GASB Update

American Public Power Association

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

Effective Dates—June 30

2019

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

2020

- Statement 84—Fiduciary Activities
- Statement 90—Majority Equity Interests
- Implementation Guide 2019-1
- Implementation Guide 2019-2

2021

- Statement 87—Leases
- Statement 89—Interest Cost Incurred before the End of a Construction Period
- Implementation Guide 2019-3

2022

- Statement 91—Conduit Debt

Standard Setting for BTAs

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Pre-GASB (1933-1984)

- National Committee on Municipal Accounting
- National Committee on Governmental Accounting
- National Council on Governmental Accounting

GASB ERA

Three Defining Moments in the 1980s

- Original jurisdictional agreement—1984
- Concept Statement No. 1, *Objectives of Financial Reporting*—1987
- Jurisdictional agreement reaffirmed—1989

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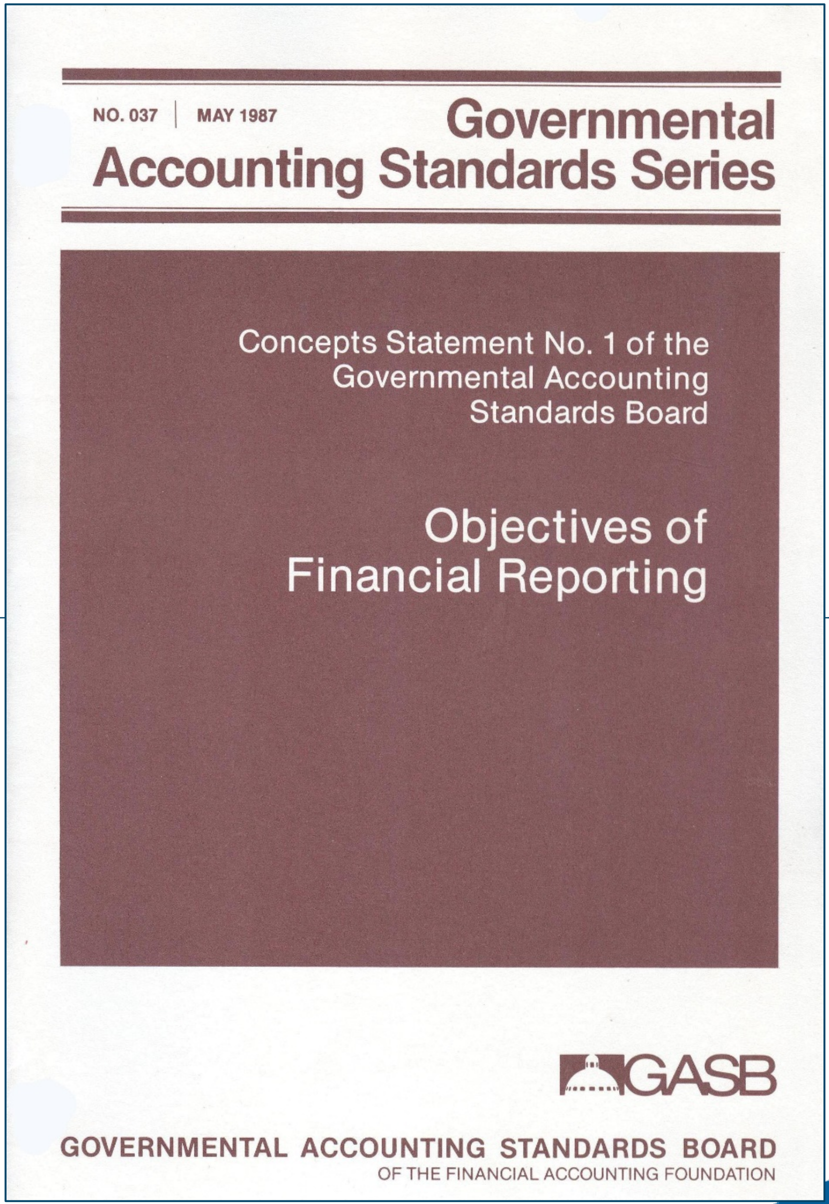
Concepts Statement 1



The Basics

- The objectives set forth in this Statement are intended to apply to both governmental and business-type activities, whether their financial operations are reported in separately issued reports or within the general purpose external financial report of the broader governmental entity.
- Despite differences, governmental business-type activities are nevertheless a part of government, subject to the same public accountability requirements as governmental-type activities.

