New Hampshire Government Finance Officers Association

GASB Update

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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.

FINANCIAL ACCOUNTING FOUNDATION FINANCIAL ACCOUNTING STANDARDS BOARD GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Presentation Overview

- Pronouncements currently being implemented
- Projects currently being deliberated by the Board

GASB News

- Kristopher Knight, state of Delaware, appointed by the FAF to replace Jan Sylvis on the Board, effective July 1
- Jim Brown appointed to a second term by the FAF
- All GASB pronouncements are available free on the website, including Implementation Guides
- Online version of GARS available through website
  - Basic view is free

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Pronouncements Currently Being Implemented

Effective Dates—June 30

- 2017
  - Statement 73—pensions not within the scope of 67/68
  - Statement 74—OPEB (plans)
  - Statement 77—tax abatement disclosures
  - Statement 78—certain multiple-employer pension plans
  - Statement 79—certain investment pools and participants*
  - Statement 80—blending requirements
  - Statement 82—pension issues+
  - Implementation Guide 2016-1
- 2018
  - Statement 75—OPEB (employers)
  - Statement 81—irrevocable split-interest agreements
  - Statement 85—omnibus#
  - Implementation Guide 2017-1
- 2019—Statement 83—certain asset retirement obligations
- 2020—Statement 84—fiduciary activities

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Effective Dates—December 31

- 2017
  - Statement 73—pensions not within the scope of 67/68
  - Statement 74—OPEB (plans)
  - Statement 80—blending requirements
  - Statement 81—irrevocable split-interest agreements
  - Implementation Guide 2016-1
  - Statement 82—pension issues+
- 2018
  - Statement 75—OPEB (employers)
  - Statement 85—omnibus#
  - Implementation Guide 2017-1
- 2019
  - Statement 83—asset retirement obligations
  - Statement 84—fiduciary activities

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Postemployment Benefits

Statements No. 74 and No. 75

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Overview

- **What:** The Board issued Statements 74 (plans) and 75 (employers), making OPEB accounting and financial reporting consistent with the pension standards in Statements 67 and 68
- **Why:** Pension and OPEB standards were updated subsequent to a review of the effectiveness of the standards—objective was to establish a consistent set of standards for all postemployment benefits, providing more transparent reporting of the liability and more useful information about the liability and costs of benefits
- **When:** Effective for periods beginning after June 15, 2016 (plans) and June 15, 2017 (employers)

Plan and Asset Reporting

- Scope includes defined benefit and defined contribution OPEB plans administered through trusts that meet specified criteria
- Also addresses assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are *not* administered through trusts that meet the criteria
  - Assets reported as assets in employer's governmental/ proprietary funds
  - Assets held for other government reported in an agency fund
- Few changes from Statement 43 for financial statement recognition
- Notes/RSI changes primarily to reflect changes in measurement of defined benefit liabilities of employers

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Employer Scope and Applicability

- Applies same definition of OPEB as used in Statement 45
  - All postemployment healthcare benefits
  - Other forms of postemployment benefits not provided through a pension plan
- Addresses both defined benefit OPEB and defined contribution OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as those payments come due

Liability to Employees for OPEB

- Based on total OPEB liability—the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service
- Is OPEB administered through a trust that meets the specified criteria?
  - Yes—recognize net OPEB liability (total OPEB liability, net of OPEB plan fiduciary net position)
  - No—recognize total OPEB liability
- Employer's liability to employees for OPEB measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the employer's current fiscal year
  - Based on an actuarial valuation obtained at least biennially no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end

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Measurement of the Total OPEB Liability—General Approach

- Three broad steps
  - Project benefit payments
  - Discount projected benefit payments to actuarial present value
  - Attribute actuarial present value to periods
- Methods and assumptions
  - Generally, assumptions in conformity with Actuarial Standards of Practice
  - Single attribution method—entry age, level percentage of pay

Measurement of the Total OPEB Liability: Projections of OPEB Payments

- Consider established pattern of practice with regard to sharing of benefit-related costs with inactive employees
- Based on claims costs or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice
- Includes taxes or other assessments expected to be imposed on benefit payments
- Consider legal or contractual benefit caps if determined to be effective

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Measurement of the Total OPEB Liability: Alternative Measurement Method

- Alternative measurement method may be applied if fewer than 100 employees (active and inactive) are provided benefits through plan as of the beginning of the measurement period
  - Generally, same simplifications to assumptions can be used as were permitted by Statement 45

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Changes in Liability

- Recognize most changes in liability for the current reporting period as OPEB expense immediately, except:
  - Changes in total OPEB liability:
    - Differences between expected and actual experience with regard to economic and demographic factors in the measurement of the total OPEB liability
    - Changes of assumptions in the measurement of the total OPEB liability
  - For OPEB administered through trust in which specified criteria are met:
    - Difference between projected and actual earnings on OPEB plan investments
    - Employer contributions

