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GASB Update

September 18, 2018

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

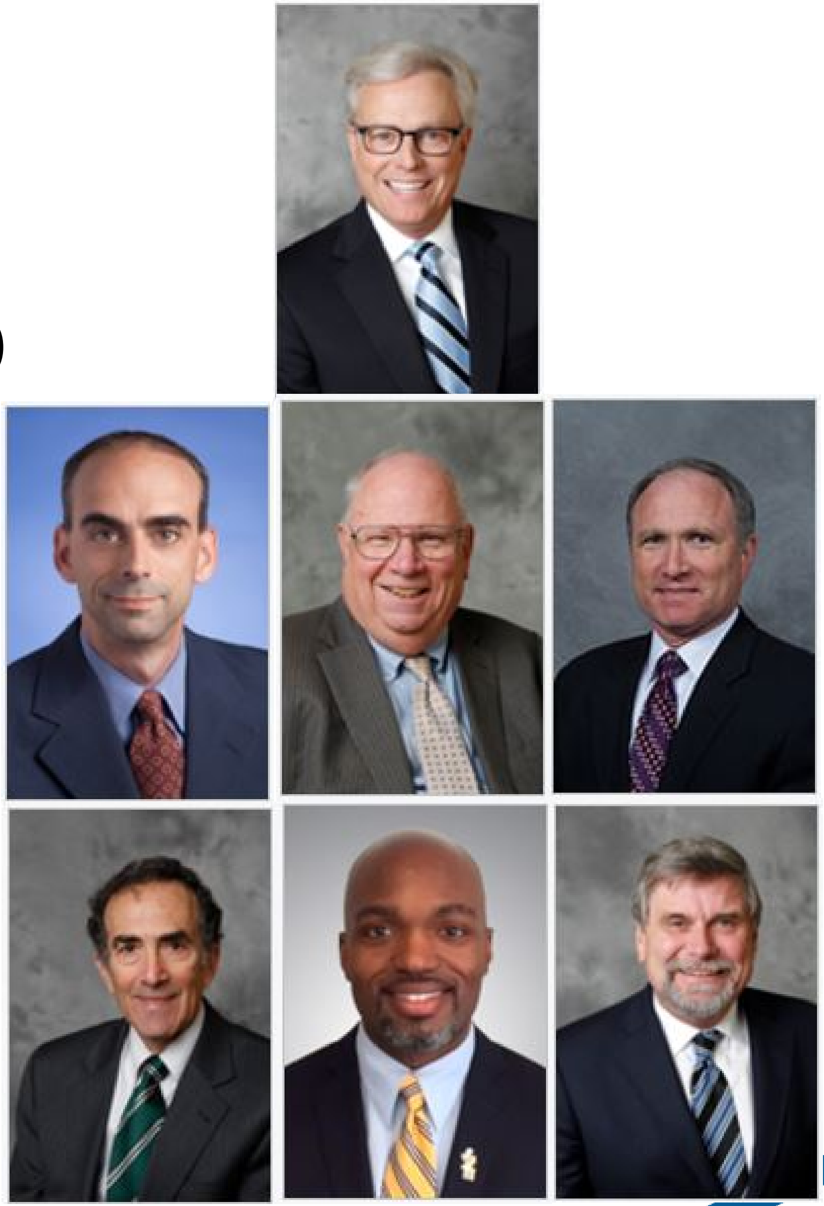
FINANCIAL ACCOUNTING FOUNDATION FINANCIAL ACCOUNTING STANDARDS BOARD GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Presentation Overview

- Information about the GASB
- Pronouncements currently being implemented
- Documents issued for public comment
- Projects currently being deliberated by the Board
- Pre-agenda research activities

