,605	10,651,605
Debt service	(2,434,544)	(366,412)	(9,198,505)	(11,999,461)
Capital outlay	(111,987)	(1,515)	(1,346,497)	(1,459,999)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Total net flows of short-term financial resources for noncurrent activities	<u>(10,227,406)</u>	<u>(374,372)</u>	<u>(2,314,297)</u>	<u>(12,916,075)</u>
Net change in short-term financial resources fund balances	(4,772,126)	(1,694,210)	3,999,888	(2,466,448)
Short-term financial resources fund balances at beginning of year	9,319,621	9,776,474	27,892,592	46,988,687
Short-term financial resources fund balances at end of year	<u>\$ 4,547,495</u>	<u>\$ 8,082,264</u>	<u>\$ 31,892,480</u>	<u>\$ 44,522,239</u>

Proposals: Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

Operating

- Activities other than nonoperating activities

Nonoperating

- Subsidies received and provided
- Revenues and expenses of financing
- Resources from the disposal of capital assets and inventory
- Investment income and expenses

Proposals: Proprietary Funds (continued)

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

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

ABC State University
Statement of Revenues, Expenses, and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Tuition and fees (net of discounts)	\$ 574,168	\$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	<u>1,146,343</u>	<u>1,091,377</u>
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	<u>1,681,544</u>	<u>1,596,059</u>
Income (loss) generated by operations	<u>(535,201)</u>	<u>(504,682)</u>
Noncapital subsidies:		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	<u>558,101</u>	<u>530,057</u>
Operating income (loss) and noncapital subsidies	<u>22,900</u>	<u>25,375</u>
Financing and investing activities:		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	<u>221,023</u>	<u>126,314</u>
Income before other items	<u>243,923</u>	<u>151,689</u>
Other items:		
Capital contributions	<u>23,231</u>	<u>74,830</u>
Increase (decrease) in net position	267,154	226,519
Net position--beginning	3,061,111	2,834,592
Net position--ending	<u>\$ 3,328,265</u>	<u>\$ 3,061,111</u>

City of ABC
Schedule of Governmental Activities Expenses by Function and Natural Classification
for the Year Ended June 30, 20XX

Natural Classification	General Government	Public Health and Safety	Highway and Streets	Culture and Recreation	Economic Development	Interest	Total
Awards and grants	\$ XX,XXX	\$ XX,XXX	\$ XX,XXX	\$ XXX,XX	\$ XX,XXX	\$ -	\$ XXX,XXX
Contractual services	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Other services and supplies	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Personnel and benefits	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Depreciation	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Interest	-	-	-	-	-	XX,XXX	XX,XXX
Total	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX

City of ABC
Schedule of Business-Type Activities Expenses by Different Identifiable Activity and Natural Classification
for the Year Ended June 30, 20XX

Natural Classification	Water	Sewer	Motor Vehicle Parking	Cemetery	Total
Contractual services	\$ XX,XXX	\$ XX,XXX	XX,XXX	\$ XX,XXX	\$ XXX,XXX
Other services and supplies	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Personnel and benefits	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Depreciation and amortization	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Interest	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Total	\$ XXX,XXX	\$ XXX,XXX	XXX,XXX	\$ XXX,XXX	\$ XXX,XXX

Next Steps

- Additional issues for Exposure Draft
 - Extraordinary and special items
 - Management's discussion and analysis (MD&A)
- Target issuance of Exposure Draft: June 2020



Next Steps

- Additional issues for Exposure Draft
 - Extraordinary and special items
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- Target issuance of Exposure Draft: June 2020



Revenue and Expense Recognition

Revenue and Expense Recognition

What:

- The Board is redeliberating stakeholder input on an Invitation to Comment as part of developing a comprehensive model for recognition of revenues and expenses

Why:

- Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When:

- Redeliberations began in June 2018

Revenue and Expense Recognition Models

The are three components of a revenue and expense recognition model

Classification is the process of identifying the *type* of transaction (for example, is the transaction exchange or nonexchange?)

Recognition is the process of determining *what* element should be reported and *when* (for example, recognize revenue when earned)

Measurement is the process of determining the *amount* to report for the element (not addressed in the Invitation to Comment)

Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Redeliberations Began	June 2018
Preliminary Views Expected	May 2020

Disclosure Framework

Disclosure Framework

What:

- The Board has added a conceptual framework project to further develop the concepts that guide standards-setting decisions regarding the information that should be disclosed in notes

Why:

- The GASB reexamined existing note disclosure requirements and concluded that it was necessary to elaborate on the concept of “essential” as it relates to notes

When:

- Deliberations began in October 2018

Topics Being Considered



Purpose of note disclosures, including user needs related to note disclosures

Limitations of note disclosures

Characteristics of essentiality

Presentation and format of note disclosures, including consideration of the location of the information within the note disclosure section

Consideration of note disclosures individually and as a whole

Essential—Potential Characteristics

- Based on whether there is evidence that
 - The information currently is being utilized in users' analyses for decision making or assessments of accountability or
 - If the information became available, users would modify their analysis for decision making or assessments of accountability to incorporate that information.

Project Timeline

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

Questions



Website information: www.gasb.org

www.gasb.org



The screenshot shows the GASB website homepage. At the top left is the GASB logo with the text "GOVERNMENTAL ACCOUNTING STANDARDS BOARD". To the right are links for "CONTACT US" and "HELP", and a search bar with "SEARCH" and "ADVANCED SEARCH" buttons. Below the logo is a navigation menu with links for "HOME", "STANDARDS & GUIDANCE", "PROJECTS", "MEETINGS", "REFERENCE LIBRARY", "NEWS & MEDIA", "ABOUT US", and "STORE". The main content area features a large banner image of several yellow school buses parked in a row. Overlaid on the bottom right of the banner is a white box with the heading "Leases" and a short paragraph of text. Below the banner is a row of five small thumbnail images. A red "MORE" button with a right-pointing arrow is located at the bottom right of the "Leases" text box.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

CONTACT US | HELP SEARCH
ADVANCED SEARCH

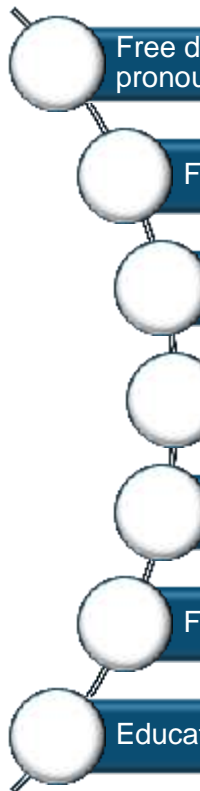
HOME STANDARDS & GUIDANCE PROJECTS MEETINGS REFERENCE LIBRARY NEWS & MEDIA ABOUT US STORE

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