California 75th Annual State Controller's Conference

GASB

GASB Update

October 21, 2020

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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.

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

Presentation Overview

- Guidance and resources related to coronavirus diseases
- Proposals for public comment
- Pronouncements being implemented
- Projects currently being deliberated by the Board
- Pre-agenda research activities

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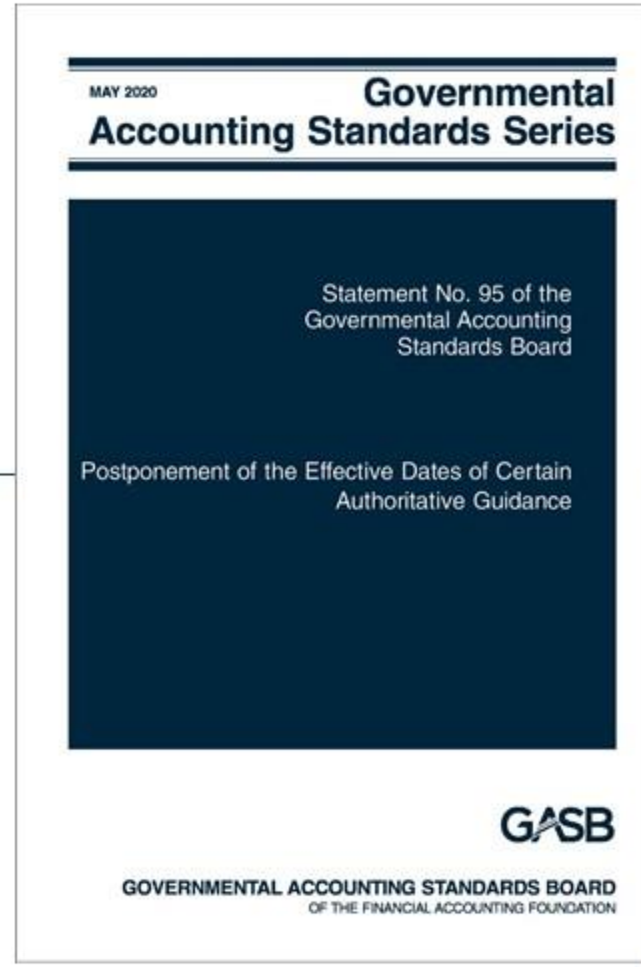
Guidance and Resources Related to the Coronavirus Diseases

- Postponement of certain effective dates
- Guidance on CARES Act
- Emergency toolbox

Postponement of the Effective Dates of Certain Authoritative Guidance

Statement No. 95



MAY 2020

Governmental Accounting Standards Series

Statement No. 95 of the Governmental Accounting Standards Board

Postponement of the Effective Dates of Certain Authoritative Guidance

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Effective Date Postponement

What?

The Board has postponed the effective dates of certain Statement & Implementation Guide provisions

Why?

The Board acted in response to numerous stakeholder requests prompted by the COVID-19 pandemic

When?

Effective immediately

Provisions can be implemented early to the extent allowed by each pronouncement

Effective dates are postponed one year for these pronouncements in their entirety

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*
- Statement No. 91, *Conduit Debt Obligations*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

Effective dates are postponed one year for certain provisions of these pronouncements

- Statement No. 92, *Omnibus 2020,* paragraphs 6–10 and 12
- Statement No. 93, *Replacement of Interbank Offered Rates,* pars. 13 and 14
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting),* Questions 4.85, 4.103, 4.108, 4.109, 4.225, 4.239, 4.244, 4.245, 4.484, 4.491 and 5.1–5.4

Effective dates are postponed 18 months for these pronouncements

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

Effective Dates after Statement 95

December 31: Fiscal Year 2020

- Statement 83 – asset retirement obligations
- Statement 84 – fiduciary activities
- Statement 88 – debt disclosures
- Statement 90 – majority equity interests
- IG 2018-1 – Update
- IG 2019-2 – fiduciary activities

December 31: Fiscal Year 2021

- Statement 89 – construction-period interest
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update

December 31: Fiscal Year 2022

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update

December 31: Fiscal Year 2023

- Statement 94 – public-private partnerships
- Statement 96 – SBITAs

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Effective Dates after Statement 95

June 30: Fiscal Year 2020

- Statement 83 – asset retirement obligations
- Statement 88 – debt disclosures
- IG 2018-1 – Update

June 30: Fiscal Year 2021

- Statement 84 – fiduciary activities
- Statement 90 – majority equity interests
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update
- IG 2019-2 – fiduciary activities

June 30: Fiscal Year 2022

- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update (except 4.6–4.17 and 4.19–4.21)

June 30: Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)

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Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases

Technical Bulletin 2020-1

JUNE 2020

Governmental Accounting Standards Series

GASB Technical Bulletin No. 2020-1

Title: Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases

References: GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*
GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*
GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
GASB Implementation Guide No. 2015-1, Question 2.27.4

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Technical Bulletin 2020-1

What?

The Board has cleared guidance that addresses issues arising from the CARES Act and coronavirus diseases

Why?

The Board acted in response to numerous stakeholder requests for guidance

When?

Effective immediately

Topics Addressed

- Whether resources received from the Coronavirus Relief Fund (CRF) are subject to eligibility requirements or to purpose restrictions and how they should be accounted for
- Whether CARES Act provisions that address a government's loss of revenue should be considered an eligibility requirement, for purposes of revenue recognition
- Whether amendments to the CARES Act after the statement of net position date but prior to the issuance of financial statements are the basis for recognition in financial statements for the period reported

Topics Addressed (continued)

- How to account for forgivable loans under the Paycheck Protection Program
- Whether resources provided through certain programs to a business-type activity or enterprise fund are nonoperating revenues
- Whether outflows incurred in response to the coronavirus are extraordinary items or special items for financial reporting purposes

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COVID-19 Page & Emergency Toolbox

- Guidance and resources available at www.gasb.org/COVID19
- Emergency toolbox
  - Intended to help stakeholders quickly identify the GASB's authoritative guidance that could be relevant to the current circumstances, including topics such as contingencies, going concern, prior-period adjustments, revenue and receivable recognition, and subsequent events
  - Provides links to COVID-19 resources and nonauthoritative guidance of professional organizations

Proposals for Public Comment

Conceptual Framework: Recognition

Financial Reporting Model

Revenue and Expense Recognition

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Conceptual Framework: Recognition

Exposure Draft: *Recognition of Elements of Financial Statements*

What?

The Board issued an Exposure Draft of a Concepts Statement on recognition of financial statement elements

Why?

Recognition concepts are one of the components needed to complete the conceptual framework

When?

Comment deadline is February 26, 2021

Public hearings and user forums in March and April 2021

Recognition Concepts

The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

The related **basis of accounting** determines *when* those items should be reported.

Proposal: Recognition Hierarchy

Follow a specific order when evaluating an item for recognition:

Does it meet the definition of an asset or liability?

Yes: Recognize asset or liability	No: go to next step

Does it meet the definition of a deferred outflow of resources or a deferred inflow of resources?

Yes: Recognize deferral	No: go to next step

Does it meet the definition of an outflow of resources or an inflow of resources

Yes: Recognize inflow/outflow	No: Do not recognize the item

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Proposal: Recognition Framework

Two Measurement Focuses	
Economic Resources (applied in government-wide, proprietary fund, and fiduciary fund financial statements)	**Short-Term Financial Resources** (would replace current financial resources in the governmental funds)

Proposal: Recognition Framework (continued)

Item meets definition of an element under the measurement focus

+

Measurement of item sufficiently reflects qualitative characteristics

=

Recognize the item in financial statement

Project Timeline

Preliminary Views Issued	September 2018
Redeliberations Began	June 2019
Exposure Draft Approved	June 2020
Comment Deadline	February 26, 2021
Public Hearings	Boise – March 23, 2021 Atlanta – March 30 & 31, 2021 New York City – April 8, 2021 Chicago – April 13 & 14, 2021 San Francisco – April 20 & 21, 2021
User Forums	New York City – April 9, 2021 Chicago – April 15, 2021
Final Concepts Statement Expected	June 2022

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Financial Reporting Model Improvements

Exposure Draft

Financial Reporting Model Improvements

What?

The Board proposed improvements to the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6

Why?

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

When?

Comment deadline February 26, 2021

Public hearings and user forums in March and April 2021

Overview of the Proposals

- Measurement focus and basis of accounting for the governmental funds
- Format of governmental funds financial statements
- Clarification of operating and nonoperating in proprietary funds
- Presentation of proprietary funds statement of revenues, expenses, and changes in net position
- Management's discussion and analysis
- Budgetary comparisons
- Major component unit presentations
- Unusual or infrequent items

Proposal: Recognition in Governmental Funds

Short-term financial resources measurement focus and accrual basis of accounting

Elements from *short-term* transactions or other events recognized *as the underlying transaction or other event occurs*

Elements from *long-term* transactions and other events 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

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Recognition in Governmental Funds (cont.)

Short-Term Transactions	Long-Term Transactions
Period from inception to conclusion is one year or less	Period from inception to conclusion is more than one year

Inception generally is when a party to the transaction takes an action that results in the initial recognition of an asset or liability

Conclusion generally is when the final payment of cash or other financial assets is due according to the terms of the binding arrangement (or estimated payments)

Proposal: Presentation of Governmental Funds

Financial statements presented in ***current and noncurrent activity*** format

Current activity— all other

Noncurrent activity— related to purchase and disposition of capital assets and issuance and repayment of long-term debt

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Proposed Statement of Short-Term Financial Resource Flows

Current and Noncurrent Activity Format

	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	106,760,279	5,977,022	19,516,177	132,253,478
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	101,304,999	7,296,860	13,201,992	121,803,851
Net flows of short-term financial resources for current activities	5,455,280	(1,319,838)	6,314,185	10,449,627
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)
Net flows of short-term financial resources for noncurrent activities	(10,227,406)	(374,372)	(2,314,297)	(12,916,075)
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	$ 4,547,495	$ 8,082,264	$ 31,892,480	$ 44,522,239

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

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Proposals: Proprietary Funds (cont.)

Subsidies

- Resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided
- Resources provided to another party or fund that results in higher rates than otherwise would be established for the level of goods and services to be provided

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

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	2016	2015
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	1,146,343	1,091,377
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	1,681,544	1,596,059
Income (loss) generated by operations	(535,201)	(504,682)
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	558,101	530,057
Operating income (loss) and noncapital subsidies	22,900	25,375
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	221,023	126,314
Income before other items	243,923	151,689
Other items:		
Capital contributions	23,231	74,830
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	$ 3,328,265	$ 3,061,111

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Proposals: Management's discussion and analysis

Users of MD&A "have different levels of knowledge and sophistication about governmental accounting and finance," "may not have a detailed knowledge of accounting principles" (as in Concepts Statement 1, paragraph 63)

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

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

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

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

Other Proposals

Budgetary comparisons

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

Major component unit presentations

- If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements

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Other Proposals (continued)

Unusual or Infrequent Items

- Separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence (replacing extraordinary and special items)
- Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management

Proposed Effective Dates

Based on total annual revenues in fiscal year beginning after June 15, 2022

$75 million or more	Less than $75 million
Apply in fiscal years beginning after June 15, 2024	Apply in fiscal years beginning after June 15, 2025

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Issued	September 2018
Exposure Draft Approved	June 2020
Comment Deadline	February 26, 2021
Public Hearings	Boise – March 23, 2021 Atlanta – March 30 & 31, 2021 New York City – April 8, 2021 Chicago – April 13 & 14, 2021 San Francisco – April 20 & 21, 2021
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Final Statement Expected	June 2022

Revenue and Expense Recognition

Preliminary Views

Revenue and Expense Recognition

What?