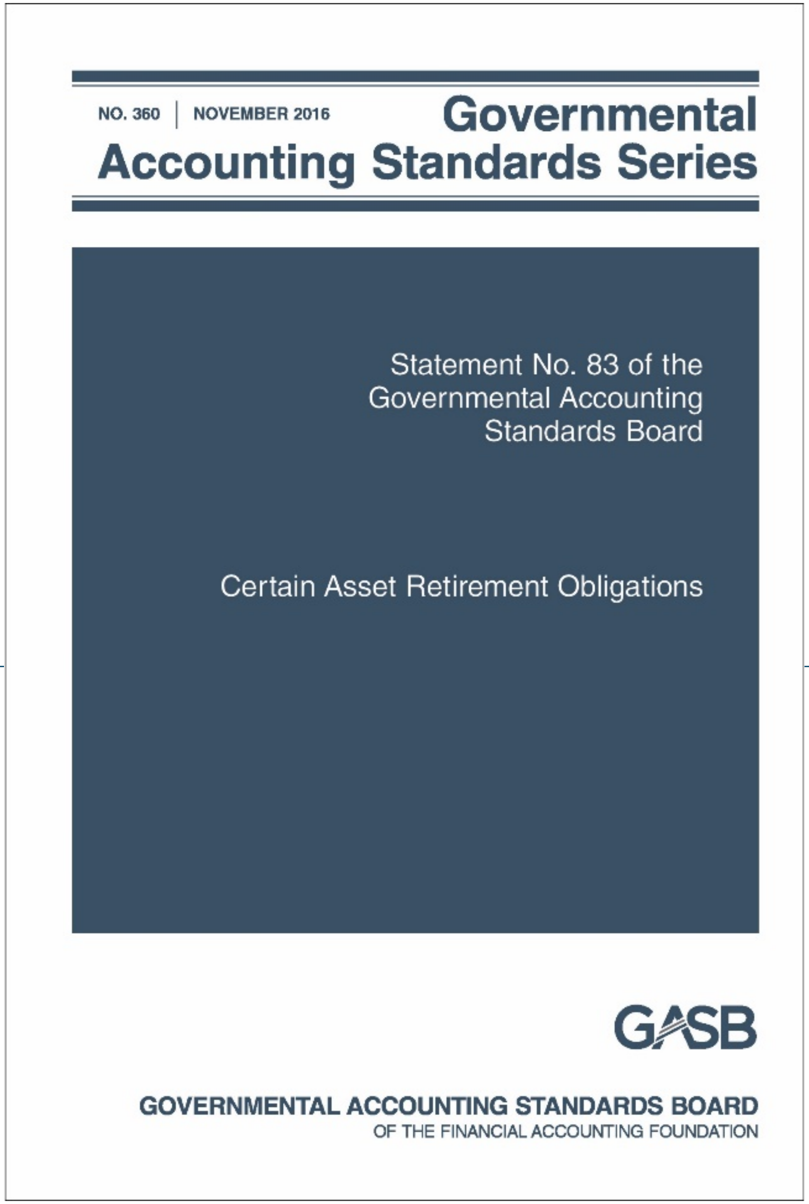
Users of Financial Statements

- In general, the users and uses of governmental financial reports are essentially the same regardless of whether the activity is business-type or governmental-type.
- The Board believes there are three groups of primary users of external state and local governmental financial reports. They are (a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors).

Major Differences in Sector Standards

- Cash flows
- Postemployment benefits
- Segment reporting
- Impairments
- Deferrals
- Bond issuance costs
- Capitalization of interest
- Asset retirement obligations
- Fiduciary activities
- Leases

Certain Asset Retirement Obligations


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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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 plants
- Water treatment plants
- Contractually required land restoration, such as removal of wind turbines
- Other similar obligations

Recognition and 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

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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

