Wisconsin GFOA

GASB Update

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

Standards-Setting Boards

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Sets standards for public and private companies and not-for-profit organizations

Established in 1973

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Sets standards for state and local governments

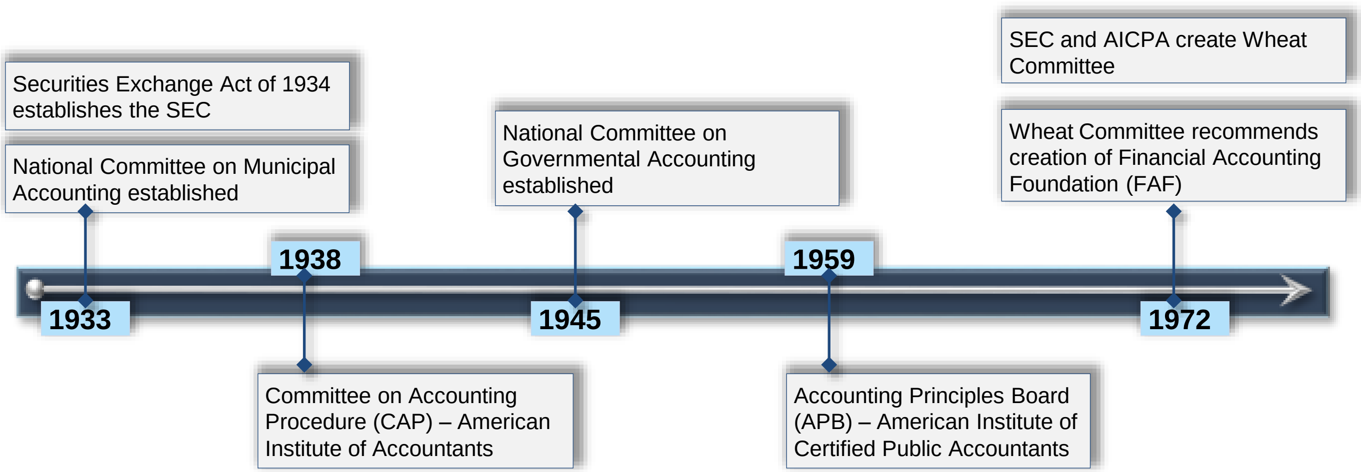
Established in 1984

FASAB

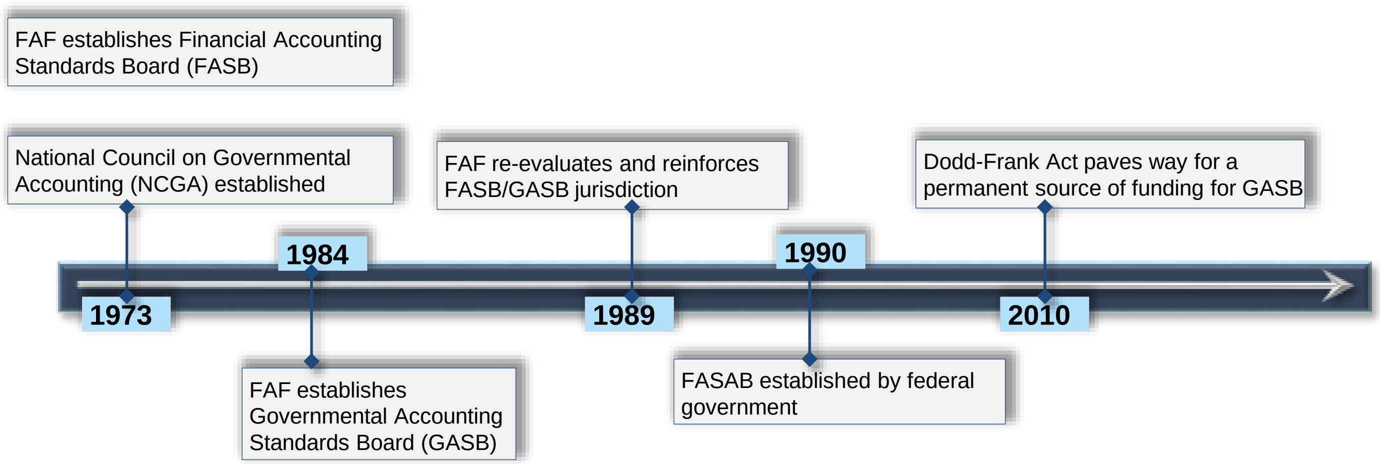
Sets standards for federal governments

Established in 1990

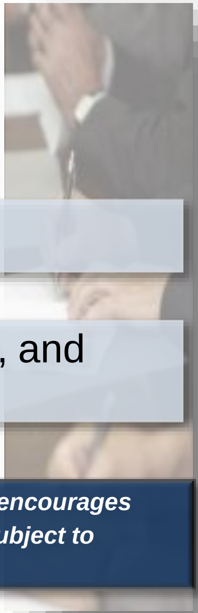
History of Standard Setting



History of Standard Setting



What is the GASB's Mission?



To establish and improve standards of state and local government accounting and financial reporting that will:

- Result in useful information for users of financial reports
- Guide & educate the public, including issuers, auditors, and users of those financial statements

Accomplished through comprehensive and independent process that encourages broad participation, objectively considers all stakeholder views, and subject to oversight by FAF Board of Trustees