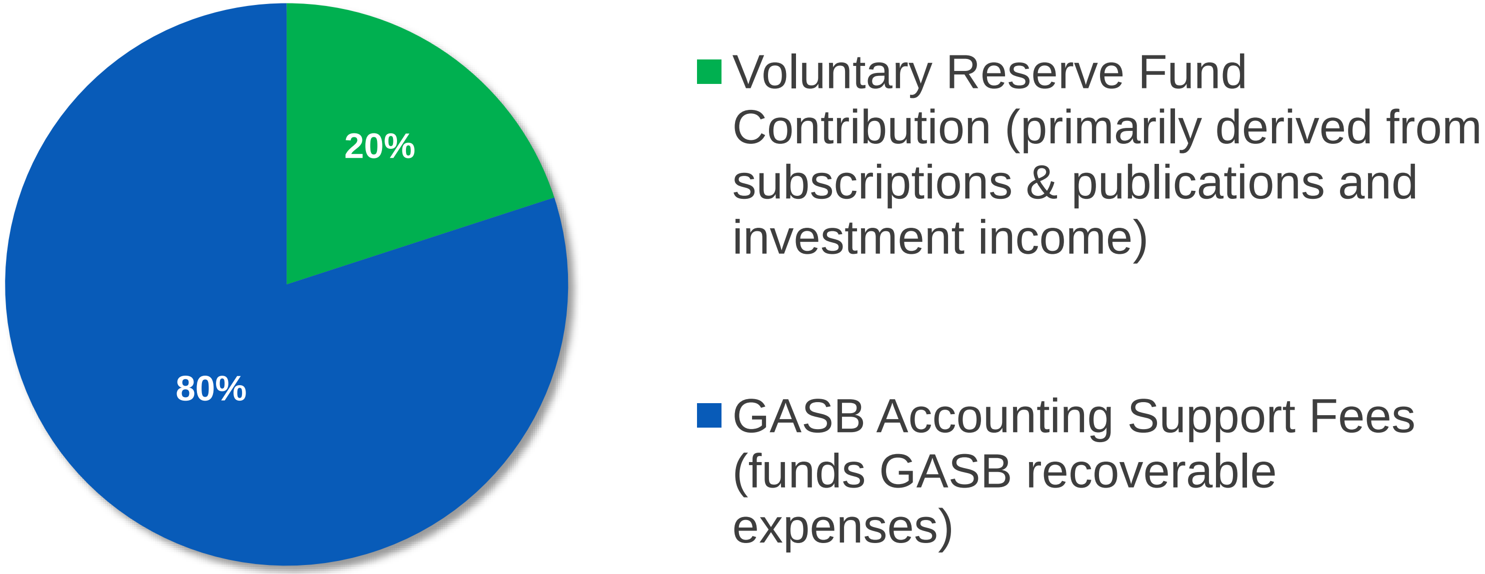
GASB Members

- David A. Vaudt (Chairman)
- Jeffrey J. Previdi (Vice Chairman)
- James E. Brown
- Brian W. Caputo
- Michael H. Granof
- Kristopher E. Knight
- David E. Sundstrom



GASB 2017

How Is the GASB Funded?



GASB 2017 Accounting Support Fee Assessment
Approx. 440 municipal bond broker-dealers (per Dodd-Frank)
$8.3 million (approx. $52 per firm per day)

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Pronouncements Currently Being Implemented

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates—June 30

- 2018
  - Statement 75—OPEB (employers)
  - Statement 81—irrevocable split-interest agreements
  - Statement 85—omnibus (may be implemented by topic)
  - Statement 86—certain debt extinguishment issues
  - Implementation Guide 2017-1
- 2019
  - Statement 83—certain asset retirement obligations
  - Statement 88—certain debt disclosures
  - Implementation Guide 2018-1
- 2020—Statement 84—fiduciary activities
- 2021
  - Statement 87—leases
  - Statement 89—interest cost

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates—December 31

- 2018
  - Statement 75—OPEB (employers)
  - Statement 85—omnibus (may be implemented by topic)
  - Statement 86—certain debt extinguishment issues
  - Implementation Guide 2017-1
- 2019
  - Statement 83—asset retirement obligations
  - Statement 84—fiduciary activities
  - Statement 88—certain debt disclosures
  - Implementation Guide 2018-1
- 2020
  - Statement 87—leases
  - Statement 89—interest cost

Certain Asset Retirement Obligations

Statement No. 83

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 fiscal years beginning after June 15, 2018. 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)
- Includes:
  - Nuclear power plant decommissioning
  - Coal ash pond closure
  - Contractually required land restoration, such as removal of wind turbines
  - Obligations to remove data from computers when disposed
  - Other similar obligations