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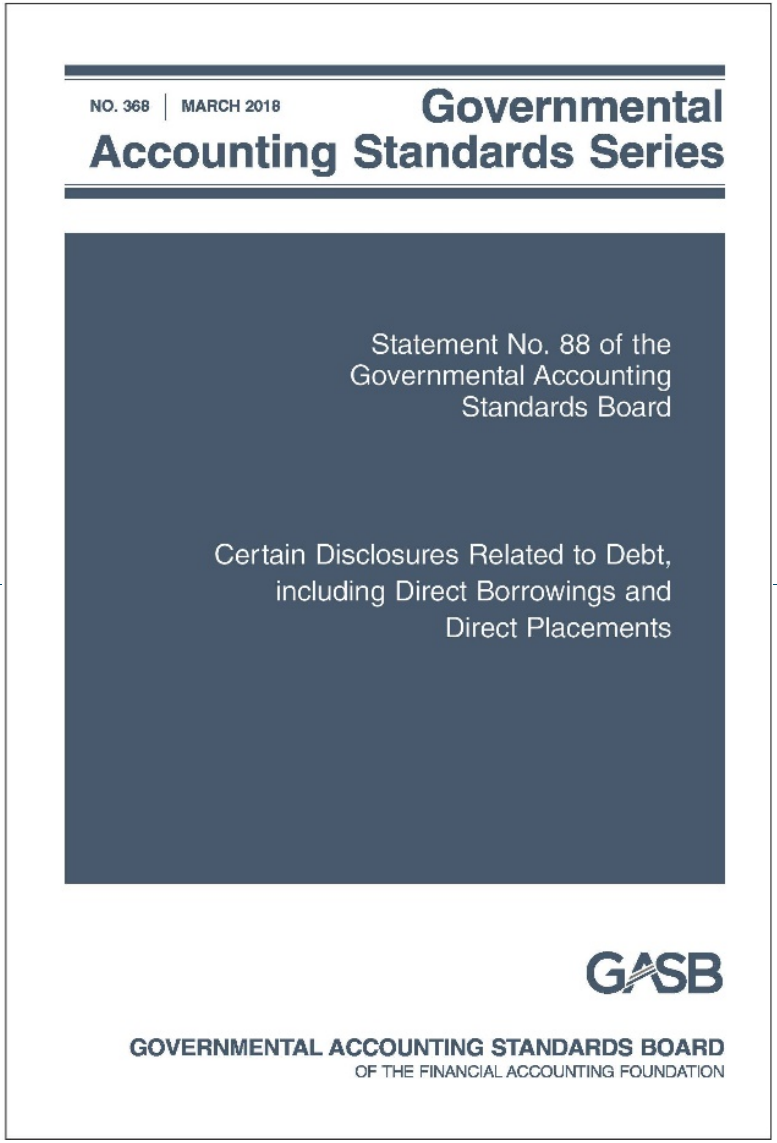
Disclosures

- 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

Debt Disclosures


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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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

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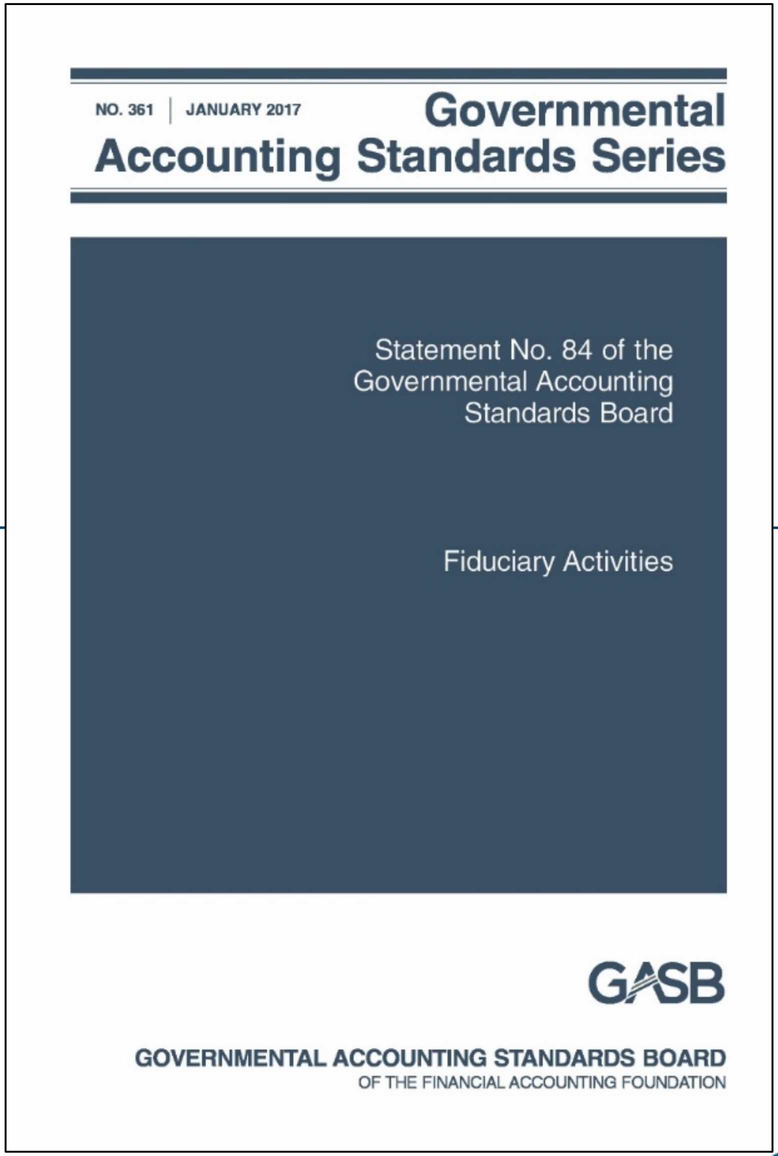
Fiduciary Activities