What Drives the Differences Between the FASB and the GASB?

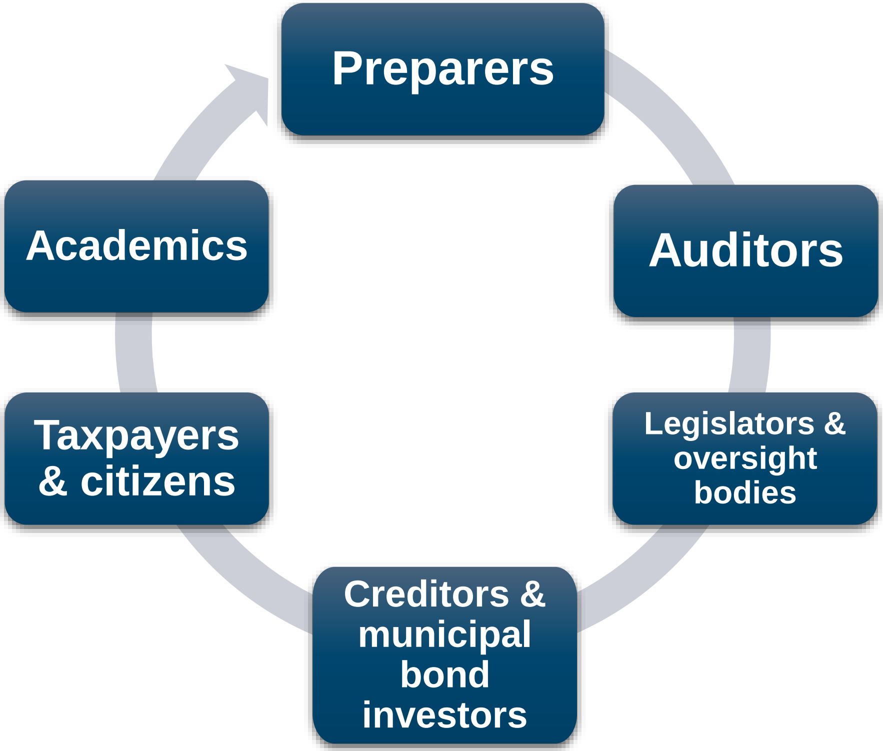
Financial reporting by Governments is – and should be – different from financial reporting by private enterprises because:

- Basic mission and purposes are different
- Financial statement users differ (for example, citizenry vs. investors)
- Processes for generating revenues are different
- Governments have budgetary obligations
- Differences in longevity and powers
- Geographic, cultural, legal, and governance differences

*In sum, the **needs of users** of financial reports of governments and business enterprises differ. **Public accountability** is an essential factor.*

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

What Is the Challenge of Diverse GASB Stakeholders?



How Does the GASB Meet That Challenge?

GASB Chairman & Board (part-time)

Director of Research and Technical Activities

~25-member Staff

- Senior Technical Advisor
- Senior Research Manager
- Project Managers & Staff
- Practice Fellows
- Postgraduate Technical Assistants
- Support Staff

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Who Are the GASB Members?