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.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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

Certain Debt Extinguishment Issues

Statement No. 86

Certain Debt Extinguishment Issues

- **What:** The Board issued Statement 86 to establish guidance for certain issues related to debt extinguishments, primarily in-substance defeasance of debt
- **Why:** Research found that Statements 7 and 23 on debt refundings and Statement 62 on debt extinguishments are working effectively, but that certain issues needed to be addressed
- **When:** Effective date is periods beginning after June 15, 2017

In-Substance Defeasance Using Only Existing Resources

- Debt is considered defeased in substance (like advance refundings) if only existing resources are used to fund an irrevocable trust that is restricted to owning only essentially risk-free monetary assets (like for refundings)
- Recognize the difference between the net carrying amount of the debt and the reacquisition price as a gain or loss in the period of defeasance (*unlike* advance refundings, which defer and amortize the difference)

In-Substance Defeasance Using Only Existing Resources (continued)

- Notes to the financial statements:
  - Describe the transaction in the period it occurs (like refundings)
  - Disclose remaining outstanding balance in each period the defeased debt remains outstanding (may combine with refunded amount)

Prepaid Insurance for *All* Debt Extinguishments

- At the time debt is extinguished/defeased, any related prepaid insurance that remains should be included in the net carrying amount of the debt for the purpose of calculating the difference between its reacquisition price and net carrying amount

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Note Disclosure on Substitution Risk

- Applies to *all* in-substance defeasances
- If substitution of the essentially risk-free monetary assets in escrow with monetary assets that are not essentially risk-free is *not* prohibited, a government should disclose in the notes to the financial statements:
  - In the period of the defeasance: the fact that substitution is not prohibited
  - In subsequent periods: the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists

Leases

Statement No. 87

Leases

- **What:** The Board issued Statement 87 to improve lease accounting and financial reporting
- **Why:** The existing standards had been in effect for decades without review to determine if they remain appropriate in light of GASB conceptual framework and continue to result in useful information; 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 date is periods beginning after December 15, 2019

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Scope and Approach

- Applied 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."
  - The right-to-use asset is that "specified in the contract"
  - Control is manifested by (1) the right to obtain present service capacity from use of the underlying asset and (2) the right to determine the nature and manner of use of the underlying asset
- Leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for leases with some exceptions, such as short-term leases

Scope Exclusions

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

Short-Term Leases

- At beginning of lease, *maximum possible term* under the contract is 12 months or less
- Lessees recognize expenses/expenditures based on the terms of the contract
  - Do not recognize assets or liabilities associated with the right to use the underlying asset for short-term leases
- Lessors recognize lease payments as revenue based on the payment provisions of the contract
  - Do not recognize receivables or deferred inflows associated with the lease

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

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Example: Equipment Lease

- Lease contract provisions:
  - Lease starts 1/01/21
  - $1,000 monthly payment for equipment, due 1st of each month, plus $5/hour for every hour used beyond 200 hours during prior month
  - $80 monthly payment for repairs and maintenance, due 1st of each month
  - 60-month (5-year) lease, with a $200 lessee option to extend for 24 additional months at the original price. At the end of the term (5 or 7 years) the lease becomes month-to-month and each monthly payment can be adjusted upward based on CPI with 30 days' notice
  - Stated interest rate of 4%
  - If equipment is destroyed, lessee will pay $40,000 equipment value, at which time lessee will become the owner

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Example: Equipment Lease (continued)

- Other contract provisions
  - Lessee to pay lessor $1,000 to dismantle and remove equipment at end of lease
- There is a separate contract with the lessor for delivery and installation of the equipment (an initial direct cost):
  - $1,500 ($800 delivery and $700 installation)
- Other assumptions:
  - Lessee is not yet sure whether it will exercise its option to extend the lease

Example: Equipment Lease (continued)

- Determine the lease term:
  - Based on noncancelable period—60-month lease (5 years)
  - Lease extension option —
    - *Exclude* because not reasonably certain of being exercised
  - Potential month-to-month payments after 5 years —
    - *Exclude* because not enforceable (either party can cancel)