Cost-Sharing Employers

- Relevant only for OPEB administered through trust in which specified criteria are met
- Recognize proportionate shares of collective net OPEB liability, OPEB expense, and deferred outflows of resources/deferred inflows of resources related to OPEB
- Proportion (%)
  - Basis required to be consistent with contributions
  - Use of relative long-term projected contribution effort encouraged
- Collective measure × proportion = proportionate share of collective measure

Notes and RSI

- Similar to those required for pensions
- Disclosure of effect on net/total OPEB liability of a discount rate +/- 1 percent
- Disclosure of effect on net/total OPEB liability of a healthcare cost trend rate +/- 1 percent
- Single and agent employers: 10-year RSI schedules for changes in the net OPEB liability, ratios, and actuarially determined contributions (statutorily or contractually determined contributions, if no actuarially determined contribution is calculated)
- Cost-sharing employers: 10-year RSI schedules for proportionate share/ratios, and statutorily or contractually determined contributions

Tax Abatement Disclosures

Statement No. 77

Tax Abatement Disclosures

- **What:** The Board issued Statement 77, which requires disclosures about a government's tax abatement agreements
- **Why:** Information about revenues that governments forgo is essential to understanding financial position and economic condition, interperiod equity, sources and uses of financial resources, and compliance with finance related legal or contractual requirements
- **When:** Effective for periods beginning after December 15, 2015

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Definition and Scope

- Does not include all transactions that reduce tax revenues
- Emphasis is on the substance of the arrangement meeting the definition, not on its name or form
- Would apply only to arrangements meeting this definition:
  - A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

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Scope: Tax Increment Financings (TIF)

IG 2016-1, Question 4.77	IG 2017-1, Question 4.40
Government uses TIF to encourage economic development	Government enters into agreement with developer to stimulate economic growth
• Bonds issued by government to finance infrastructure in specific area • Baseline for sales tax revenues for the area, including proposed development, is established prior to the start of the project • Additional sales tax revenues above baseline are set aside for payment of the bonds	• Developer will construct building • Baseline for property tax revenues for the specific area will be established prior to the start of the project • Developer will receive amount from additional property tax revenues above baseline, based on certain costs incurred by the developer related only to the developer's building.
Disclose under 77? NO	Disclose under 77? YES

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Scope: Existence of Property Tax Cap

- Government is subject to a property tax cap that limits the growth of property tax levy to 2 percent per year. Full amount allowed under the cap is levied on properties that are not subject to agreements to lower taxes of individual taxpayers. Therefore, *overall* tax revenues will not be reduced. Are those agreements tax abatements under Statement 77?

- Yes, if they meet the other parts of the definition. It is not necessary that the government forgo tax revenue in the aggregate. The fact that the government may effectively recoup the tax revenue associated with the agreements from other taxpayers is not relevant to determining whether the agreement meets the definition of a tax abatement.

  - Source: IG 2017-1, Question 4.39

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General Disclosure Principles

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments and reduce the reporting government's taxes
- Disclose own tax abatements by major program
- Disclose those of other governments by the government and specific tax abated
- May disclose individual tax abatements above quantitative threshold established by the government
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

Required Disclosures

Brief Descriptive Information	Government's Own Abatements	Other Government's Abatements
Name of program	✓	
Purpose of program	✓	
Name of government		✓
Tax being abated	✓	✓
Authority to abate taxes	✓	
Eligibility criteria	✓	
Abatement mechanism	✓	
Recapture provisions	✓	
Types of recipient commitments	✓	

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Required Disclosures

Other Disclosures	Government's Own Abatements	Other Government's Abatements
Dollar amount of taxes abated	✓	✓
Amounts received or receivable from other governments associated with abated taxes	✓	✓
Other commitments by the government	✓	
Quantitative threshold for individual disclosure	✓	✓
Information omitted due to legal prohibitions	✓	✓

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Pensions Provided through Certain Multiple-Employer Pension Plans

Statement No. 78

Pensions Provided through Certain Multiple-Employer Pension Plans

- **What:** The Board issued Statement 78 to address stakeholder concerns about application of Statement 68 to defined benefit pensions provided through federally sponsored or private multiple-employer pension plans (such as Taft-Hartley plans)
- **Why:** The Board addresses requests to revisit existing standards when the concerns are significant and raise new issues
- **When:** Effective for periods beginning after December 15, 2015