David Vaudt	State Auditor	2020
Jan Sylvis	State Preparer	2017
Jim Brown	Public Accountant	2017*
Brian Caputo	Local Preparer	2019*
Michael Granof	Academic	2020
Jeff Previdi	Financial Statement User	2021*
David Sundstrom	Local Auditor/Preparer	2019

*eligible for reappointment for a second five-year term

Who Advises the GASB?

GASAC GOVERNMENTAL ACCOUNTING STANDARDS ADVISORY COUNCIL

- **Technical agenda and project priority**
- **Major technical issues**
- **Strategic matters (for example, stakeholder outreach)**

GASB Standard-Setting Process

How the Sausage Is Made

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

What Are the Authoritative Standards?

Board-Issued Pronouncements

- Statements of Governmental Accounting Standards
- Interpretations

Requires approval by Board majority

Staff-Issued Authoritative Guidance

- Technical Bulletins
- Implementation Guides

Issuance can be blocked by Board simple majority

What Is the Standard-Setting Process?

Why Are the Standards So Complex?

- Transactions are complex
  - Pensions, OPEB, leases, derivatives, combinations, service concession arrangements—the list goes on
- Stakeholders want specific answers
  - All standards are principles based and standards could stop there

Why Are There So Many Standards?

- Different types of transactions
  - Revenue and expense recognition project may help in the future
- Standards are clarified and periodically revisited
  - Twenty-one standards focus on postemployment benefits
  - Fifteen standards focus on financial instruments

Will the GASB Ever Stop Issuing Standards?

- There will always be:
  - New transactions
  - Requests for clarification or revisitation
- GASB does realize that there are limits on what practitioners can handle in any one financial reporting period
  - Before a final Statement is issued, the Board considers what else will be effective for the reporting period

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

What Does the GASB Consider Before Issuing a Statement?

- Board conclusions are informed by a number of factors
  - Costs—primarily from preparers
    - Can be quantified to some extent, but difficult to get a complete handle on
    - Estimates of costs primarily are derived from field test participants, comment letters, and task force input
  - Benefits—primarily from financial statement users
    - User needs are primarily identified during the pre-agenda research phase
    - Supplemented by comment letters, user forums, feedback at user conferences, and task force input
  - Conceptual framework
  - Work of other standards setters
  - Over 200 years of Board member experience

The Blue Covers

Real Standards for the Real World

Effective Dates—December 31, 2016

- Statement 72—Fair value—Measurement and application
- Statement 73—Pensions—Related assets (outside the scope of Statements 67 and 68) and Statements 67 and 68 amendments
- Statement 76—GAAP hierarchy
- Statement 77—Tax abatements disclosures
- Statement 78—Pensions provided through certain multiple-employer defined benefit pension plans
- Statement 79—External investment pools
- Implementation Guide—2015-1

Effective Dates—December 31

- 2017
  - Statement 73—Pensions—Employers (outside the scope of Statement 68)
  - Statement 74—Other Postemployment Benefits (OPEB) plan reporting
  - Statement 80—Blending requirements for certain component units
  - Statement 81—Irrevocable split-interest agreements
  - Statement 82—Pension Issues
  - Implementation Guide—2016-1
- 2018
  - Statement 75—OPEB—Employers
- 2019
  - Statement 83—Certain asset retirement obligations

Expected Effective Dates—December 31

- 2017
  - OPEB Plan Implementation Guide
- 2018
  - OPEB Employer Implementation Guide
  - Certain Debt Extinguishment Issues
  - Omnibus (primarily OPEB—bring in line with Statements 78 and 80)
- 2019
  - Fiduciary activities
- 2020
  - Leases

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Fair Value Measurement and Application: Statement 72

What Is the Definition of Fair Value?

- The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
  - An exit price
- Fair value is not an option

What Are Some of the Key Terms in Statement 72?

- Unit of Account
  - Stand-alone asset or liability or a group of assets or liabilities
  - Determined by the particular standards that require fair value measurement
- Market participants
  - Fair value measurement determined using the assumptions market participants would use in pricing the asset or liability
- Price
  - Not adjusted for transaction costs
- When market information is not available
  - Estimate the price at which an orderly transaction would take place between market participants at that date (for example, a valuation technique)

What Are Valuation Techniques and Inputs?