The Board has proposed 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?

Comment deadline February 26, 2021

Public hearings and user forums in March and April 2021

Broad Project Objective

Develop a comprehensive, principles-based model that establishes guidance applicable to a wide range of revenue and expense transactions to:

- Expand on areas where there is no guidance—expenses
- Expand on areas where there is limited guidance—certain revenues
- Consider practice issues and challenges identified in current guidance—Statement 33
- Consider the conceptual framework—issued after Statement 33
- Consider performance obligation recognition

Scope of the Project

- The scope is defined broadly to include revenues and expenses except for those ***explicitly excluded:***

- **Financial instruments**
  - Investments
  - Derivative instruments
  - Long-term debt
- **Capital assets and inventory**
  - Purchase, sale, or impairment
  - Capitalization and depreciation
  - Inventory valuation
- **Post-employment**
  - Pensions
  - OPEB
  - Other: compensated absences

Proposed Recognition Model Components

Categorization

Identify the *type* of transaction

Recognition

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

Measurement

Determine the *amount* to report

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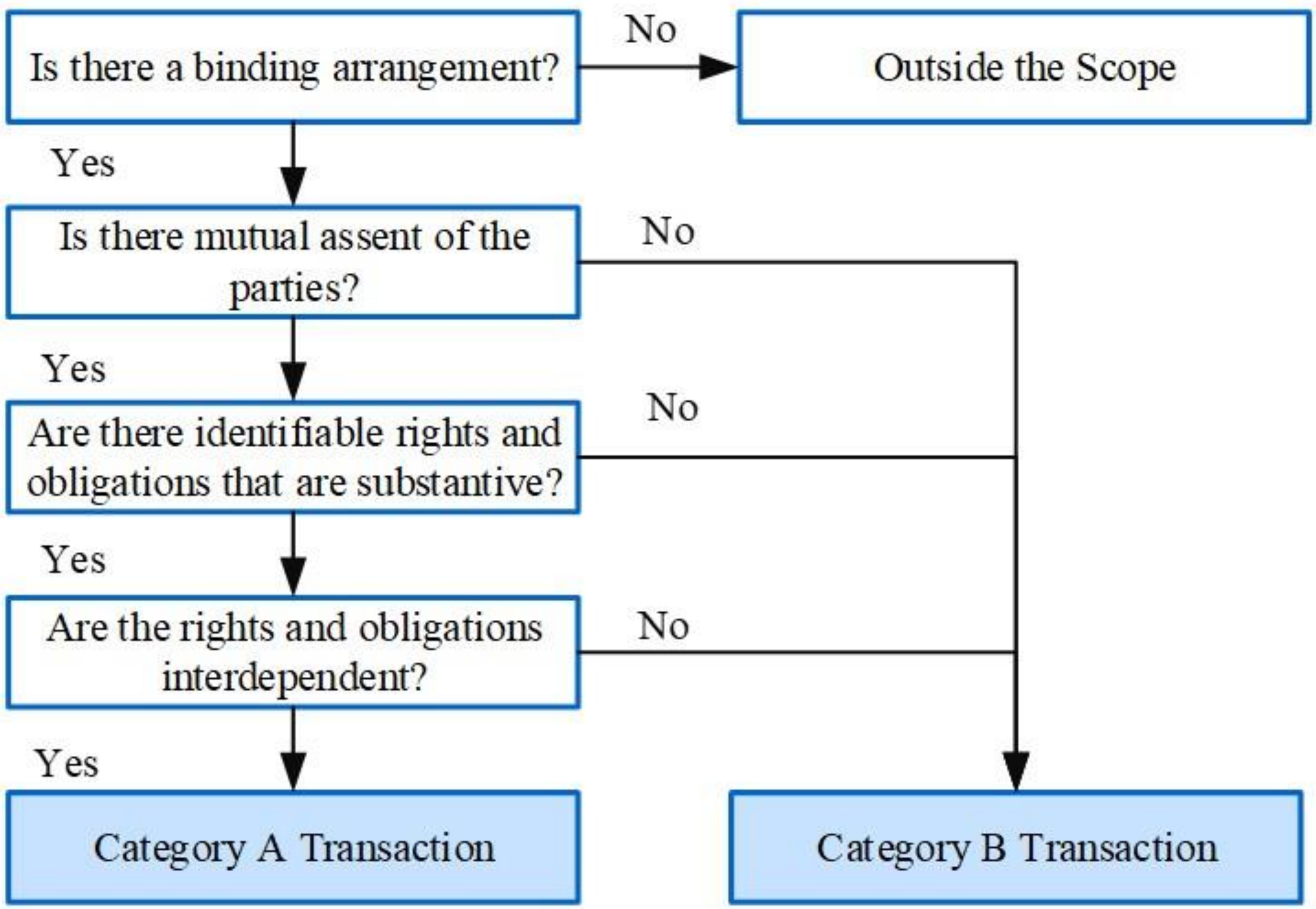
Proposed Categorization Methodology



Outcomes of the Proposed Model *

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

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

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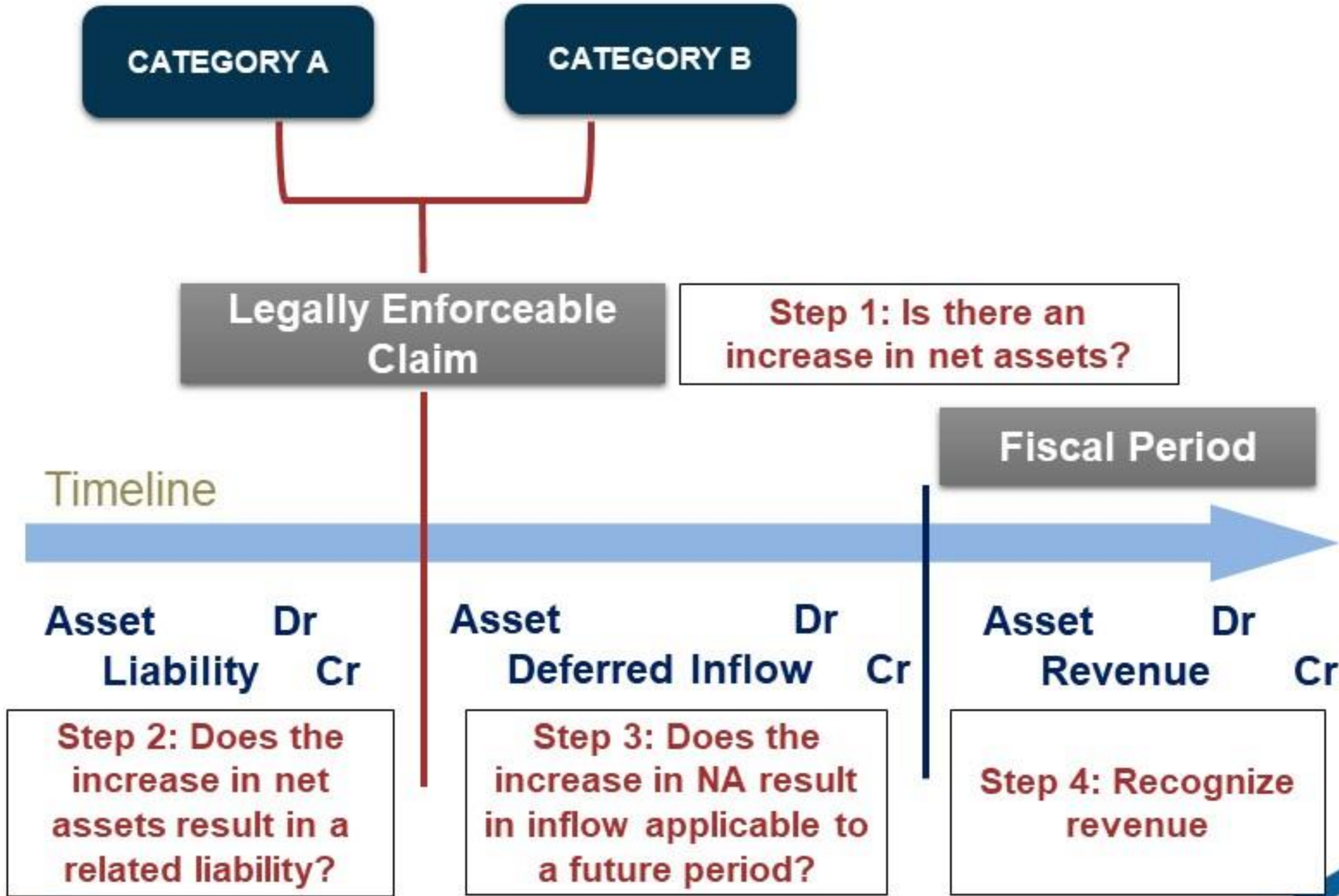
Proposed Revenue Recognition Principles



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Category A Revenue Recognition Example

College Tuition
Category A

Legally Enforceable Claim

Government provides resources (education)