Example: Equipment Lease (continued)

- Determine lease payments for the lease term:
  - Monthly payments
    - Include $1,000/month fixed payment
    - *Exclude* $80/month repair and maintenance because it is a **service** (nonlease) component
    - *Exclude* $5/hour excess use charge because it is a **variable** charge not fixed in substance
  - One-time payments
    - Include $1,500 delivery and installation payment because it is a capitalizable lease payment
    - *Exclude* equipment loss penalty because it is a contingency

Example: Equipment Lease (continued)

- Calculate present value of lease payments:

PV of $1000 (due 1st of each month) for 60 months at 4%	**$54,480**
PV of delivery and installation payment	**1,500**
Total PV	**$55,980**

- Lease liability beginning balance = $55,980
- Lease asset beginning balance = $55,980
- Monthly amortization of lease asset
  - If using straight line, would be $933/month
- Accrue interest and record payments each month

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Example: Equipment Lease (continued)

- First year's payment schedule

Date	Beginning Balance	Interest	Principal	Payment	Balance after Payment
1/1/2021	55980.07		2500.00	2500.00	53480.07
2/1/2021	53480.07	178.27	821.73	1000.00	52658.33
3/1/2021	52658.33	175.53	824.47	1000.00	51833.86
4/1/2021	51833.86	172.78	827.22	1000.00	51006.64
5/1/2021	51006.64	170.02	829.98	1000.00	50176.66
6/1/2021	50176.66	167.26	832.74	1000.00	49343.92
7/1/2021	49343.92	164.48	835.52	1000.00	48508.40
8/1/2021	48508.40	161.69	838.31	1000.00	47670.09
9/1/2021	47670.09	158.90	841.10	1000.00	46828.99
10/1/2021	46828.99	156.10	843.90	1000.00	45985.09
11/1/2021	45985.09	153.28	846.72	1000.00	45138.37
12/1/2021	45138.37	150.46	849.54	1000.00	44288.83
12/31/2021	44288.83	147.63			
		1956.40	11691.23		

General Lessee Disclosures

- General description of leasing arrangements
- Total amount of lease assets (by major classes of underlying assets), and the related accumulated amortization
- Amount of outflows of resources recognized for the period for variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease liability
- Principal & interest requirements to maturity for each of the next 5 fiscal years and in 5-year increments thereafter
- Commitments under leases that have not yet begun (other than short-term leases)
- Components of any net impairment loss recognized on the lease asset during the period.

General Lessor Disclosures

- General description of leasing arrangements
- Total amount of inflows of resources (such as lease revenue and interest revenue, if not otherwise displayed
- Amount of inflows of resources recognized for the period for variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease receivable
- The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments

Other Topics Covered by Statement 87

- Lease term
- Contracts with multiple components
- 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

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 date is periods beginning after June 15, 2018

Definition of Debt for Disclosure Purposes

- "A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established"
  - For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.

New Disclosure Requirements

- Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures
- In addition to existing debt disclosures, governments should disclose the following 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

Interest Cost Incurred before the End of a Construction Period

- **What:** The Board issued Statement 89, with the goal of enhancing the relevance of capital asset information and potentially simplifying financial reporting
- **Why:** Accounting guidance historically has been based upon FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of the definitions of financial statement elements in GASB Concepts Statement 4
- **When:** Effective date is periods beginning after December 15, 2019, with earlier application 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

Implementation Guidance Updates

2017-1 and 2018-1

Implementation Guidance Updates

- **What:** GASB annual updates its Q&A implementation guidance
- **Why:** New guidance is added as new pronouncements are issued and new issues arise; existing guidance is revised to reflect the effects of new pronouncements
- **When:** 2017-1 is effective for periods beginning after June 15, 2017. 2018-1 is effective for periods beginning after June 15, 2018.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implementation Guide 2017-1

- Adds new questions related to pensions, tax abatements, external investment pools, and other topics
- Updates existing Q&A guidance related to pensions, the financial reporting entity, the financial reporting model, and other topics