- Apply valuation technique(s) that best represents fair value in the circumstances—market approach, cost approach, and income approach
- Inputs:
  - Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities, most reliable
  - Level 2: quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are observable
  - Level 3: unobservable inputs, least reliable
- Maximize use of relevant observable inputs and minimize use of unobservable inputs

What Is the Definition of an Investment?

- A security or other asset that a government holds primarily for the purpose of income or profit and with a present service capacity that is based **solely** on its ability to generate cash or to be sold to generate cash
  - Held primarily for income or profit—acquired first and foremost for future income and profit
  - Service capacity refers to a government's mission to provide services

What Investments Are Not Fair Valued?

- Money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less, reported by governments other than external investment pools
- Investments in qualifying investment pools (Statement 79)
- Investments in life insurance.
  - Investments in life settlement contracts, however, should be at fair value
- Investments in common stock that meet the criteria for applying the equity method
  - Investments in certain entities that calculate net asset value per share are ineligible for the equity method.
- Non-participating interest earning investment contracts
- Unallocated insurance contracts
- Synthetic guaranteed investment contracts that are fully benefit responsive

When Should Acquisition Value Be Applied?

- Acquisition value (an entry price) replaces fair value for the following:
  - Donated capital assets
  - Donated works of art, historical treasures, and similar assets
  - Capital assets received through a service concession arrangement

Disclosures
How Should Investments Be Classified By Level of Inputs?

		Level		
	6/30/2016	1	2	3
Debt securities:				
U.S. Treasuries	$85	$85		
Commercial mortgage backed securities	50			$50
Collateralized debt obligations	35			35
Residential mortgage backed securities	149		$24	125
Corporate bonds	93	9	84	
Total	$412	$94	$108	$210

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Certain External Investment Pools and Pool Participants: Statement 79

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

What Are the Criteria Used to Determine if an External Pool Qualifies for Amortized Cost Measurement?

- An external investment pool may elect to measure all its investments at amortized cost for financial reporting purposes if it meets all of the following criteria :
  - Transacts with participants at stable net asset value per share –$1.00 per share
  - Meets certain portfolio maturity requirements
  - Meets certain portfolio quality requirements
  - Meets certain portfolio diversification requirements
  - Meets certain pool liquidity requirements
  - Meets shadow pricing requirements

How Should Participants Report Investments in External Pools?

- If a pool meets the criteria in this Statement and measures its investments at amortized cost, its participants also should measure their positions in the pool at amortized cost
- If a pool does not meet the criteria or elects to measure its investments at fair value, its participants also should measure their positions in the pool at fair value

What Should Qualifying Pools and Participants Disclose?

- 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

Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68: Statement 73

What Issues Are Addressed in Statement 73?

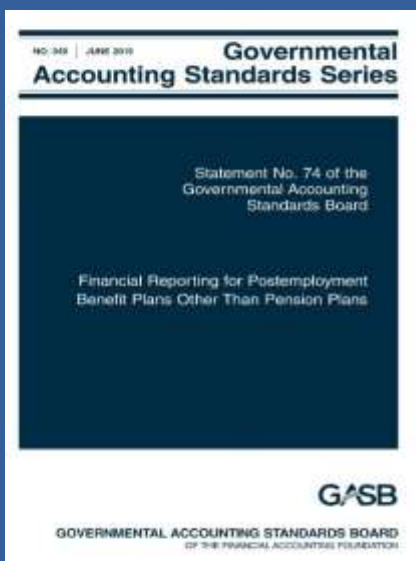
- Primarily pensions that are not within the scope of Statements 67/68
- Clarifications (“amendments”) of Statements 67/68
  - Notes to RSI—investment-related factors—influence (for example, change in policy)
  - Payables to defined benefit plans/receivables of defined benefit plans
    - Receivable as a result of employer joining the plan
    - Receivable as a result of change in benefits
    - Receivable as a result of one-time commitment by a nonemployer contributing entity

Pension Issues:
Statements 78 and 82

What Pensions Issues Were Raised by Stakeholders After the Issuance of Statements 67, 68, and 70?