Timeline

Asset Dr
Liability Cr

Asset Dr
Revenue Cr

Prepayment of tuition

Inflow of resources as the College performs its obligation

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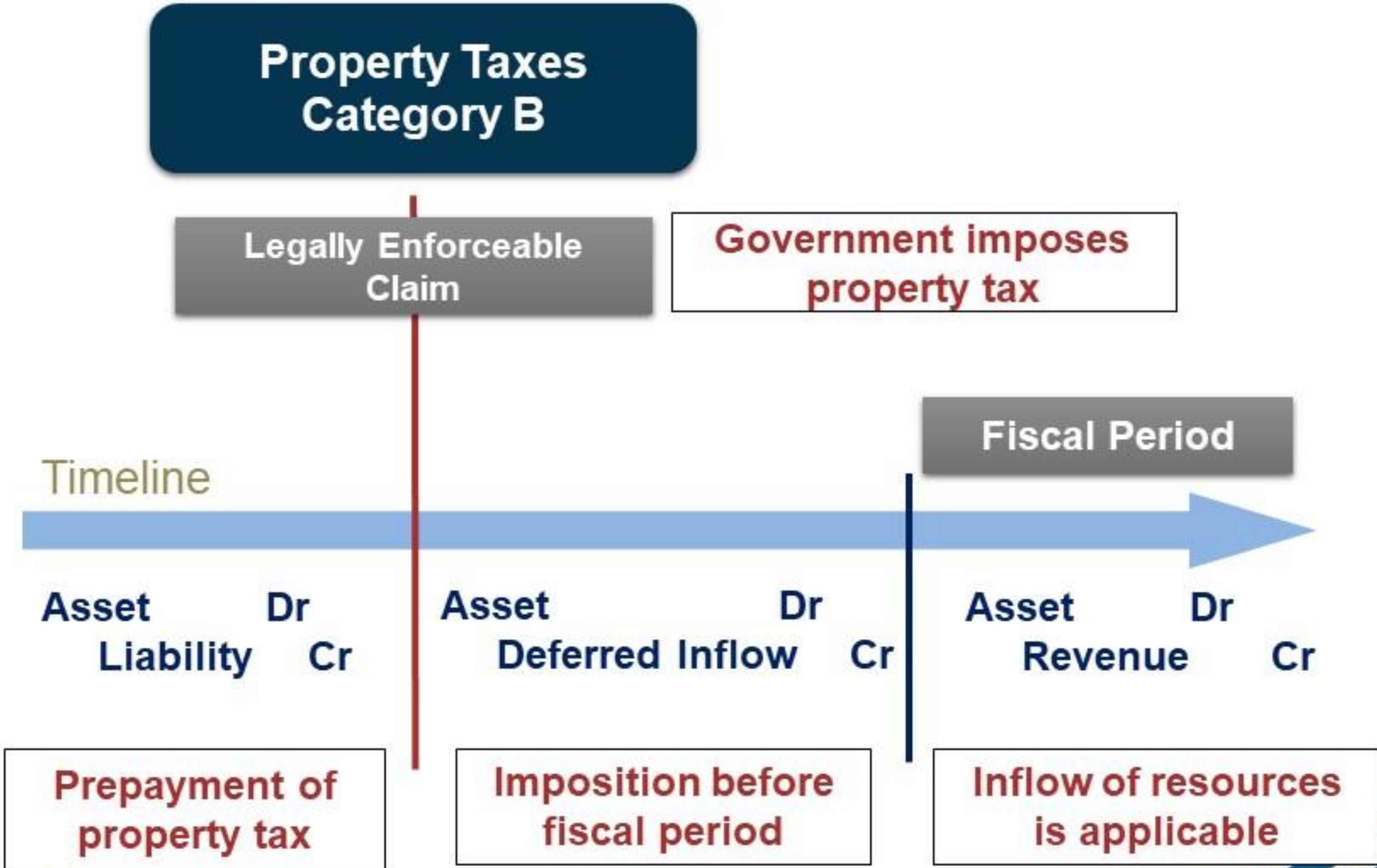
Category B Revenue Recognition Example



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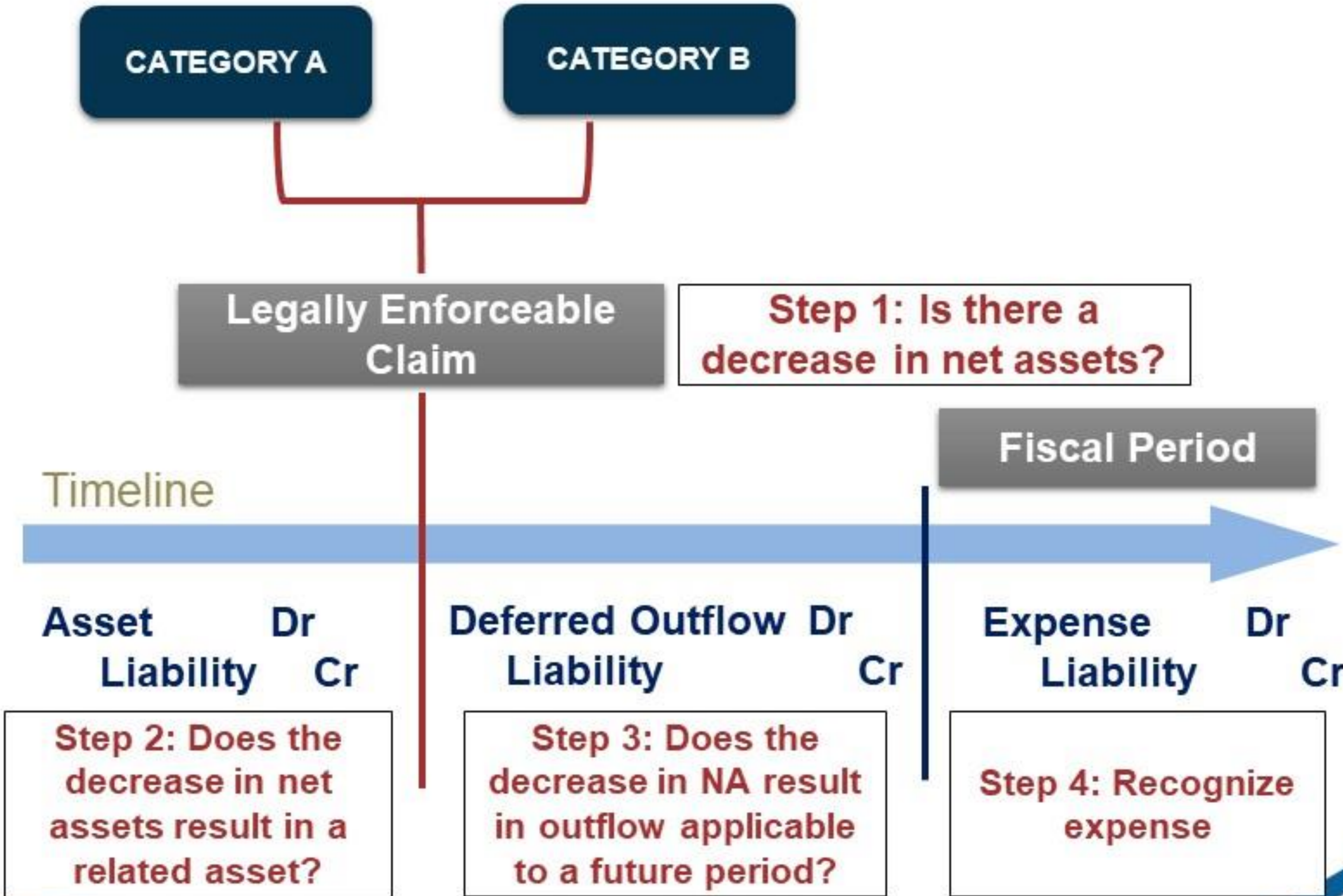
Proposed Expense Recognition Principles



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Category A Expense Recognition Examples

A performance obligation is satisfied when there is a transfer of control of resources

City orders supplies	Expense is recognized as the city receives the supplies
School district hires CPA	Expense is recognized as the CPA firm carries out the expected work, such as an audit
Public utility employees	Expenses for wages are recognized as the employees perform services over time

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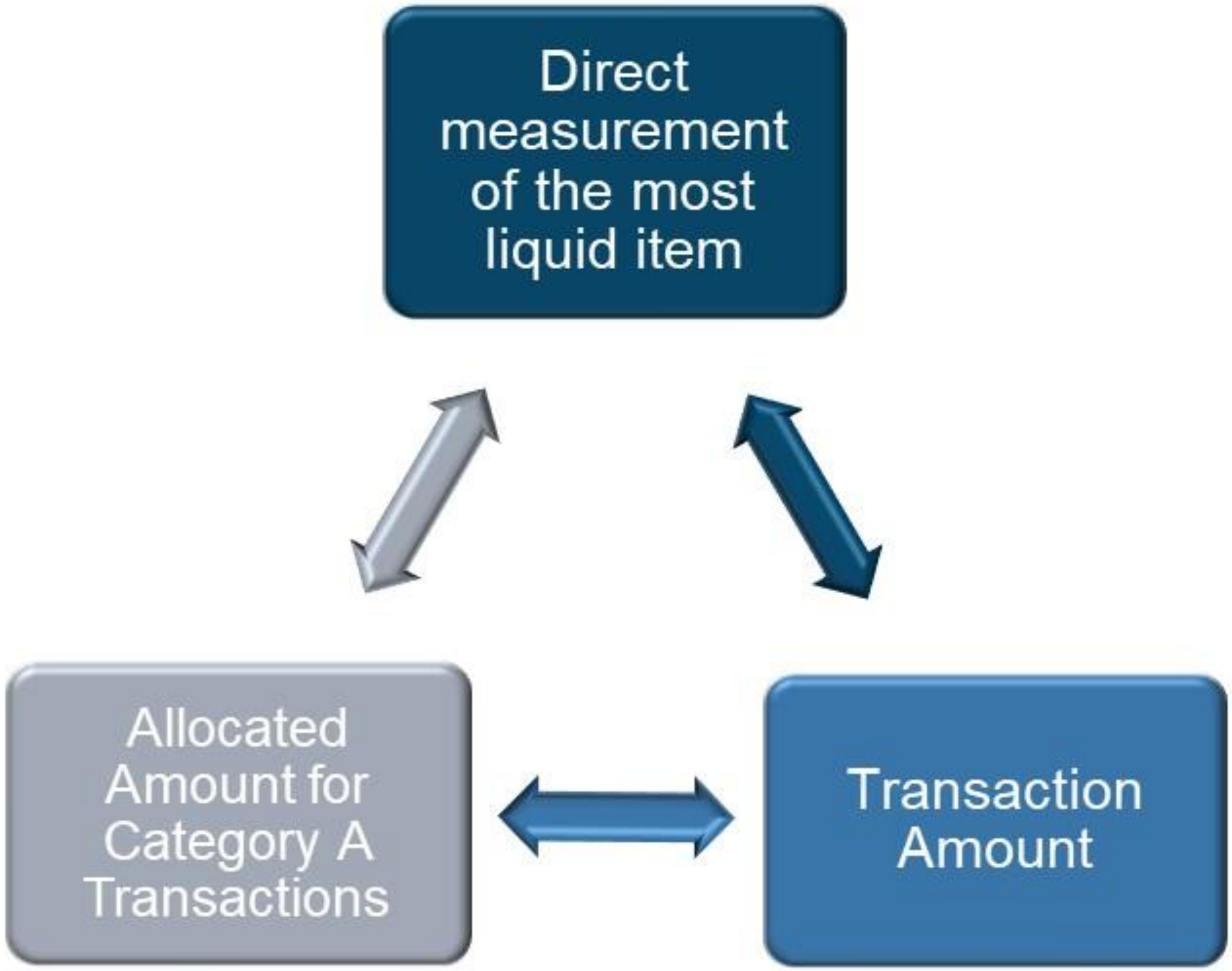
Category B Expense Recognition Examples

Expense is recognized at the same time as the ***payable***, unless there are time requirements

- Contractual arrangements
- Shared revenue (outflows)
- General aid (outflows)

Proposed Measurement Principles



Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Preliminary Views Approved	June 2020
Comment Deadline	February 26, 2021
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Exposure Draft Expected	June 2023

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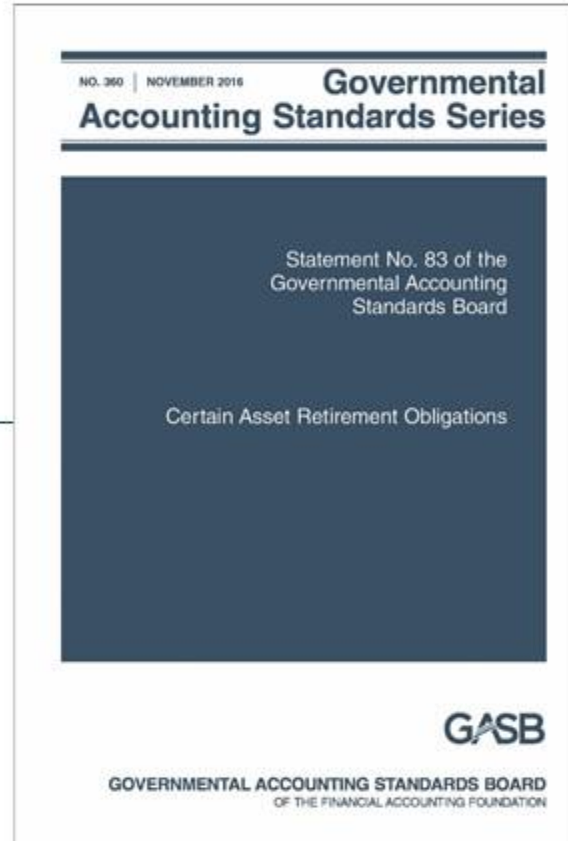
Pronouncements Being Implemented

Certain Asset Retirement Obligations

Statement No. 83



NO. 360 | NOVEMBER 2016

Governmental Accounting Standards Series

Statement No. 83 of the Governmental Accounting Standards Board

Certain Asset Retirement Obligations

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Certain Asset Retirement Obligations

What?