Implementation Guide 2018-1

- Adds new questions on standards regarding OPEB, pensions, regulated operations, the statistical section, and tax abatement disclosures
- Updates existing Q&A guidance related to capital assets, cash flows reporting, investment disclosures, net position, pensions, the statistical section, and tax abatement disclosures

Documents Issued for Public Comment

Exposure Draft:
Conduit Debt Obligations

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conduit Debt

- **What:** The Board has proposed improvements to the existing standards related to conduit debt obligations that would provide 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, the Board believes improvements are needed
- **When:** The Board approved an Exposure Draft in July 2018; the comment deadline is November 2, 2018

Proposal: Definition of Conduit Debt

1. There are at least three parties involved:
   - The government-issuer
   - The third-party obligor (borrower)
   - The debt holder or debt 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.
6. The issuer's commitment related to the debt service payments is limited.

Proposal: Limited and Additional Commitments

- Generally, issuers' commitments are limited to the resources provided by the third-party obligor.
- "Additional commitments" – occasionally, an issuer may extend an *additional commitment* of its own resources and agree 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 guarantee
  - Pledging its own property, revenue, or other assets as security
  - Requesting appropriations without a moral obligation pledge or appropriation pledge

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposal: Recognition of Conduit Debt

- An issuer should *not* recognize a conduit debt obligation as a liability.
- The issuer, however, may have a related liability arising out of an additional commitment.
- The issuer should report a liability only when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposal: 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.
  - Payments from the third-party obligor coincide with the debt service repayment schedule and sometimes are characterized as lease payments.
  - Ownership (title) of the capital asset may pass to the third-party obligor at the end of the arrangement or remain with issuer.
- Issuers would *not* (1) report those arrangements as leases, (2) recognize a liability for the related conduit debt obligations, or (3) recognize a receivable for the payments related to those arrangements.

Proposal: Arrangements and Capital Assets (continued)

- If title passes to third-party obligor at the end of the arrangement, issuer would *not* report a capital asset either during the term of the arrangement or at the end of the arrangement.

- If title never passes to the third-party obligor:
  - …and the third-party obligor has exclusive use of the *entire* capital asset, the issuer would not recognize a capital asset until the arrangement ends.
  - …and the third-party obligor has exclusive use of only *portions* of the capital asset, the issuer would recognize a capital asset and a deferred inflow of resources at the inception of the arrangement. The deferred inflow of resources would be recognized as revenue in a systematic and rational manner over the term of the arrangement.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposal: 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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposal: Disclosures

- A general description of the issuer’s conduit debt obligations, organized by type of commitment:
  - Aggregate outstanding principal amount
  - Each type of commitment extended by the issuer
- If the issuer recognizes a related liability:
  - Beginning balances, increases, decreases, ending balances
  - Cumulative payments that have been made
  - Amounts, if any, expected to be recovered for those payments

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Added to Current Technical Agenda	August 2017
Exposure Draft Approved	July 2018
Comment Deadline	November 2, 2018

Current Technical Agenda Projects

Financial Reporting Model—Reexamination of Statement 34

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Preliminary Views: Proprietary Funds

- Separate presentation of operating and nonoperating revenues and expenses
  - Nonoperating activities include
    - Subsidies received and provided
    - Revenues and expenses of financing
    - Resources from the disposal of capital assets and inventory
    - Investment income and expenses
  - Operating activities are those other than nonoperating activities

Tentative Preliminary Views: Proprietary Funds (continued)

- Separate presentation of operating and nonoperating revenues and expenses (continued)
  - Subsidies are resources provided by another party or fund for the purpose of keeping the rates lower than otherwise would be necessary for the level of goods and services to be provided
    - Includes resources for purchase of capital assets
  - Subtotal for *operating income (loss) and noncapital subsidies*

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Topics Expected to Be Addressed in an Exposure Draft

- Extraordinary and special items—explore options for clarifying the guidance for more consistent reporting
- Management's discussion and analysis (MD&A)
  - Enhance the financial statement analysis component
  - Eliminate boilerplate
  - Clarify guidance for presenting currently known facts, decisions, or conditions
- Debt service funds—explore options for providing additional information, either individually or in aggregate in the financial statements or the notes