NO. 361 | JANUARY 2017

Governmental Accounting Standards Series

Statement No. 84 of the Governmental Accounting Standards Board

Fiduciary Activities

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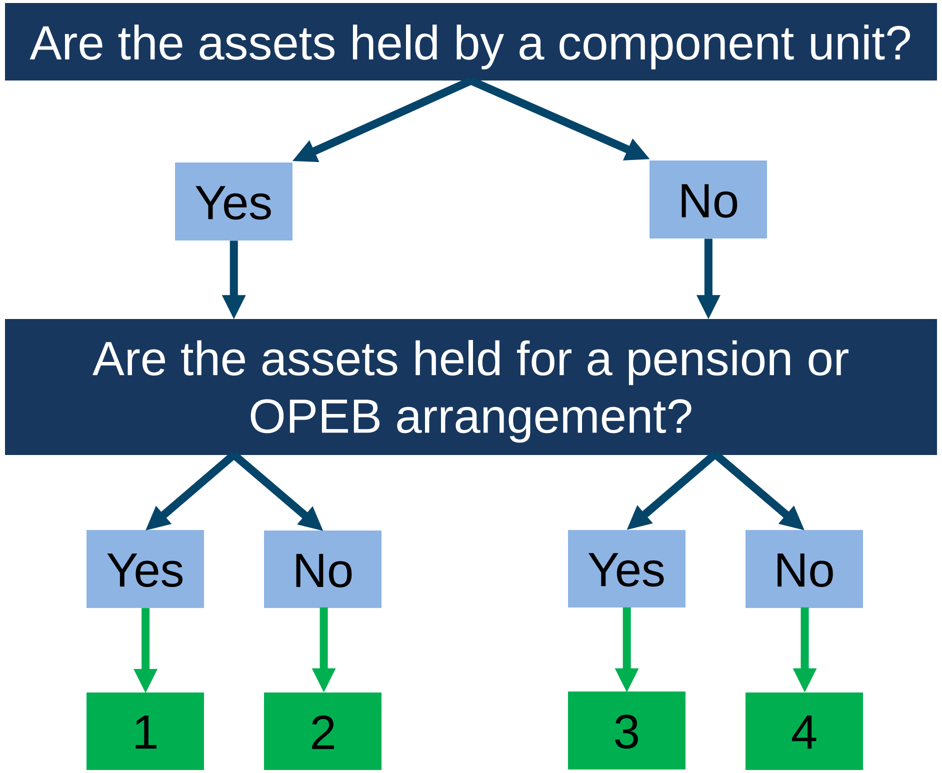
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



Implementation Guide 2019-2—Sleeper Question

- Question 4.5—No governing board
  - If primary government acts as the governing board
  - Yes answer places imposition of will into play
  - Materiality
    - Old issue—new scenarios