- Taft-Hartley Plans (and similar plans) was spun-off into a separate project
  - Statement 78
- Covered-employee payroll
- Treatment of employer–paid member contributions
- Deviations from Actuarial Standards of Practice (ASOPs)
- Application of administrative costs as a reduction of discount rate
- Timing of the measurement of liability
- Disclosure of annual required contribution (ARC) as a benchmark

Postemployment Benefit Plans Other Than Pension Plans: Statements 74



FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

What Issues Are Addressed in Statement 74 ?

- 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 governments 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

Other Postemployment Benefits—Employer: Statement 75

What Is the Fundamental Approach Employed in Statement 75?

- Fundamental approach for OPEB is the same as required for pensions in Statement 68
  - Viewed in the context of an ongoing, career-long employment relationship
  - Focus on the cost to taxpayers over time of providing government services
  - Accounting-based versus funding-based approach to measurement

What Are Defined Benefit OPEB Liabilities?

- Liability to a defined benefit plan
- Liability to employees for OPEB
  - Consistent approach applied to all employers regardless of whether OPEB is administered through trust in which the specified criteria are met
  - Recognize:
    - OPEB liability
    - OPEB expense
    - Deferred outflows/inflows of resources related to OPEB

How Is the Liability to Employees for OPEB Measured?

- 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

Total OPEB Liability: Measurement 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
  - Fewer alternatives than in Statement 45 for methods and assumptions for GAAP reporting purposes
  - No changes to actuarial methods and assumptions used to determine funding amounts would be required

How Is the Timing of Liability to Employees for OPEB Determined?

- Measurement date
  - As of date no earlier than end of prior fiscal year
- Actuarial valuation date of total OPEB liability
  - If not measurement date, as of date no more than 30 months (+1 day) prior to FYE
  - Actuarial valuations at least every 2 years (more frequent valuations encouraged)
- Should reflect changes between the date of the actuarial valuation and the measurement date

Liability to Employees for OPEB: Measurement—Timing

- Example:
  - Employer FYE 12/31/2018
  - Measurement date no earlier than 12/31/2017 (prior FYE)
  - Actuarial valuation date of total OPEB liability no earlier than 6/30/2015 (30 months + 1 day prior to FYE)

What Is the Alternative Measurement Method?

- As in Statement 45, an alternative measurement method may be applied if fewer than 100 employees (active and inactive) are provided with benefits through the OPEB plan as of the beginning of the measurement period
- Generally, same simplifications to assumptions can be used
  - Reference to U.S. Office of Personnel Management regarding age-based turnover experience rather than default tables
  - Also, if age historic age-based turnover is not available, option to use historic age-based turnover of another entity, such as a public employee retirement system, which includes the covered group

What Are the Basic Disclosure Requirements for OPEB?

- Similar to those required for pensions
- Disclosure of effect on net OPEB liability of a discount rate +/- 1 percent
- Disclosure of effect on net OPEB liability of a healthcare cost trend rate +/- 1 percent
- Single and agent plans: 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 plans: 10-year RSI schedules of statutorily or contractually determined contributions

GAAP Hierarchy: Statement 76

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

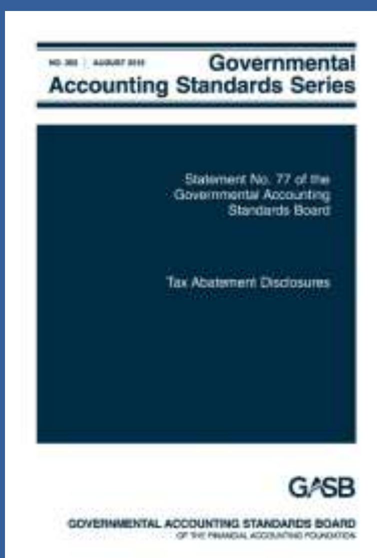
What Are the Categories of Authoritative GAAP?

Category	Sources	Due Process
A	GASB Statements	Formally approved by the Board for the purpose of creating, amending, superseding, or interpreting standards, AND exposed for a period of public comment
B	GASB Technical Bulletins and Implementation Guides; AICPA literature specifically cleared by GASB	Cleared by the Board, specifically made applicable to state and local governmental entities, AND exposed for a period of public comment

What Is the Effect on the Comprehensive Implementation Guide (CIG)?

