GASB Update

Governmental Accounting and Auditing Update

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.

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

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Effective Dates—June 30, 2017

- Statement 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*
- Statement 74—*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB plan reporting)
- Statement 77—*Tax Abatement Disclosures*
- Statement 78—*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- Statement 80—*Blending Requirements for Certain Component Units*
- Statement 82—*Pension Issues*
- Implementation Guide—2016-1, *Implementation Guidance Update—2016*

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Effective Dates—June 30

- **2018**
  - Statement 75— *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB—Employers)
  - Statement 81—*Irrevocable Split-Interest Agreements*
  - Statement 85—*Omnibus* (primarily OPEB—bring in line with Statements 78 and 82)
  - Statement 86—*Certain Debt Extinguishment Issues*
  - Implementation Guide—2017-1, *Implementation Guidance Update—2017*
  - Implementation Guide—2017-2*, OPEB Plan Implementation Guide*
- **2019—**Statement 83—*Certain Asset Retirement Obligations*
- **2020—**Statement 84—*Fiduciary Activities*
- **2021—**Statement 87—*Leases*

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Expected Effective Dates—June 30

Current GASB Projects

- **2018**
  - OPEB Employer Implementation Guide
- **2019**
  - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Pension and OPEB Implementation Issues

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

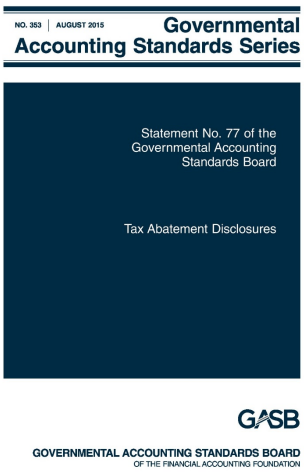
What Issues Have Been Raised by Stakeholders?

- Practice Issues
  - Discount rate
    - Deviations from Actuarial Standards of Practice (ASOPs)
  - Using pension assets or future revenues to make contributions
  - Side trusts (Section 115)
- Statements 82 and 85
  - Covered-employee payroll
  - Treatment of employer–paid member contributions

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Tax Abatement Disclosures: Statement 77



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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	✓	

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

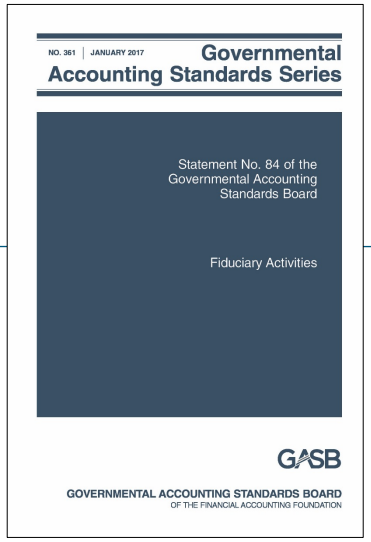
Summary of Required Disclosures

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	✓	✓

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Fiduciary Activities: Statement 84



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Why Did GASB Address 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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

When Should a Government Report Assets in a Fiduciary Fund?

- Four paths to making this determination:
- Component units that provide postemployment benefits
- Component units that do not provide postemployment benefits
- Postemployment benefit arrangements that are not component units
- All other activities

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

How Should Component Units That Provide Postemployment Benefits Be Classified?

- Fiduciary if (1) the activity meets the definition of a component unit in Statement 14, as amended, and (2) it 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

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

When All Other Activities Be Reported as a Fiduciary Fund?

- Fiduciary activity 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
  - 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 three following criteria

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

All Other Activities (continued)

- The assets are:
  - Administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary,
  - Dedicated to providing benefits to recipients in accordance with the benefit terms, and
  - 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

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

What are the Fiduciary Fund Classifications?

- 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

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

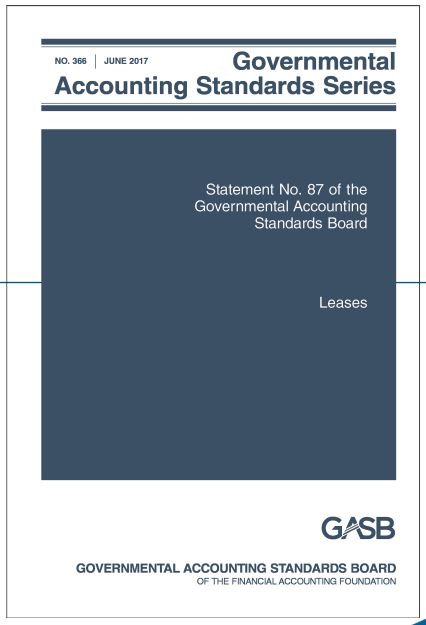
How Should Stand-Alone Business-Type Activities Report Fiduciary Activities?

- 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

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Leases: Statement 87



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

What Are Short-Term Leases 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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Technical Agenda—What Should Be On Your Radar

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Financial Reporting Model—Reexamination of Statement 34

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

What Approaches Are Currently Being Considered?

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

What Is the Project Timetable?

Pre-Agenda Research Started	August 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Expected	September 2018
Exposure Draft Expected	June 2020
Final Statement Expected	December 2021

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Revenue and Expense Recognition

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

What Alternatives Are Being Assessed?

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

What Is the Project Timetable?

Pre-Agenda Research Started	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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Note Disclosures

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

What Is the Research Timetable?

- Research should be complete by July 2018
- Potential project could be considered by the Board in August 2018

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.

Questions?

- Visit www.gasb.org

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Copyright 2017 by Financial Accounting Foundation, Norwalk CT. For non-commercial, educational/academic purposes only.