Fiduciary Fund Classes

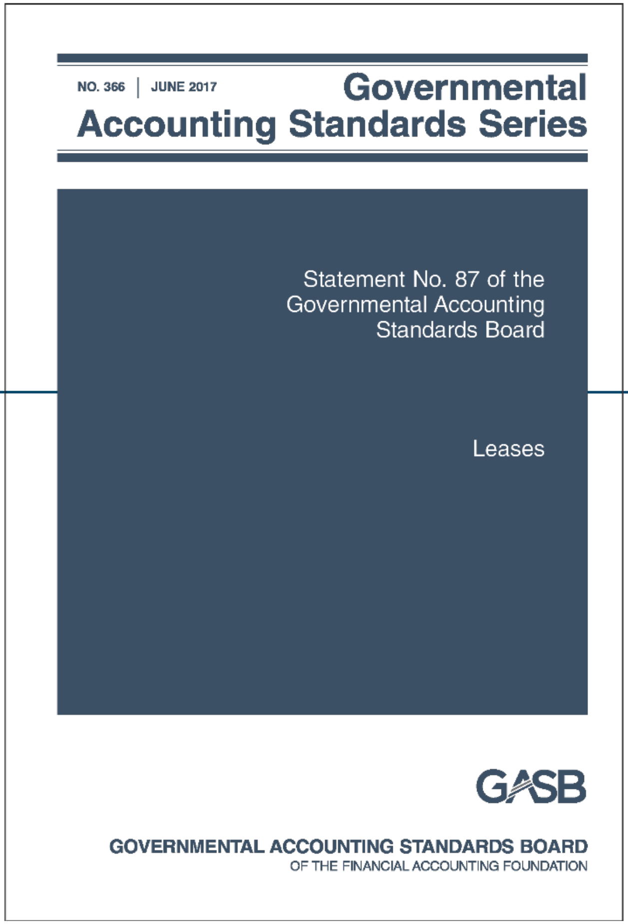
Pension and other employee benefit trust fund	Investment trust fund	Private-purpose trust fund	Custodial fund

Trust agreement or equivalent arrangement should be present

Liability Recognition

- A government should recognize a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources
  - Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.
    - County would recognize a liability when it collects taxes for other governments, even though it may not be required to distribute the taxes to those governments for a prescribed period
- Liabilities other than those to beneficiaries should be recognized in accordance with existing accounting standards using the economic resources measurement focus.

Leases


NO. 366 | JUNE 2017 Governmental
Accounting Standards Series

Statement No. 87 of the
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Leases

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Scope and Approach

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

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

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

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

Leases—Implementation Suggestions

- Determine if bond covenants provisions need to be modified
- Develop a system to capture data related to lease terms, estimated lease payments, and other components of lease agreements that could effect the liability being reporting
- Establish policies now so that those policies can be applied to leases that are currently being entered into and still will be in effect when Statement 87 becomes effective
  - Potential policies that could be considered
    - Identify a working threshold for assessing leases
    - Operationalize “reasonably certain”
    - Operationalize allocation procedures for nonlease components

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)
- 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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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

Accounting for Short-term Leases

- LESSEE — lease payments recognized as expenses/expenditures based on the payment provisions of the contract
  - No recognition of assets or liabilities associated with the right to use the underlying asset for short-term leases
- LESSOR — lease payments recognized as revenue based on the payment provisions of the contract
  - No recognition of receivables or deferred inflows associated with the lease
- No resource flows recognized during rent holiday periods
- No required disclosures

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Lease Term

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

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible lease asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	• 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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LESSEE—Initial Measurement

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

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LESSEE—Initial Measurement (continued)

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

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

Other Accounting and Reporting Provisions

Lease Incentives

- Lease Incentives—reduce the amount lessee has to pay
  a) Payments made to, or on behalf of, the lessee, for which there is a right of offset
  b) Other concessions
- Payments provided at or before inception of lease reported as
  - Direct reductions of lessee's lease asset
- Payments provided after inception of lease reported as
  - Reductions of payments for period provided
  - Reduces PV of lease liability (and lessor's receivable)