- Now classified as Category B authoritative GAAP
- Revised due process
  - Public exposure of new Q&A guidance going forward
  - Will continue to issue Guides to individual pronouncements (such as Statements 74 and 75 on OPEB) and annual updates with new Q&As on various pronouncements
  - Board clearance of the final Implementation Guides

Tax Abatement Disclosures: Statement 77



What Is the Definition of a Tax Abatement?

- Statement 77 applies only to transactions 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:
    - One or more governments promise to forgo tax revenues to which they are otherwise entitled and
    - 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.

Substance over Form

- The Statement does not include or exclude transactions based on their form or name – governments should apply the criteria contained in the definition
- Key points:
  - A principal distinction between tax abatements and other tax expenditures is the existence of an agreement with an individual or entity
  - The agreement generally is in writing but not necessarily
  - The agreement may or may not be legally enforceable
  - The agreement must precede the reduction of taxes and the recipient's fulfillment of the promise to act
  - The tax reduction may occur before, during, or after fulfilment of the promise – as long as it occurs after the agreement has been entered into

What Are the 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

How Should Individual Abatements Disclosures Be Determined?

- If a government chooses to disclose individual abatement agreements, it should select a quantitative threshold and disclose all agreements that meet or exceed the threshold
  - Any quantitative threshold used by the government to determine which agreements to disclose individually should be described in the note disclosure
  - A government may use one threshold for its own abatements and a different threshold for other governments' abatements
  - A government may disclose some of its own abatements individually but disclose those of other governments in the aggregate, or vice versa
  - Tax abatements below the threshold (if any) should be presented in the aggregate, as described in the Statement

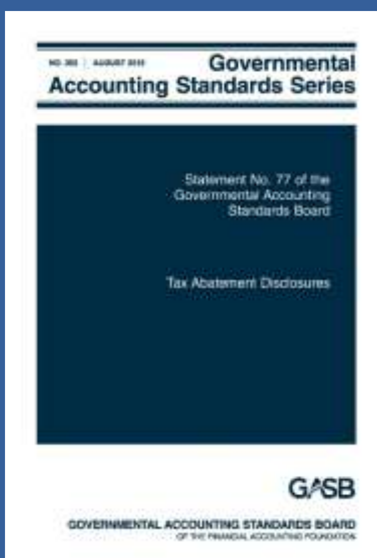
Summary of Required Disclosures

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	✓	

Summary of 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	✓	✓

Certain Asset Retirement Obligations: Statement 83



What Is the Definition of an ARO?

- Asset retirement obligation—A legal obligation associated with the retirement of a capital asset
  - Retirement of a tangible capital asset—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)

What Is the Scope of Statement 83?

- Retirement of tangible capital assets, for example:
  - Nuclear power plant decommissioning
  - Coal ash pond closure (those that are not landfills)
  - Contractually required land restoration such as removal of wind turbines
  - Other similar obligations
- Disposal of a replaced part that is a component of a capital asset
- Environmental remediation associated with a requirement of tangible capital assets that results from the normal operations of those tangible capital assets

What Is Excluded From the Scope of the Statement 83?

- Obligations associated with:
  - Plan to solely sell or otherwise dispose of a tangible capital asset
  - Preparation of a tangible capital asset for an alternative use
  - Asbestos removal that result from the other-than-normal operation of a tangible capital assets
  - Maintenance, rather than retirement, of a tangible capital asset
- Cost of replacement part that is a component of a capital asset
- Landfill closure and postclosure care obligations, including those not covered by Statement 18
- Conditional obligations to perform asset retirement activities

How Should AROs Be Recognized and Measured?

Initial Recognition	ARO liability when incurred and reasonably estimable—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 remeasure the current value for the effects of inflation or deflation • At least annually evaluate relevant factors to determine if there is a significant change in the estimated outlays	Recognize a reduction as an outflow of resources (for example, expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset

Proposals

Technical Agenda—What Should Be On Your Radar

- Current Agenda
  - Fiduciary activities
  - Leases
  - Reporting model (reexamination)
  - Revenue and expense recognition
- Research Agenda
  - Going concern
  - Note disclosures (reexamination)

Fiduciary Activities: Exposure Draft

FINANCIAL ACCOUNTING FOUNDATION FINANCIAL ACCOUNTING STANDARDS BOARD GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Why Is GASB Addressing Fiduciary Activities?