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

Why?

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

When?

Effective for periods beginning after June 15, 2019

Earlier application is encouraged

Definitions and Scope

Asset retirement obligation

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

Retirement of a tangible capital asset

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

Examples

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

Recognition & Measurement

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.

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Measurement Exception for a Minority Owner of a Jointly Owned Capital Asset

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

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

Initial and Subsequent Measurement Exception

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

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

Specific disclosure requirements in this circumstance

Effects of Funding and Assurance

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

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

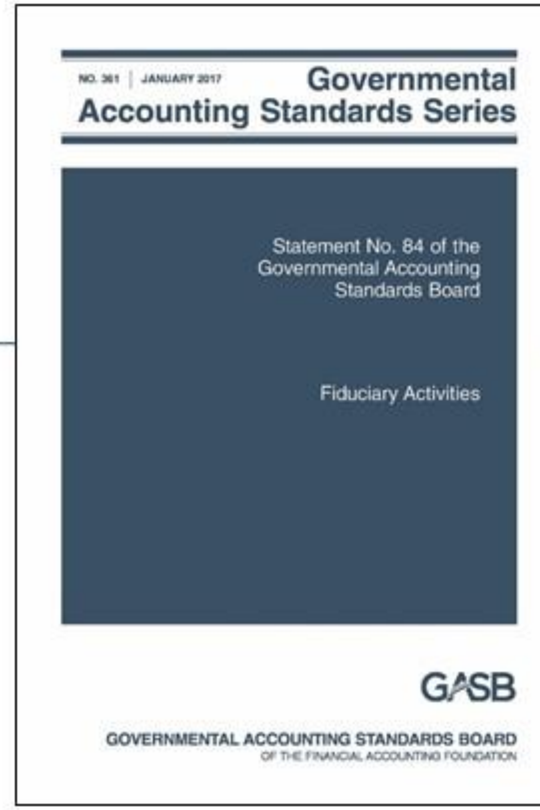
Costs to comply with funding and assurance provisions are period costs separate from the ARO expense

Disclosures

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

Fiduciary Activities

Statement No. 84



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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; BTAs are uncertain about how to report fiduciary activities

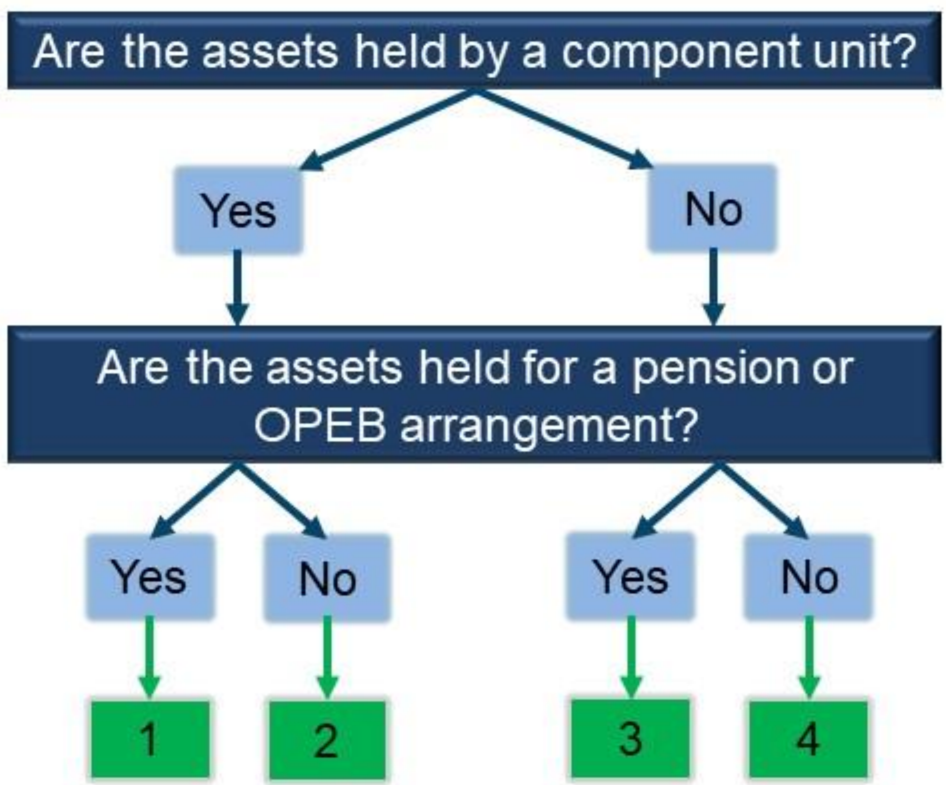
When?

Effective for periods beginning after December 15, 2019

Earlier application is encouraged

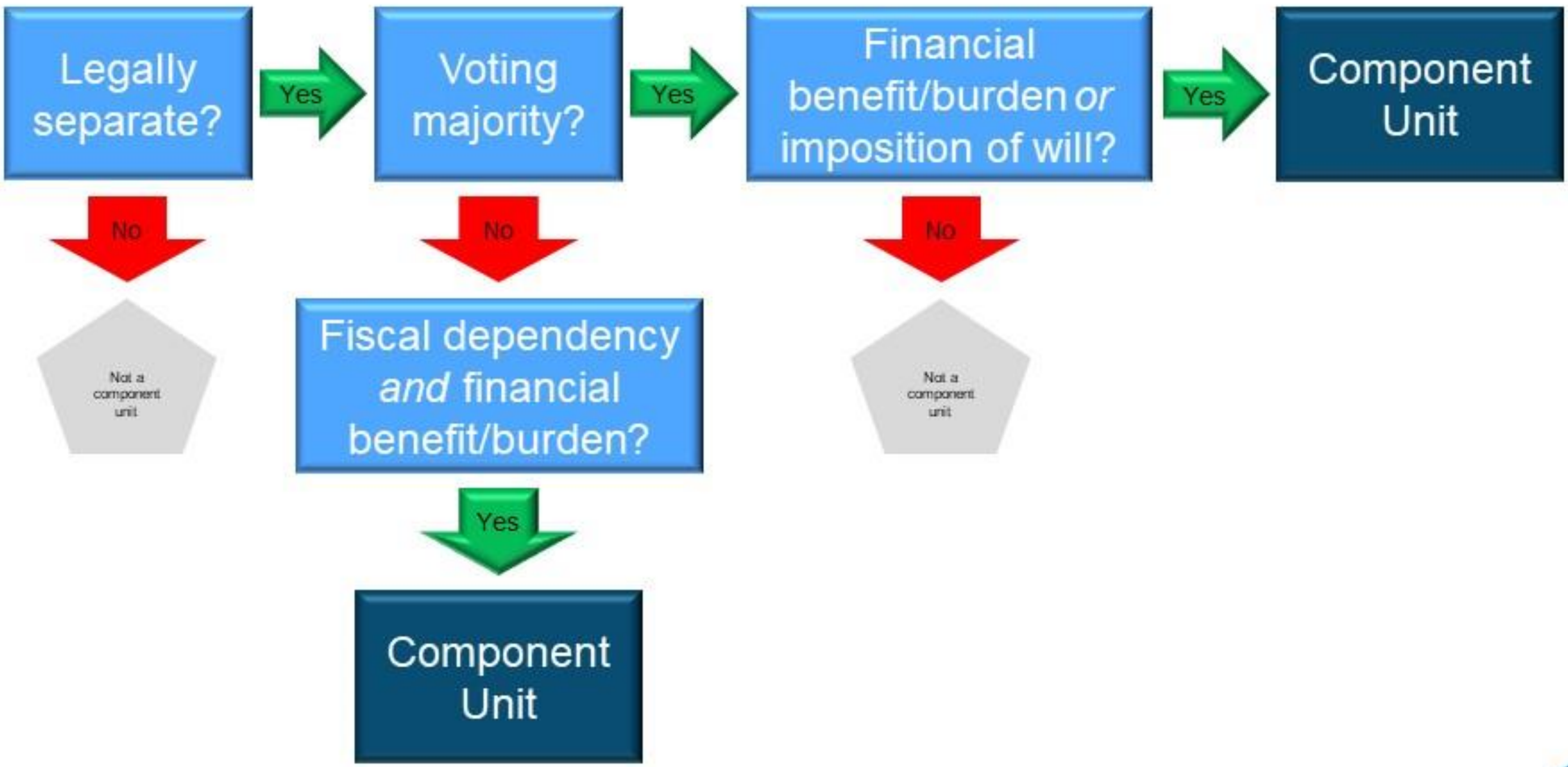
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

When Is There a Component Unit?



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implications of Statement 97

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the **appointment of a voting majority** of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a **financial burden** applies only to defined benefit plans

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if…

1

They are one of the following arrangements:

- **St. 67 ¶3** — Pension plan administered through a trust that meets criteria
- **St. 74 ¶3** — OPEB plan administered through a trust that meets criteria
- **St. 73 ¶116** — Assets from entities not part of the reporting entity accumulated for pensions
- **St. 74 ¶59** — Assets from entities not part of the reporting entity accumulated for OPEB

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Component Units Are Fiduciary if…

They have one or more of the following characteristics:

2

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

or

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

or

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

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

3

- Arrangement is one of those in 1 AND
- The government **controls** the assets of the arrangement
  - (control will be explained in two slides)

All Other Activities Are Fiduciary if… 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 government's own-source revenues, or
- From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Control of Assets

- Control means one or both of the following is true:

  - Government *holds* the assets
  - Government has ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries

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

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.