Contracts with Multiple Components

- Separate contracts into lease and nonlease components or multiple lease components
- Allocate consideration to multiple underlying assets if:
  - Differing lease terms, or
  - Are in differing major asset classes for disclosure
- Allocation process:
  - First — use any prices for individual components if price allocation not unreasonable based on contract terms and professional judgment (maximizing observable information)
  - If no prices or if not reasonable, use best estimate based on professional judgment (maximizing observable information)
  - If not practicable to determine best estimate, may account for components as single lease unit

Other Topics Covered by Statement 87

- Disclosures
- Contract combinations
- Modifications and terminations
- Subleases
- Sale-leasebacks
- Lease-leasebacks

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Transition

- Transition
  - Apply retroactively
    - Restate if practicable, cumulative effect if not
  - Leases recognized and measured *using the facts and circumstances that exist at the beginning of the period of implementation* (hindsight)
  - Lessors should *not* restate the assets underlying their existing sales-type or direct financing leases
    - Any residual assets for those leases would become the carrying values of the underlying assets

Implementation Guide 2019-3—Sleeper Question

- No sleepers—in the eye of the beholder
- Questions and answers—77 still clarify specific provisions
- More to come
  - Control
  - Discount rate
  - Remeasurement
  - Regulated leases
  - Multiple components

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Major and Practice Issue Projects

Timetable		
Subscription-Based IT Arrangements	Exposure Draft—May 2019	Comment Deadline—was August 23
Public-Private Partnerships	Exposure Draft—June 2019	Comment Deadline—September 13
Deferred Compensation Plans	Exposure Draft—June 2019	Comment Deadline—September 27
Omnibus	Exposure Draft—June 2019	Comment Deadline—October 4
Secured Overnight Financing Rate	Exposure Draft—September 2019	Comment Deadline—November 27

Exposure Draft, *Subscription-Based Information Technology Arrangements*

SBITA—Definition

A subscription-based information technology arrangement (SBITA) "is a contract that conveys control of the right to use another party's (the vendor's) hardware, software, or a combination of both, including IT infrastructure (the underlying hardware or software) 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 hardware or software, a government would assess whether it has both:

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

SBITA—Recognition and Measurement

An SBITA would 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 would include certain capitalizable implementation costs based on stages like those for internally developed software in Statement 51:

- Preliminary project stage
- Initial implementation stage
- Post-implementation/operation stage

SBITA—Stages

Preliminary project stage	Initial implementation stage	Post-implementation/ operation stage
• Outlays would be expensed as incurred	• In general, outlays would be capitalized • However, if no subscription asset is recognized (such as for a short-term SBITA), outlays would be expensed as incurred	• Outlays would be expensed as incurred

Big Three

What Are the Big Three?

- Financial Reporting Model
  - Recognition Concepts
- Revenue and Expense Recognition
- Disclosure Framework
  - Disclosure Requirements

Financial Reporting Model—Reexamination of Statement 34

Background

Statement 34	June 1999
Reexamination Research	August 2013
Project Added to Technical Agenda	September 2015

Due Process—To Date

Invitation to Comment—*Financial Reporting Model Improvements—Governmental Funds*	December 2016
Preliminary Views—*Financial Reporting Model Improvements*	September 2018

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Stakeholder Feedback

- Invitation to Comment
  - Written responses—111
  - Five public hearings—48 individuals/organizations
  - Three user forums—30 participants
- Preliminary Views
  - Written responses—150 (including 102 original responses)
  - Three public hearings—30 individuals/organizations
  - Two user forums—22 participants
  - Field test—67 participating governments

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Operating Versus Nonoperating

Statement of Revenues and Expenses

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

Additional Proposals

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

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

Management's Discussion and Analysis (MD&A)

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MD&A—Basic Proposals

Proposals
• Analysis should be presented in a manner that avoids unnecessary duplication

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MD&A—Currently Know Facts, Decisions, or Conditions

Proposals—Examples Provided
• Economic data, including population changes and unemployment rates
• Information related to actions the government has taken after the reporting period related to postemployment benefit plans, capital improvement plans, and long-term debt
• Information related to actions other parties have taken after the reporting period that affect the government, such as legislative changes, litigation, and new regulations or standards imposed on the government

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Future Direction For This Project

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Revenue and Expense Recognition

Revenue and Expense Recognition Model

The are three components of a revenue and expense recognition model

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

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

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

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To Exchange or Not to Exchange