- Wide diversity in practice
  - One of the last great frontiers in governmental accounting
  - Similar activities are not reported on a comparable basis
    - A single activity could be reported in a governmental fund, a fiduciary fund, or not reported at all

When Is a Government a Fiduciary?

- An activity is a fiduciary activity of a government if all of the following conditions are met
  - The government controls the assets of the activity
  - The assets associated with the activity are *not* derived:
    - Solely from the government's own-source revenues.
    - From government-mandated and voluntary nonexchange transactions with the exception of a pass-through grant for which the government does not have administrative or direct financial involvement in the program.
  - The assets associated with the activity meet one or more of the following criteria:
    - The assets are administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary.
    - The assets are to be used for the benefit of individuals and the government does not have administrative or direct financial involvement. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
    - The assets are to be used for the benefit of organizations or other governments that are *not* part of the financial reporting entity.

What Is Control From the Standpoint of a Fiduciary?

- A government controls the assets of an activity, if the government:
  - Holds the assets or
  - Has the ability to direct the
    - (a) Use
    - (b) Exchange, or
    - (c) Employment of the assets in a manner that provides benefits to the specified or intended recipients.

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

How Should the Reporting of Pension Plans Or OPEB Plans That Are Not Component Units Be Determined?

- An activity should be reported as fiduciary if:
  - Government controls the assets of the arrangement and
  - Activity is a pension or other postemployment benefit arrangement within the scope of:
    - Statement No. 67, *Financial Reporting for Pension Plans*,
    - Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*
  - Assets accumulated to provide pensions or OPEB to employees that are not part of the reporting entity, as described in:
    - Paragraph 116 of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,*
    - Paragraph 59 of Statement 74

What Is the Project Timeline?

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

Leases:
Exposure Draft

What Is The Basic Approach Used for Leases?

- Single model
  - No classification of leases into operating/capital or other categories
  - Underlying assumption that leases are financings
  - Exceptions: short-term leases and those that transfer ownership

How Should Leases Be Initially Reported?

	Assets	Liability	Deferred Inflow
Lessee	Intangible 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 including same items as lessee liability) • Continue to report leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

How Should Leases Be Subsequently Reported?

	Assets	Liability	Deferred Inflow
Lessee	Amortize over shorter of useful life or lease term	Reduce by lease payments (less amount of 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 payment needed to cover accrued interest)	NA	Recognize revenue over the lease term on a systematic and rational basis

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

What Is A Short-Term Lease and How Should They Be Reported?

- 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
  - Disclose short-term leases expense/expenditure recognized during the reporting period
- Lessors recognize lease payments as revenue based on the terms of the contract
  - Do not recognize receivables or deferred inflows associated with the lease

What Is the Project Timeline?

Pre-Agenda Research Started	April 2011
Added to Current Technical Agenda	April 2013
Preliminary Views Approved	November 2014
Exposure Draft Approved	January 2016
Final Statement Expected	May 2017

Financial Reporting Model—Reexamination of Statement 34

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Why Is The GASB Reexamining the Financial Reporting Model?

- The GASB is committed not only to establishing standards but also to ensuring that they continue to be effective
- GASB Statement 34 was issued in June 1999
- Most of the requirements of Statement 34 became effective in 2002 for State governments
- Governmental funds basically left untouched
- Bottom line—is the model achieving its objectives

What Is the Focus of the Initial Deliberations?

- First Due Process Document—December 2016
  - Governmental funds—what should they convey
  - Role of cash flows statements in governmental funds

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

What Approaches Are Currently Being Considered?

- Near-term financial resources
- Short-term financial resources
- Long-term financial resources

What Is the Near-Term Financial Resources Focus?

- Similar to current financial resources, but more conceptually based
- Near term generally viewed as a 60-90 day period after the date of the financial statements
  - Assets—normally receivable at the period end and due to be converted to cash with the near term (or available to be converted to cash)
  - Liabilities—normally payable at period end and due within the near term
- Challenges
  - Anticipation notes
  - Interest on debt

What Are the Primary Benefits and Challenges of the Near-Term Financial Resources Approach?