Exception: Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

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Statement of Changes in Fiduciary Net Position

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

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

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

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

- For those custodial funds, governments may report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implementation Guide 2019-2

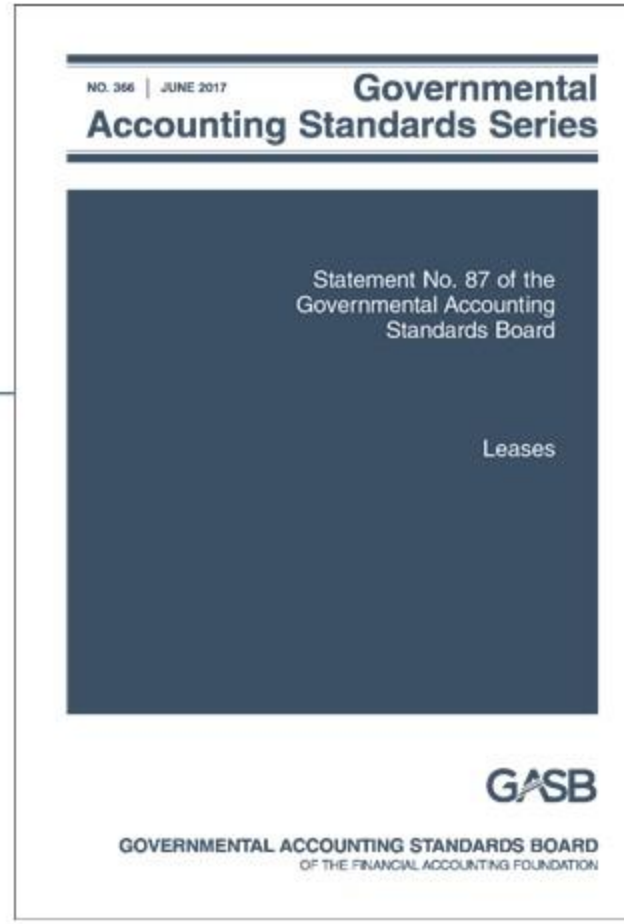
52 questions and answers, including:

- Classifying fiduciary activities
- Applying the criteria for control and own-source revenues
- Applying the clarified definitions of fund classes, including determining eligibility for the custodial fund exception for BTAs
- Fiduciary fund financial statements, including the determining eligibility for the exception to disaggregating certain additions and deductions
- Reporting fiduciary component units

Revisions to 3 existing questions and answers

Leases

Statement No. 87


NO. 366 | JUNE 2017

Governmental Accounting Standards Series

Statement No. 87 of the Governmental Accounting Standards Board

Leases

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GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Leases

What?

The Board issued Statement 87 to improve lease accounting and financial reporting

Why?

Existing standards in effect for decades without review in light of GASB's conceptual framework; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers

When?

Effective for fiscal years beginning after June 15, 2021, and all periods thereafter

Earlier application is encouraged

Issues to Focus on as Soon as Possible

Debt limits and bond covenants	• All leases lasting more than a year will be reported by lessees as long-term liabilities • Review state and local laws and agreements to determine whether that could impact compliance with debt limitations and bond covenants
Lease policies and procedures	• May need to consider changing policies and procedures for tracking and reporting leases, both as lessee and lessor • May need better communication between departments that enter into leases and central accounting staff • Need procedures that identify when lease agreements have been initiated and when existing leases are modified (such as changes in lease term or estimated payment amounts) • Should review capital asset policies, such as the capitalization thresholds, especially in light of the need to report intangible right-to-use assets

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Issues to Focus on as Soon as Possible (continued)

Transition provisions

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

Statement 87 Implementation Guide

Implementation Guide 2019-3: 77 questions and answers, including:	Scope and applicability issues
	Determining the term of the lease
	Eligibility for exception for short-term leases
	Recognition, measurement, and disclosure for lessees and lessors
	Lease incentives
	Contracts with multiple components and contract combinations
	Terminations and modifications
	Sale-leasebacks, lease-leasebacks, and intra-entity leases

Statement 87 Scope and Approach

- Statement 87 applies to any contract that meets the definition of a lease:

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

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

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

- Capital/operating distinction is eliminated

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Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset
- Biological assets (including timber, living plants, and living animals)
- Inventory
- Service concession arrangements (Statement 60)
- Arrangements associated with conduit debt obligations (Statement 91)
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

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Lease Term

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

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

  - Plus periods covered by options to:
    - Extend lease, if reasonably certain of being exercised
    - Terminate lease, if reasonably certain of *not* being exercised
  - Excludes cancelable periods
    - Periods for which lessee and lessor both have option to extend or terminate (such as rolling month-to-month leases)
  - Fiscal funding and cancellation clauses are ignored unless reasonably certain of being exercised

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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

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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

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Short-Term Leases

Definition	At beginning of lease, *maximum possible term* under the contract is 12 months or less
Lessee accounting	• Recognize expenses/expenditures based on the terms of the contract • Do not recognize assets or liabilities associated with the right to use the underlying asset
Lessor accounting	• Recognize lease payments as revenue based on the payment provisions of the contract • Do not recognize receivables or deferred inflows

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Contracts with Multiple Components

Statement 87

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

Implementation Guide 2019-3

- One component meets scope exclusions and one does not?
  - Separate and account for them individually (Q4.59)
- Separate utilities and janitorial costs of building lease?
  - Yes, if practicable to do so (Q4.60)

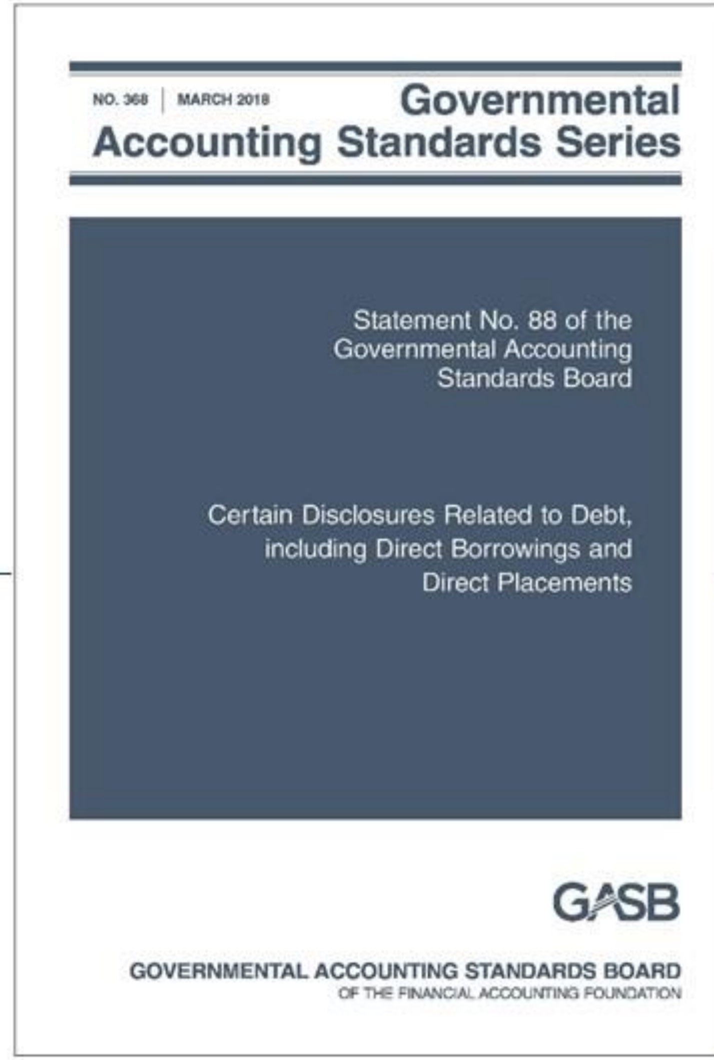
GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Topics Covered by Statement 87

- Disclosures
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks

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

Statement No. 88


NO. 368 | MARCH 2018

Governmental Accounting Standards Series

Statement No. 88 of the Governmental Accounting Standards Board

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

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OF THE FINANCIAL ACCOUNTING FOUNDATION

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, 2019

Earlier application is encouraged

Definition of Debt for Disclosure Purposes

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

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

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New Disclosure Requirements

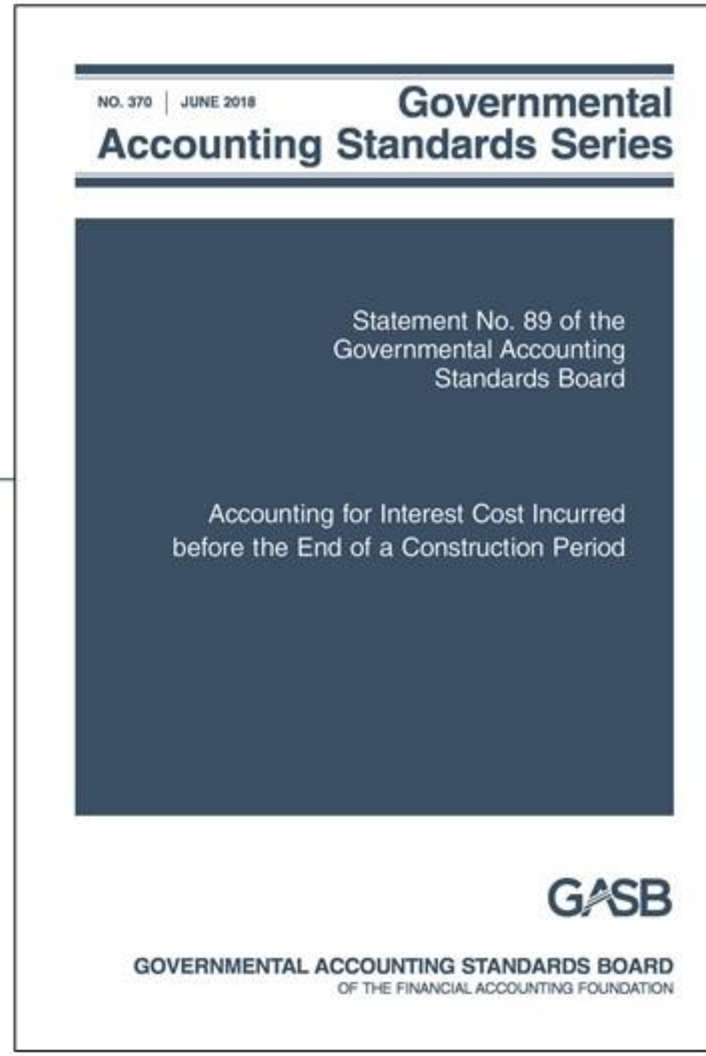
Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures

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

GASB Governmental Accounting Standards Board

Accounting for Interest Cost Incurred before the End of a Construction Period

Statement No. 89


NO. 370 | JUNE 2018

Governmental Accounting Standards Series

Statement No. 89 of the Governmental Accounting Standards Board

Accounting for Interest Cost Incurred before the End of a Construction Period

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Interest Cost

What?

The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting

Why?

Accounting guidance has been based on FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of GASB's Concepts Statements

When?

Effective for periods beginning after December 15, 2020

Earlier application is encouraged

Recognizing Interest Cost

Financial statements prepared using the economic resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.