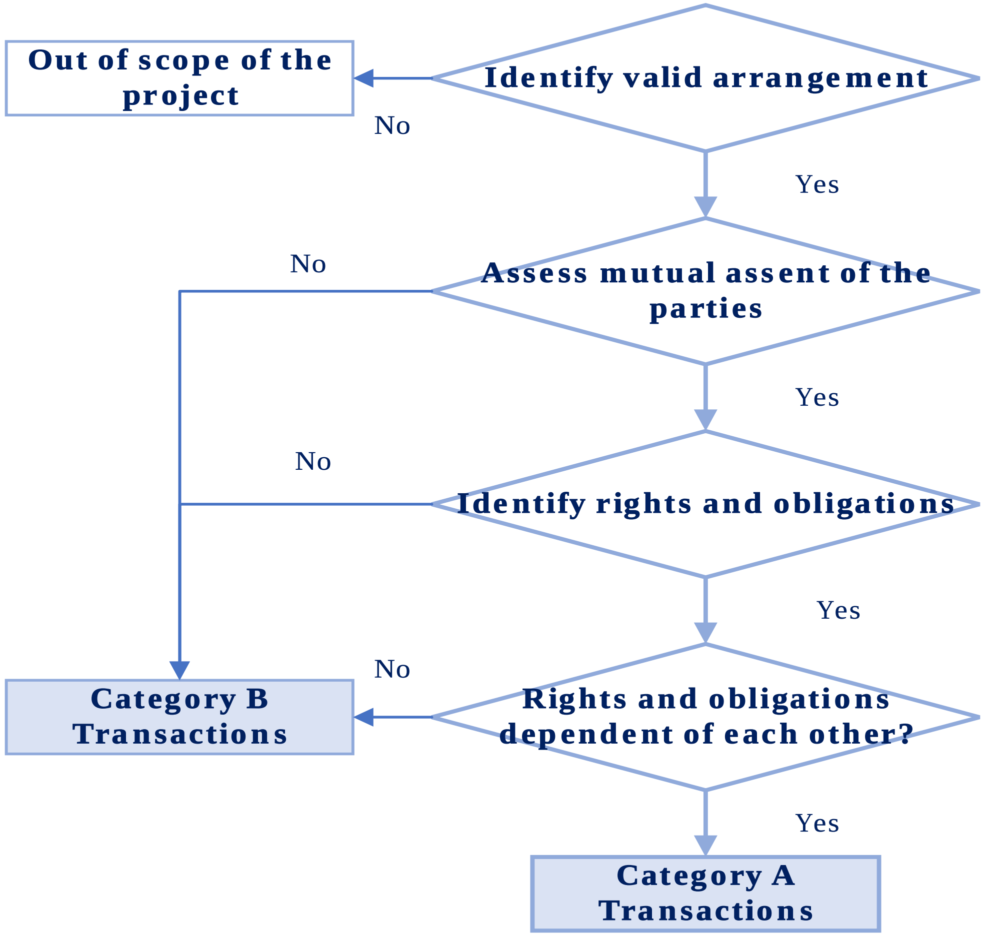
- Invitation to Comment
  - Exchange and nonexchange model
  - Performance obligation and nonperformance obligation model
- To develop a model in which revenue and expense transactions would be organized into two categories: Category A and Category B (the AB Model).

The AB Model—Conceptual

- Category A
  - An acquisition coupled with a sacrifice
  - Two-flows
  - Rights and obligations

- Category B
  - Either an acquisition or a sacrifice
  - Single-flows
  - Either rights or obligations

The AB Model—Operational



Conceptual Framework—Disclosure Framework

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

Topics Being Considered

- Purpose of note disclosures, including user needs related to note disclosures
- Characteristics of essentiality
- Limitations of note disclosures
- Presentation and format of note disclosures, including consideration of the location of the information within the note disclosure section
- Consideration of note disclosures individually and as a whole

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Tentative Decisions

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, regardless of its source, *currently* 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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Other Technical Agenda Projects

Major and Practice Issue Projects

Timetable		
Public-Private Partnerships	Exposure Draft—June 2019	Comment Deadline—was September 13
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Research Activities

Research

- Capital assets
- Compensated absences
- Going concern disclosures—severe financial distress
- Interim financial reporting
- Investment fees
- Prior-period adjustments

Questions

Website information: *www.gasb.org*