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Expected	September 2018

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Public-Private Partnerships, including Reexamination of Statement 60

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Public-Private Partnerships

- **What:** The Board is considering (1) establishing standards for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87 and (2) making certain improvements to Statement 60
- **Why:** The GASB routinely reviews whether existing standards are meeting their intended objectives; 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
- **When:** Deliberations began in May 2018

Tentative Decisions

- For Statement 60 on service concession arrangements (SCAs), the project will look at providing or improving guidance on:
  - The definition of SCAs
  - Assessing the term of SCAs
  - Initial measurement, including variable payments, the discount rate, and amortization of the discount
  - Remeasurement
  - Asset classification and application of impairment guidance
  - Payments for construction and other revenue recognition
  - Disclosures
  - Public-public partnerships

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Topics to Be Considered

- Should Statement 60 be amended to address differences with Statement 87?
- What is the definition of a public-private partnership?
- Should recognition and measurement guidance for P3s be based on Statement 60, Statement 87, or some other model?
- What disclosures should be required for P3s, if any?

Project Timeline

Pre-Agenda Research Approved	April 2017
Added to Current Technical Agenda	April 2018
Exposure Draft Expected	June 2019

Revenue and Expense Recognition

Revenue and Expense Recognition

- **What:** The Board cleared an Invitation to Comment to seek stakeholder input prior to developing a comprehensive model for recognition of revenues and expenses
- **Why:** Existing guidance for exchange transactions is limited; existing guidance for nonexchange transactions could be improved and clarified; other accounting standards setters are considering or implementing a “performance obligation” approach for revenue recognition
- **When:** Comment deadline was April 27, 2018

Project Scope

- The project scope broadly encompasses revenue and expense recognition but excludes the following:
  - Topics with guidance developed considering the current conceptual framework, such as pensions and other post-employment benefits
  - Topics related to financial instruments, such as investments, derivatives, leases, and insurance
  - Topics related to transactions arising from recognition of capital assets or certain liabilities, such as depreciation, asset retirement obligations, and pollution remediation obligations

Revenue and Expense Recognition Models

- The are three components of a revenue and expense recognition model:
  - ***Classification*** is the process of identifying the *type* of transaction (for example, is the transaction exchange or nonexchange?)
  - ***Recognition*** is the process of determining *what* element should be reported and *when* (for example, recognize revenue when earned)
  - ***Measurement*** is the process of determining the *amount* to report for the element (not addressed in the Invitation to Comment)
- The Invitation to Comment seeks feedback on two primary models:
  - Exchange/nonexchange
  - Performance obligation/no performance obligation

Exchange/Nonexchange Model

Classification	Is the transaction an exchange?	
	YES	**NO**
Recognition	**Earnings recognition approach:** • Government controls a resource, or incurs an obligation to sacrifice a resource, ***and*** • The change in net assets is not applicable to a future period	**Provisions of Statement 33:** • Derived tax revenue • Imposed nonexchange revenue • Government-mandated nonexchange transaction • Voluntary nonexchange transaction
Measurement	*Measurement is not addressed in the Invitation to Comment but is expected to be addressed in a later due process document.*	

Performance Obligation Definition

- A performance obligation is a promise in a *binding arrangement* between a government and *another party* to provide *distinct goods or services* to a *specific beneficiary*.
  - A binding arrangement is a legally enforceable mutual understanding between a government and another party.
  - Another party can be a customer, a vendor, a resource provider, an employee, and so on.
  - Distinct goods or services are separately identifiable and can provide benefits on their own.
  - A specific beneficiary would be identifiable and distinguished from the general public.

Performance Obligation/ No Performance Obligation Model

Classification | Does the transaction contain a performance obligation?