- Benefits
  - Increased consistency and comparability of governmental fund financial statements
  - Convey amounts available for spending
  - A cash flow statement for governmental funds may not be necessary with this approach
- Challenges
  - Required principal payments on long-term debt are recognized as a liability only on the date that it is due
  - Changes in current practice
    - Accrued interest on that same liabilities is recognized as a liability as incurred.
    - Short-term operational borrowings, such as tax anticipation notes, would be reported as inflows of resources, rather than as liabilities
  - Near-term fund balances may be overstated as the result of certain budgetary actions (for example, failure to make pension contributions)

What Is the Short-Term Financial Resources Focus?

- Focus is on the subsequent one-year operating cycle
  - Assets—normally receivable at period end and due to converted to cash in the subsequent operating cycle and prepaid items and inventory that will be consumed in that cycle
  - Liabilities—normally payable at year end and due or expected to be paid with the subsequent operating cycle

What Are the Primary Benefits and Challenges of the Short-Term Financial Resources Approach?

- Benefits
  - Conceptual consistent because all of the obligations that are payable and due in the subsequent operating cycle, along with the existing resources that are available in the same period to satisfy these obligations are recognized
  - Better basis for assessing interperiod equity than the current model
  - May better reflect the impact of certain budgetary actions (for example, failure to make pension contributions)

- Challenges
  - Additional efforts related to preparing and auditing balances for amounts expected to be paid in the subsequent operating cycle for non-structured liabilities (for example, postemployment liabilities)
  - Governmental fund statements of cash flows would be considered essential to the financial reporting model

What is the Long-Term Financial Resources Focus?

- Focus is on all assets and liabilities except capital assets and capital-related debt

What Are the Primary Benefits and Challenges of the Long-Term Financial Resources Approach?

- Benefits
  - Conceptually consistent recognition principles for financial resources to be reported in governmental fund financial statements by recognizing all transactions related to financial resources.
  - May better reflect the impact of certain budgetary actions (for example, failure to make pension contributions)
  - May simplify the financial reporting model because there would be few differences from the measurement approach used for the government-wide financial statements

- Challenges
  - Governmental funds would no longer present a shorter-term view of the financial position and resource flows
  - Additional efforts related to preparing and auditing assignments of long-term liabilities to the funds
  - Governmental fund statements of cash flows would be considered essential to the financial reporting model

What Is the Project Timetable?

Pre-Agenda Research Starts	August 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Expected	December 2016
Preliminary Views Expected	July 2018
Exposure Draft Expected	April 2020
Final Statement Expected	November 2021

Revenue and Expense Recognition

Why Is GASB Addressing Revenue and Expense Recognition?

- Exchange revenue standards were incorporated from FASB literature “as is”
  - Not reviewed to consider their appropriateness for governments
  - Not comprehensive
- The FASB has introduced new revenue recognition standards
- Exchange expenses have not been addressed from an overall standpoint
- Non-exchange revenue and expense standards were recently subjected to a post-implementation review

What Alternatives Are Being Assessed?

- New performance obligation versus no performance obligation model
- Traditional exchange versus nonexchange model

What Is the Project Timetable?

Pre-Agenda Research Starts	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Expected	January 2018
Preliminary Views Expected	October 2019
Exposure Draft Expected	April 2021
Final Statement Expected	June 2022

Note Disclosures

Why Is the GASB Researching Note Disclosure Issues?

- A comprehensive review of note disclosures has not been conducted since Statement 38 was issued
  - Board now has Concepts Statement No. 3, *Communications Methods*, in its toolbox
- Concern has been expressed by some preparers and auditors regarding disclosure overload
- Concern has been expressed by some financial statement users that certain disclosure requirements have not kept pace with the ever-changing environment

What Is the Research Timetable?

- Research should be complete by November 2018
- Potential project could be considered by the Board in December 2018

Going Concern

Why Is the GASB Researching Going Concern Issues?

- Current going concern guidance picked up generally "as is" from the auditing literature in Statement 56
- Governments generally do not go out of business
- Need early warning system (severe financial stress) before an entity is not considered to be a going concern has been identified, but solutions remain elusive

What Is the Research Timetable?

- Research is expected to be completed by July 2017
- If there are viable paths forward the Board may consider adding a project to its current technical agenda in August 2017

Questions?

Visit www.gasb.org