Financial statements prepared using the current financial resources measurement focus:

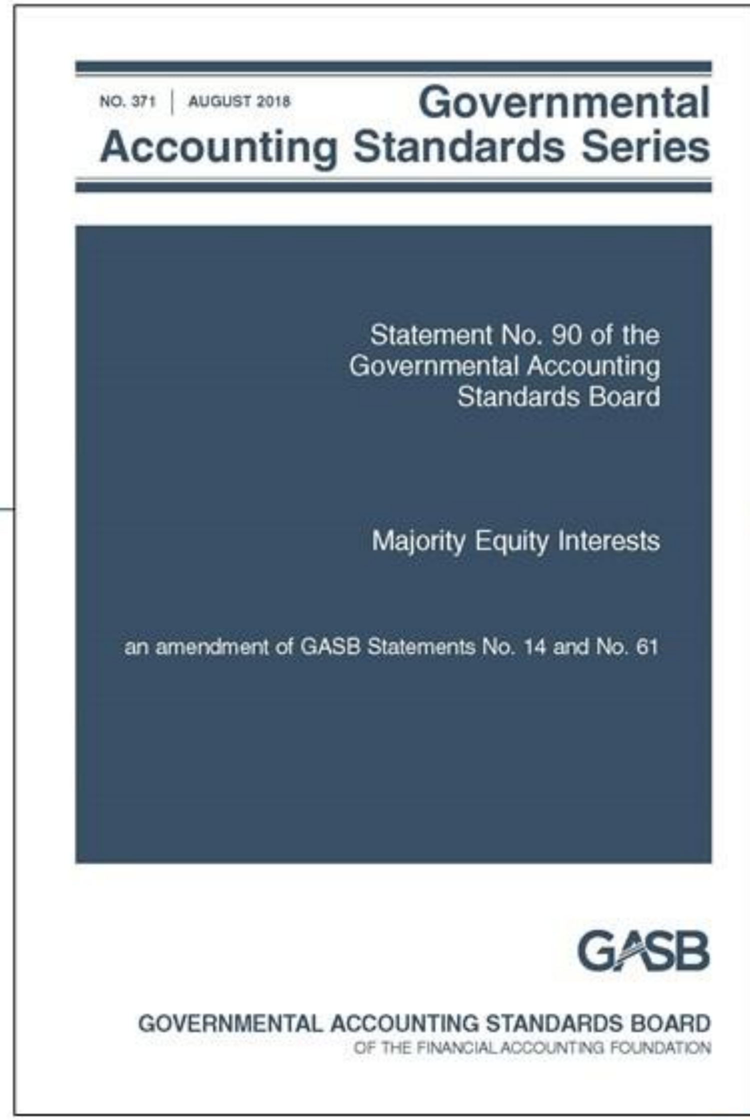
- Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.

Prospective application at transition

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Majority Equity Interests

Statement No. 90


NO. 371 | AUGUST 2018

Governmental Accounting Standards Series

Statement No. 90 of the Governmental Accounting Standards Board

Majority Equity Interests

an amendment of GASB Statements No. 14 and No. 61

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Majority Equity Interests

What?

The Board issued Statement 90 to clarify whether a majority equity interest should be reported as an investment or as a component unit and to provide consistent measurement of elements of acquired organizations and 100% equity interests in component units

Why?

Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance

When?

Effective for periods beginning after December 15, 2019

Earlier application is encouraged

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Does the Majority Equity Interest Meet the Definition of an Investment?

YES	NO
Report as an investment	Report as a component unit
Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205–209 *Exception:* the following should apply fair value in accordance with Statement 72, paragraph 64: • Special-purpose governments engaged only in fiduciary activities • Fiduciary funds • Endowments (including permanent and term endowments) and permanent funds	Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205–209
Applied prospectively only	

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

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

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

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

These provisions would be applied prospectively only

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conduit Debt Obligations

Statement No. 91


MAY 2019

Governmental Accounting Standards Series

Statement No. 91 of the Governmental Accounting Standards Board

Conduit Debt Obligations

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OF THE FINANCIAL ACCOUNTING FOUNDATION

Conduit Debt

What?

The Board improved the existing standards related to conduit debt obligations by providing a single reporting method for government issuers

Why?

Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, improvements were needed to eliminate diversity in practice

When?

Effective for periods beginning after December 15, 2021

Earlier application is encouraged

Definition of Conduit Debt

1. There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or trustee.
2. The issuer and the third-party obligor are *not* within the same financial reporting entity.
3. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
4. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
5. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.

Limited, Additional & Voluntary Commitments Extended by Issuers

Generally, issuers' commitments are **limited** to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** to support debt service in the event of the third-party obligor's default.

For example:
- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

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Recognition by the Issuer

- Do *not* recognize a conduit debt obligation as a liability
- May have a related liability arising out of an additional or voluntary commitment
- **Additional commitment**: report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- **Voluntary commitment**: if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments
- Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

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Arrangements and Capital Assets

Some conduit debt obligations include arrangements* that involve capital assets to be used by the third-party obligor but owned by the issuer.

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

*Often characterized as "leases"

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Arrangements and Capital Assets (continued)

Accounting by the issuer:

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

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Arrangements and Capital Assets (continued)

Does title pass to third-party obligor at end of arrangement?	Does the issuer recognize a capital asset?	Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of *entire* capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only *portions* of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement

Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

If the issuer recognizes a related liability

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

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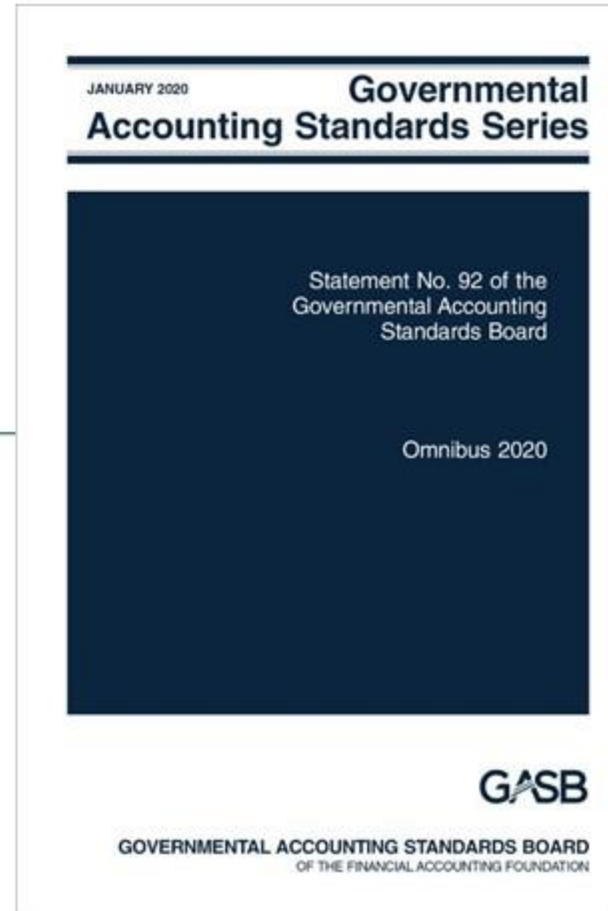
Omnibus 2020

Statement No. 92


JANUARY 2020 Governmental Accounting Standards Series

Statement No. 92 of the Governmental Accounting Standards Board

Omnibus 2020

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Omnibus 2020

What?

The Board has amended existing standards covering multiple topics

Why?

Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

When?

Effective dates vary by topic

Earlier application is encouraged and permitted by topic

Provisions of Statement 92

Leases

- Effective date of Statement 87 and Implementation Guide 2019-3 is changed from "reporting periods" to "fiscal years…and all reporting periods thereafter"

Government combinations and disposals of operations

- Provides an exception to the use of acquisition value in the measurement of an acquired asset retirement obligation

Derivative instruments

- Amends NCGA and GASB pronouncements to standardize the terminology used to refer to derivative instruments

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Provisions of Statement 92 (continued)

Application of Statement 84 to Postemployment Benefit Arrangements

- Limit the requirements of paragraphs 22 and 25 to defined benefit pension and OPEB plans
- Supersedes guidance in Statements 73 and 74 regarding recognition of a liability to employers and NECEs for the excess of assets over liabilities for benefits payments and administrative expenses in custodial funds in circumstances in which assets are accumulated for the pensions and OPEB of other employers and NECEs

Applicability of Statements 73 and 74

- Amend Statements 73 and 74 to replace references to *control* of assets in those same circumstances, to avoid limiting the application of the associated requirements of those Statements

Fair value measurements

- Amends paragraph 81 of Statement 72 to adjust the example of nonrecurring fair value measurements

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Provisions of Statement 92 (continued)

Intra-entity transfers of assets

- Amends paragraph 15 of Statement 48 to clarify that amounts associated with the transfer of capital or financial assets from an employer or NECE to a defined benefit pension or OPEB plan within the same financial reporting entity should be reported as contributions to the plan, in accordance with Statements 68 and 75
- Clarifies that the provisions of paragraph 15 apply to <u>all</u> transfers of assets within a financial reporting entity

Reinsurance recoveries

- Amends paragraph 37 of Statement 10 to clarify that amounts that are recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment expenses may be reported as reductions of expenses but are not required to be.

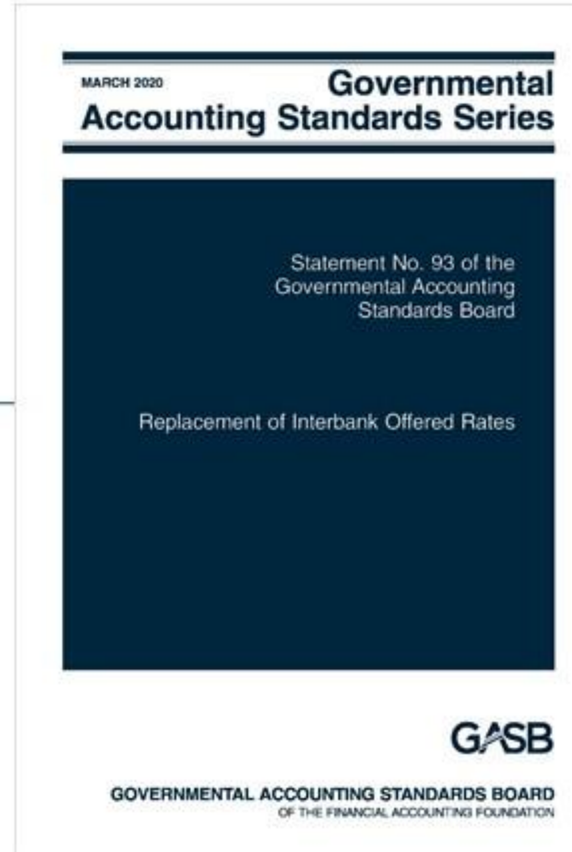
Effective Dates for Statement 92

Requirements related to:	Effective Date
1. Leases 2. Reinsurance recoveries 3. Derivative instruments	Upon issuance
4. Intra-entity transfers of assets 5. Applicability of Statements 73 and 74	Fiscal years beginning after June 15, 2021
6. Application of Statement 84 to postemployment benefit arrangements 7. Fair value measurements	Reporting periods beginning after June 15, 2021
8. Government combinations and disposals of operations	For government acquisitions occurring in reporting periods beginning after June 15, 2021

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Replacement of Interbank Offered Rates

Statement No. 93


MARCH 2020

Governmental Accounting Standards Series

Statement No. 93 of the Governmental Accounting Standards Board

Replacement of Interbank Offered Rates

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Replacement of Interbank Offered Rates

What?

The Board has issued guidance to facilitate the transition from using IBORs in hedging derivative instruments and leases

Why?

LIBOR in its current form is expected to effectively sunset at the end of 2021

When?