YES

Performance recognition approach:

- Determine consideration
- Allocate consideration to performance obligation(s)
- Recognize revenue or expense as each performance obligation is satisfied (at a point in time or over time) and the transaction is applicable to the reporting period(s)

NO

Provisions of Statement 33:

- Derived tax revenue
- Imposed nonexchange revenue
- Government-mandated nonexchange transaction
- Voluntary nonexchange transaction

Recognition

Measurement | *Measurement is not addressed in the Invitation to Comment but is expected to be addressed in a later due process document.*

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Comment Period Ended	April 27, 2018
Redeliberations Expected to Begin	June 2018
Preliminary Views Expected	May 2020

Subscription-Based Information Technology Arrangements

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Information Technology Arrangements

- **What:** The Board is considering establishing standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts
- **Why:** Stakeholders are concerned that these transactions may not be covered by the guidance in Statements 51 or 87
- **When:** Deliberations began in August 2018

Topics to Be Considered

- Do SBITAs or particular stages of SBITAs meet the definition of an asset in Concepts Statement 4? If so, do SBITAs meet the Statement 51 definition of an intangible asset?
- What are the similarities and differences between SBITAs and on-premise software arrangements?
- How should governments account for fees paid for SBITAs?
- If the contract for an SBITA is separate from the contract for the initial implementation of that SBITA, how should governments account for outlays incurred during the initial implementation?

Topics to Be Considered (continued)

- Should outlays associated with SBITAs be grouped into three stages, similar to the three stages described for developing and installing internally generated computer software in Statement 51?
- Some SBITAs have multiple components that may go into service at different times. Should governments account for those components separately?

Project Timeline

Pre-Agenda Research Approved	April 2017
Added to Current Technical Agenda	April 2018
Exposure Draft Expected	May 2019

Questions?

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Pre-Agenda Research Activities

Deferred Compensation Plans: Reexamination of Statement 32

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Deferred Compensation Plans

- **What:** Research to evaluate the effectiveness of Statement 32 by (1) assessing the changes in characteristics of the Section 457 plans and (2) considering whether existing requirements provide users of financial statements with essential information
- **Why:** The GASB routinely reviews whether existing standards are meeting their intended objectives
- **When:** The Board added the pre-agenda research in April 2018

Topics to Be Considered

- Are Section 457 plans that are reported in accordance with Statement 32, as amended, significantly different that pension plans that are reported in accordance with Statement No. 67, *Financial Reporting for Pension Plans?*
- If the arrangements are significantly different, are the requirements of Statement 32, as amended, sufficient to meet the information needs of users of financial statements?

Going Concern Disclosures: Reexamination of Statement 56

Going Concern Disclosures

- **What:** A review of 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?

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Note Disclosures Reexamination

Note Disclosures

- **What:** A review of existing standards related to note disclosures except for those (1) required by pronouncements that have not been effective for at least three years, and (2) related to leases, debt extinguishments, outstanding debt, conduit debt, and going concern (which are the subjects of separate projects or research)
- **Why:** A comprehensive review of note disclosures has not been conducted since 1997
- **When:** The Board added the pre-agenda research in April 2016

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Topics to Be Considered

- Does Concepts Statement 3 provide a sufficient framework for establishing disclosure requirements or should additional framework criteria be developed for all disclosures? What approach, if any, would help to reduce repetition within disclosures and the overall length of the notes section?
- Do the required note disclosures meet their intended objectives and continue to provide information that is useful for making decisions and assessing accountability?
- What unmet user needs exist that might require new note disclosures? Alternatively, what existing disclosure requirements do not provide useful information to users of governmental financial reports?

Topics to Be Considered (continued)

- What is the nature and extent of disclosures that governments currently include in their financial reports that are not specifically required by existing financial reporting standards?
- Is there sufficient guidance for determining what information about component units should be included in a primary government’s notes? If not, how can the existing guidance be improved?