LIBOR: periods *ending* after December 31, 2021

Leases: periods beginning after June 15, 2021

All other: periods beginning after June 15, 2020

Exception to Termination of Hedge Accounting

Continue to apply hedge accounting to an effective hedging derivative instrument with a variable payment based on an IBOR, if <u>all</u> criteria are met:

- Hedging derivative instrument is amended or replaced to change the reference rate of its variable payment or add/change reference rate-related fallback provisions
- The new reference rate essentially equates the old rate by :
  - Adjusting the new rate by a coefficient or constant, limited to what is necessary to essentially equate the rates, and/or
  - An up-front payment, limited to what is necessary to essentially equate the rates
- The original hedging derivative instrument is ended and the replacement hedging derivative instrument is entered into on the same date
- Critical terms are identical, except for term changes that are necessary for reference rate replacement (see next slide)

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Other Term Changes

Term changes that may be necessary for the replacement of the reference rate are limited to:

- The frequency with which the rate of the variable payment resets
- The dates on which the rate resets
- The methodology for resetting the rate
- The dates on which periodic payments are made

Two-Step Transition to a SOFR

A hedging derivative instrument may be amended or replaced in two steps: a transition from an IBOR to another rate (such as the effective federal funds rate) prior to transitioning to a secured overnight financing rate (SOFR)

Hedge accounting continues when all of the following criteria are met:

- The first step replaces an IBOR with another rate
- That interim rate is replaced by a SOFR in the second step
- All four of the criteria for a one-step transition are met

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Other Provisions

Effective Federal Funds Rate and SOFR are appropriate benchmark interest rates for taxable debt when applying the consistent critical terms method

LIBOR is no longer an appropriate benchmark interest rate for taxable debt when applying the consistent critical terms method

Replacing an IBOR as the reference rate of a hedged item does not terminate hedge accounting

Uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable

The lease modifications guidance in Statement 87 should not be applied to when a lease contract is amended solely to replace an IBOR

Effective Dates and Transition

The provision removing LIBOR as an appropriate benchmark rate is effective for reporting periods *ending* after December 31, 2021

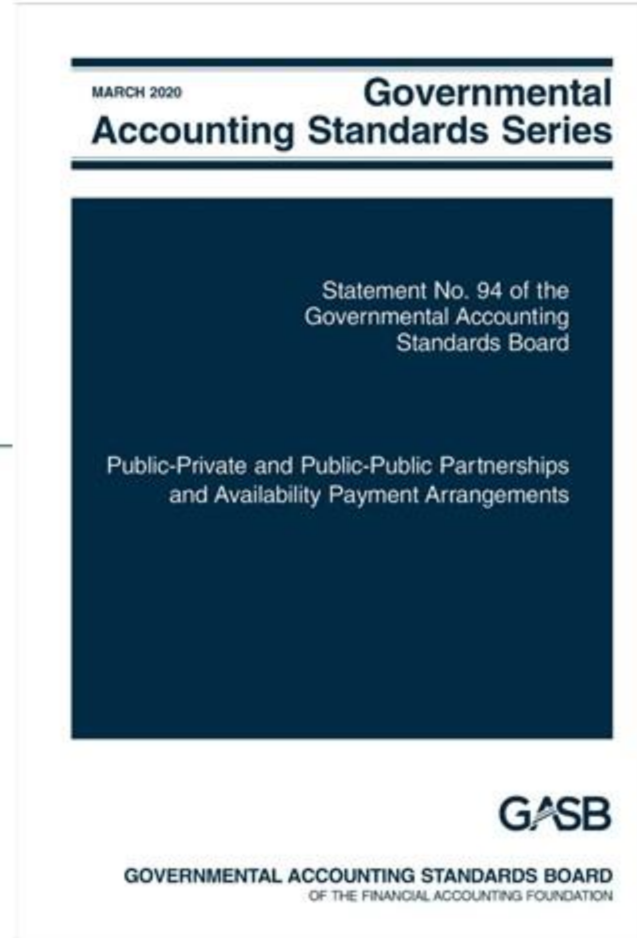
All other provisions are effective for reporting periods beginning after June 15, 2020

Earlier application is encouraged

Should be applied retroactively, if practicable (hedge accounting should be reestablished for terminations prior to the effective date of this Statement)

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Statement No. 94


MARCH 2020

Governmental Accounting Standards Series

Statement No. 94 of the Governmental Accounting Standards Board

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

GASB

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P3s, APAs, and SCAs

What?

The Board issued guidance for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87, and improvements to Statement 60

Why?

GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60's guidance for service concession arrangements (SCAs)

When?

Effective for reporting periods beginning after June 15, 2022

Definitions: PPPs and APAs

Public-private partnerships and **public-public partnerships (P3s)** are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

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Other Provisions

A P3 that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (SCA) – would be reported under Statement 87 unless (a) the underlying PPP assets are not existing assets of the transferor or (b) improvements are required to be made to those existing underlying P3 assets by the operator.

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

Transferor Reporting

For all P3s, recognize:	If underlying P3 asset is a new asset or an existing asset that has been improved…
• Receivable for installment payments to be received, if any • Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term	• …and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation • …and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

Operator Reporting

For all P3s, recognize:	If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA…	If underlying P3 asset is a new asset and the P3 is not an SCA…
• Liability for installment payments to be made, if any	• …also recognize an intangible right-to-use asset	• Also recognize the underlying P3 asset until ownership is transferred • And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer

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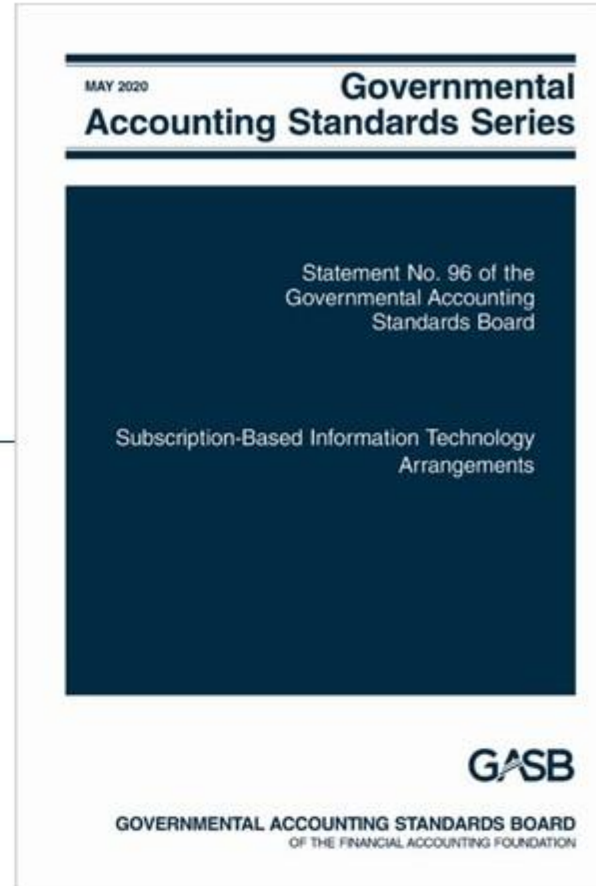
Subscription-Based Information Technology Arrangements

Statement No. 96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Governmental Accounting Standards Series

Statement No. 96 of the Governmental Accounting Standards Board

Subscription-Based Information Technology Arrangements

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Statement 96 on SBITAs

What?

The Board issued standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts

Why?

Stakeholders were concerned that those transactions were be covered by the guidance in Statements 51 or 87; diversity existed in practice

When?

Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter

Earlier application is encouraged

Scope and Applicability

A subscription-based information technology arrangement (SBITA) "is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction."

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

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Scope and Applicability (continued)

- Statement 96 does not apply to:
  - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset
  - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
  - Contracts that meet the definition of a P3 in Statement 94
  - Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement 51

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Recognition and Measurement

An SBITA should be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

Measurement of the subscription asset should include certain capitalizable implementation costs based on stages similar to those for internally developed software in Statement 51:

- Preliminary project stage
- Initial implementation stage
- Operation and additional implementation stage

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Accounting for Activities Associated with a SBITA

Preliminary project stage	Initial implementation stage	Operation & additional implementation stage
• Outlays should be expensed as incurred	• In general, outlays should be capitalized • However, if no subscription asset is recognized (such as for a short-term SBITA), outlays should be expensed as incurred	• Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria

Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

Statement No. 97

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Fiduciary Component Units and Deferred Compensation Plans

What?

The GASB has changed the criteria for including certain employee benefit plans as component units and improvements to Statement 32 on IRC Section 457 plans

Why?

Some 457 plan characteristics have changed due, in part, to changes in the IRC; questions have been raised about whether certain employee benefit plans should be included as component units

When?

Effective dates vary by topic

Earlier application is encouraged and permitted for certain topics

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Relevant Guidance on Fiduciary Component Units

Paragraph 7 of Statement 84 amended Statement 14 to indicate that a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to a pension plan or OPEB plan

Implementation Guide 2019-2 provided guidance that in the absence of a governing board, a government performing the duties of a governing board for a defined contribution (DC) plan that is administered through a trust that meets the criteria in Statement 67 is effectively the same as appointment of a voting majority

Relevant Guidance on Fiduciary Component Units (continued)

The implication of that existing and considered guidance is that many governments would be required to report DC plans and other employee benefit plans as component units in their fiduciary fund financial statements

The Board directed the staff to conduct additional outreach on the structure of those types of arrangements and user needs for information about them

Based on the outreach, the Board decided to expand the project and issue guidance on component units

Component Unit Criteria

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the appointment of a voting majority of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a financial burden applies only to defined benefit plans

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457 Plans

All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan

All requirements relevant to pensions should be applied by employers to benefits provided through Section 457 plans that meet the definition of a pension plan

Investments should be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator is eliminated)

Implementation Guidance Updates

2018-1, 2019-1, and 2020-1

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Implementation Guidance Updates

What?

The GASB annually updates its Q&A implementation guidance

Why?

New guidance is added as new pronouncements are issued and new issues arise

When?

2018-1 is effective for periods beginning after June 15, 2019

2019-1 is effective for periods beginning after June 15, 2020

2020-1: periods beginning after either June 15, 2021 or December 15, 2021, depending on the Q&A

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Implementation Guide 2018-1

Adds new questions on standards regarding

- OPEB
- Pensions
- Regulated operations
- Statistical section
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Capital assets
- Cash flows reporting
- Investment disclosures
- Net position
- Pensions
- Statistical section
- Tax abatement disclosures

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Implementation Guide 2019-1

Adds new questions on standards regarding

- Cash flows reporting
- Derivative instruments
- Fund balance
- Insurance recoveries
- Irrevocable split-interest agreements
- Intra-entity transfers of assets
- Nonexchange transactions
- Pensions and OPEB
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Derivative instruments
- Financial reporting entity
- Pension and OPEB plan reporting

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Implementation Guide 2020-1

Adds new questions on standards regarding

- Certain asset retirement obligations
- Conduit debt obligations
- External investment pools
- Fiduciary activities
- Financial reporting entity
- Leases

Updates existing Q&A guidance related to

- External investment pools
- OPEB
- Pensions
- Deferral of certain Implementation Guide questions and answers

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Current Technical Agenda Projects

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Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements

Exposure Draft

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Disclosure Framework

What?

The Board has proposed amendments to its concepts regarding what information 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?

Comment period extended to June 30, 2020

Public hearing rescheduled to July 28, 2020

Concepts Related to Disclosures

Concepts Statements guide the Board's decisions when setting accounting and financial reporting standards

Concepts Statement 3 establishes criteria for what communication method should be used to report information – financial statements, notes to financial statements, required supplementary information, and supplementary information

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Proposed Concepts

The purpose of note disclosures is to provide information that explains, describes, or supplements the financial statements and is **essential** to users in making economic, social, and political decisions and assessing accountability.

Information that has one of the following characteristics is essential:

- Characteristic A: Evidence that the information is being utilized in users' analyses for decision making or assessing accountability.
- Characteristic B: Evidence that if the information becomes available, users would modify their analyses for decision making or assessing accountability to incorporate that information.

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Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	August 2018
Deliberations Began	October 2018
Exposure Draft Issued	February 2020
Comment Deadline	June 30, 2020
Public Hearing	July 28, 2020
Final Concepts Statement Expected	May 2021

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Compensated Absences: Reexamination of Statement 16

Compensated Absences

What?

The GASB's evaluation of the effectiveness of Statement 16 determined that additional guidance needs to be developed

Why?

The GASB routinely reviews whether existing standards are meeting their intended objectives; Statement 16 became effective in 1994

When?

Deliberations began February 2020

Topics to Be Considered

When should a liability be recognized for various types of leave?

How should the compensated absences liability be measured? Should governments continue to have an option for the method of measuring accrued sick leave?

Should guidance be provided on how to determine the portion of the liability that is due within one year?

What disclosures about compensated absences should be required?

Project Timeline

Pre-Agenda Research Started	August 2018
Added to Current Technical Agenda	December 2019
Deliberations Began	February 2020
Exposure Draft Expected	February 2021

Implementation Guidance Update

Implementation Guidance Updates

What?

The GASB is reviewing issues for the 2021 annual implementation guidance update

Why?

New guidance is added as new pronouncements are issued and new issues arise

When?

Deliberations expected to begin September 2020

Project Timeline

Added to Current Technical Agenda	April 2020
Redeliberations to Begin	September 2020
Exposure Draft Expected	November 2020

Omnibus

Omnibus Project

What?

The Board has initiated a project to address various practice issues

Why?

Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

When?

Added to the current technical agenda in August 2020

Topics to Be Considered

Remeasurement of certain assets and liabilities

- Appropriate reporting of leases, P3s, and SBITAs when there is a change in an index or a rate used to determine variable payments

Effect of a purchase option on contract terms and the measurement of the liability

Derivative instruments that are neither hedges nor investments

- Some derivative instruments classified as investments under Statement 53 do not meet the Statement 72 definition of an investment

Topics to Be Considered (continued)

Exchange financial guarantees

- Statement 70 applies to nonexchange financial guarantees but not to exchange or exchange-like transactions

Other technical corrections

- Outdated terminology in the Codification and other minor terminology and technical corrections

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Project Timeline

Added to Current Technical Agenda	Augst 2020
Redeliberations to Begin	September 2020
Exposure Draft Expected	July 2021

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Prior-Period Adjustments, Accounting Changes, and Error Corrections: Reexamination of Statement 62

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Reexamination of Statement 62

What?

GASB's review of the effectiveness of existing standards identified substantial need for improvement and clarification

Why?

The relevant guidance is based on several sources of accounting standards, some of which have been superseded, and much of which has been in effect without review by the GASB for decades

When?

Deliberations began February 2020

Topics to Be Considered

What types of events constitute the different types of prior-period adjustments, accounting changes, and error corrections?

What is the relationship between the existing requirements and other GASB requirements?

Should terminology regarding reporting of accounting changes and error corrections (for example, terms including "restatement," "reclassification," and "prior-period adjustment") be clarified?

How useful are the required disclosures associated with each type of accounting change and error correction?

How do the general requirements for accounting changes and the specific transition provisions for implementation of individual pronouncements interact?

Should display requirements be established?

Project Timeline

Pre-Agenda Research Started	August 2018
Added to Current Technical Agenda	December 2019
Deliberations Began	February 2020
Exposure Draft Expected	March 2021

Risks and Uncertainties Disclosures

Risks and Uncertainties Disclosures

What?

The Board added a practice issue project to identify potential risks and uncertainties in the government environment and consider developing related disclosure requirements

Why?

Ongoing financial and economic issues related to coronavirus diseases prompted stakeholders to ask the GASB to consider what governments should report about the risks and uncertainties they face

When?

Deliberations are schedule to begin in September 2020

Topics to Be Considered

What information do users need regarding disclosures of risks and uncertainties related to operations, estimates, and concentrations?

How can information about risks and uncertainties be disclosed with essential specificity rather than boiler plate discussions?

What is the basis for determining whether a government should disclose a risk or uncertainty?

How can guidance be developed to emphasize that disclosures of risks and uncertainties should not include predictions of the future or projections?

How do risks and uncertainties relate to severe financial stress or going concern considerations?

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Project Timeline

Added to Current Technical Agenda	July 2020
Deliberations to Begin	September 2020
Exposure Draft Expected	January 2021

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Pre-Agenda Research Activities

Capital Assets

Capital Assets

What?

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

Why?

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

When?

The Board added the pre-agenda research in August 2019

Topics to Be Considered

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

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

How do governments report exchanges of capital assets?

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

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

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

What information do governments collect and report about deferred maintenance? How is it estimated?

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Going Concern Disclosures: Reexamination of Statement 56

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Going Concern Disclosures

What?

The GASB is reviewing existing standards related to going concern considerations, which were incorporated into GASB literature mostly as-is from the AICPA literature in Statement 56

Why?

As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; AICPA and others have asked the GASB to examine the issue

When?

The Board added the pre-agenda research in April 2015

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?

Investment Fees

Investment Fees

What?

The GASB is studying how governments report investment costs and what related information users need

Why?

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

When?

The Board added the pre-agenda research in August 2019

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Topics to Be Considered

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

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

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

Interim Financial Reporting

Interim Financial Reporting

What?

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

Why?

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

When?

The Board added the pre-agenda research in August 2019

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Topics to Be Considered

What is current practice with respect to interim financial reporting?

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

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

Should separate reporting entity standards be developed for interim GAAP reporting?

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Nonfinancial Assets

Nonfinancial Assets

What?

The GASB is conducting research on practice with respect to reporting nonfinancial assets and the impact on users

Why?

Existing guidance may not be sufficient to distinguish types of nonfinancial assets or distinguish them from other types of assets

When?

The Board added the pre-agenda research in August 2020

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Existing Guidance

Concepts Statement 1	• *"Financial reporting should provide information about a governmental entity's* ***physical and other nonfinancial resources*** *having useful lives that extend beyond the current year. . ."*
Statement 72	• "If an accounting standard requires the application of fair value to a **nonfinancial asset** (for example, real property). . ." • Defines *financial asset* but not *nonfinancial asset*
Statement 34	• Definition of capital assets includes *intangible assets*
Statement 51	• "All intangible assets subject to the provisions of this Statement should be classified as capital assets." • "In the context of this Statement, an **asset with a nonfinancial nature** is one that is not in a monetary form similar to cash and investments securities, and it represents neither a claim or a right to assets in a monetary form similar to receivables, nor a prepayment for goods or services."
Statement 87	• ". . . a lease is defined as a contract that conveys control of the right to use another entity's **nonfinancial asset** (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction."

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Topics to Be Considered

Should intangible assets associated with other intangible assets (for example, software under Statement 96) and intangible assets associated with tangible assets (for example, leases under Statement 87 and P3s under Statement 94) continue to be classified as capital assets?

Should intangible assets addressed in Statement 51 (for example, internally generated software) continue to be classified as capital assets?

Should other types of assets (for example, capital assets held for resale, patents, copyrights) be classified as nonfinancial assets versus being classified as capital assets?

Does the nonfinancial assets classification communicate information that users need? Is it important to receive information distinguishing capital assets from other nonfinancial assets?

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Questions?

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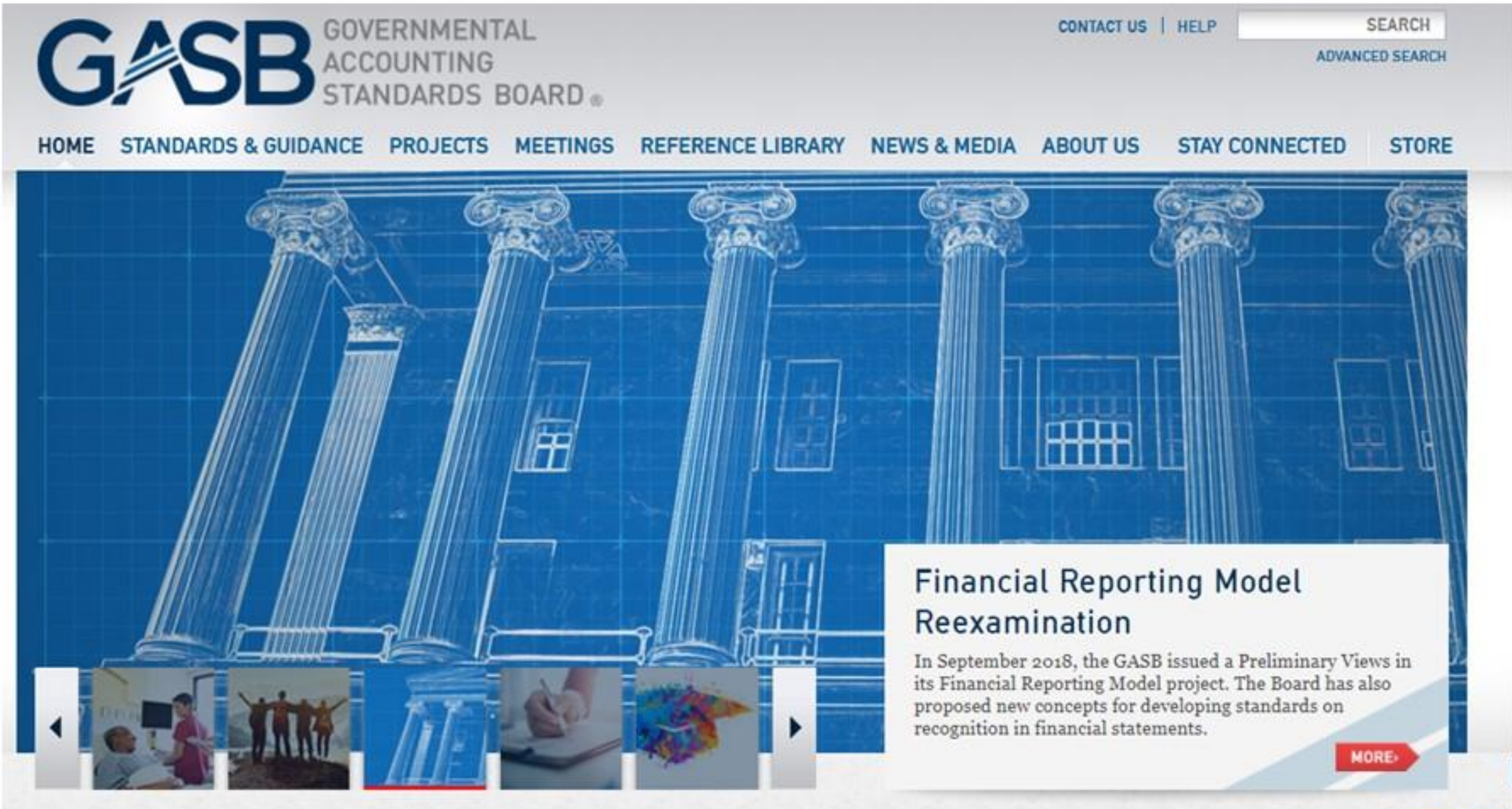
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Financial Reporting Model Reexamination
In September 2018, the GASB issued a Preliminary Views in its Financial Reporting Model project. The Board has also proposed new concepts for developing standards on recognition in financial statements.
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Website Resources

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