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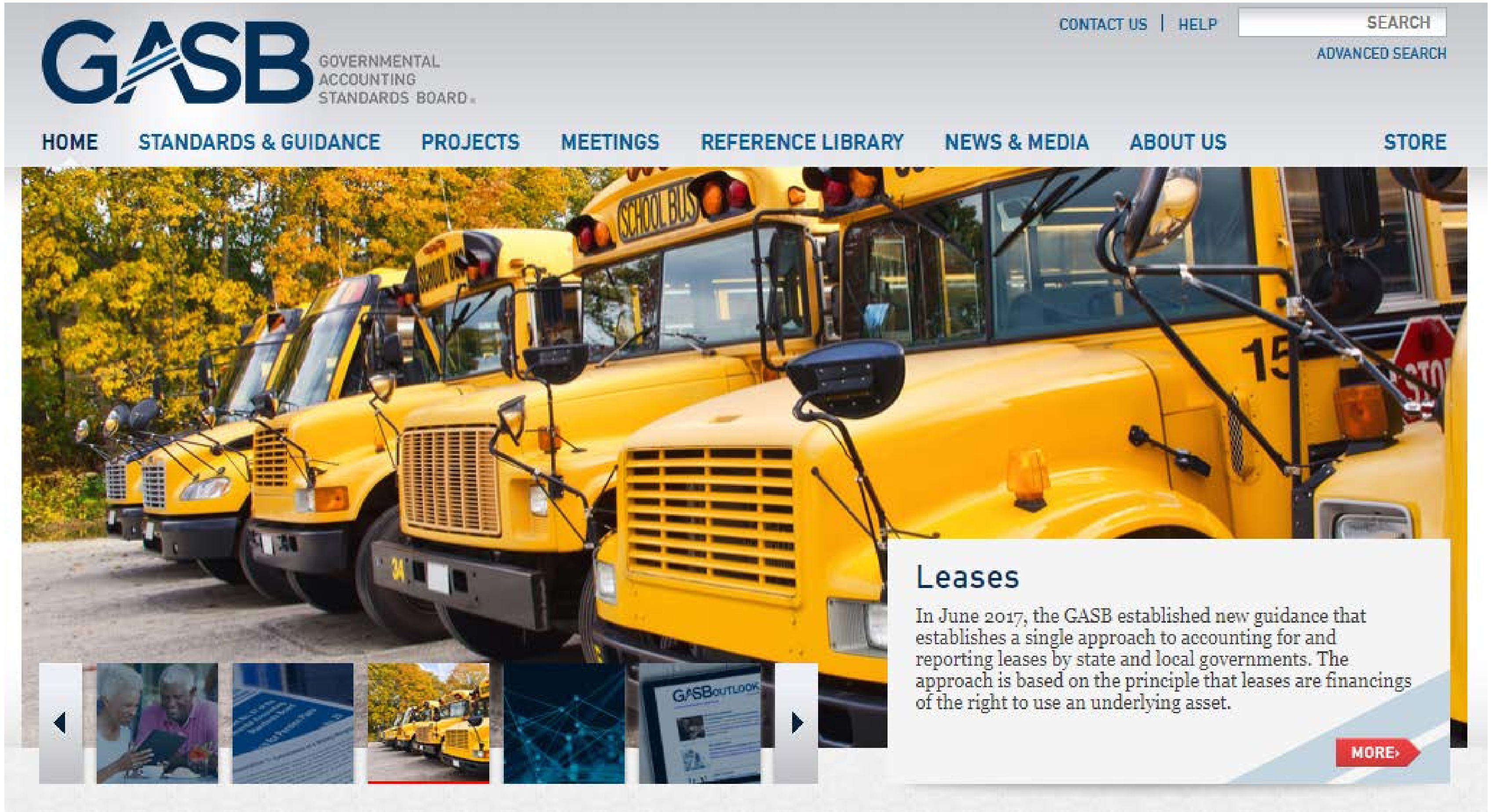
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Leases
In June 2017, the GASB established new guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The approach is based on the principle that leases are financings of the right to use an underlying asset.
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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)
- Free copies of proposals
- Up-to-date information on current projects
- Articles and Fact Sheets about proposed and final pronouncements
- Form for submitting technical questions
- Educational materials, including podcasts

Plain-Language Materials

- The GASB is committed to communicating in plain language with constituents about its standards and standards-setting activities.
- Revised version of “Why Governmental Accounting Is—and Should Be—Different” (October 2017)
- Fact Sheets are prepared for complex projects to answer commonly raised questions – most recently on the Invitation to Comment (ITC) on revenue and expense recognition
- Series of 5 brief videos developed regarding the ITC