Statement 78: Exception to Statement 68

- The Statement should be applied only to pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that has all of the following characteristics:
  - It is not a state or local governmental pension plan
  - It is used to provide defined benefit pensions both to employees of state or local governments and to employees of employers that are not state or local governmental employers
  - It has no predominant state or local governmental employer
- Statement 78 provides an exception to the general requirements of Statement 68, to be replaced with recognition of required contributions, descriptive note disclosures, and an RSI schedule of required contributions for the past 10 years

Certain External Investment Pools and Pool Participants

Statement No. 79

Certain External Investment Pools and Pool Participants

- **What:** The GASB has revised the accounting and financial reporting standards for 2a7-like investment pools
- **Why:** Securities and Exchange Commission changes to Rule 2a7 would make it difficult for external investment pools to meet the criteria to continue to report as 2a7-like
- **When:** Effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23−26, and 40, which are effective for reporting periods beginning after December 15, 2015

Criteria for Pools to Use Amortized Cost

- An external investment pool needs to meet all of the following in order to report investments at amortized cost:
  - Transact with participants at stable net asset value per share – $1.00 per share
  - Meet certain portfolio maturity requirements
  - Meet certain portfolio quality requirements
  - Meet certain portfolio diversification requirements
  - Meet certain pool liquidity requirements
  - Meet shadow price requirements

Disclosures for Pools and Participants

- Pools that report at amortized cost should disclose the fair value measurements as required by paragraphs 80–82 of Statement 72
- Pools and pool participants that report at amortized cost should disclose the presence of any limitations or restrictions on participant withdrawals, such as redemption notice periods, maximum transaction amounts, and the pools' authority to impose liquidity fees or redemption gates

Blending Requirements for Certain Component Units

Statement No. 80

Blending Requirements

- **What:** Statement 80 revises the standards regarding how certain component units should be presented in the financial statements of the primary government
- **Why:** There is diversity in practice, with some component units
- **When:** Effective for reporting periods beginning after June 15, 2016

Reporting Entity Standards

- Most component units should be included in the financial reporting entity by discrete presentation. Before Statement 80, the blending presentation was required only when:
  - Primary government and component unit have substantively the same governing body AND
    - A financial benefit/burden relationship exists, OR
    - Management (below the elected official level) of the primary government has “operational responsibility” for the activities of the component unit
  - Services of the component unit exclusively benefit the primary government
  - Debt of the component unit is expected to be repaid entirely or almost entirely with resources of the primary government

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Additional Blending Criterion

- A component unit should be included in the reporting entity financial statements using the blended method if:
  - The component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member,* as identified in the component unit's articles of incorporation or bylaws, AND
  - The component unit is included in the financial reporting entity pursuant to the provisions in paragraphs 21–37 of Statement 14, as amended.

* The sole corporate member requirement should not be analogized to any other situations that may be considered similar to those in which the primary government is the sole corporate member, such as situations in which the primary government is the residual equity interest owner.

Irrevocable Split-Interest Agreements

Statement No. 81

Irrevocable Split-Interest Agreements

- **What:** Statement 81 addresses irrevocable split-interest agreements, which are particularly prevalent among public colleges and universities and public healthcare entities
- **Why:** Limited guidance exists for irrevocable split-interest agreements in which the government acts as trustee (and is one of the beneficiaries); no guidance exists for situations in which a third party is the trustee and the government is one of the beneficiaries; users need information about these arrangements
- **When:** Effective for periods beginning after December 15, 2016

Scope

- **Irrevocable split-interest agreements** for which the government is the intermediary (trustee or agent) and a beneficiary
  - Donor gives resources to government that also is a beneficiary in the agreement
  - Lead interest: payments during the life of the agreement, generally to non-governmental beneficiary (donor or donor's relative)
  - Remainder interest: assets remaining at termination of the agreement; generally goes to government
- **Beneficial interests** in resources held and administered by 3rd parties
  - Refers to the right to receive resources in a future reporting period, from resources administered by a 3rd party

Irrevocable Split-Interest Agreements with Resources Held by Government

Measurement	Asset	Liability	Deferred Inflow
Initial	Resources measured at fair value	For benefit of *nongovernmental* beneficiary: • Lead interest—measure directly at settlement amount	For *government's benefit* in resources: • Remainder interest—residual amount (assets less liability)
Subsequent	Investments remeasured at fair value; changes in assets will be reflected in deferred inflow	Distributions to lead interest beneficiaries reduce the liability	

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Irrevocable Split-Interest Agreements with Resources Held by Third Party

Measurement	Asset	Deferred Inflow
Initial	Resources initially measured at fair value	Same as the asset
Subsequent	Changes in fair value of resources reflected in the deferred inflow	

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Pension Issues

Statement No. 82

Pension Issues

- **What:** Statement 82 addresses concerns raised by stakeholders during the implementation process of Statements 67 and 68
- **Why:** The Board addresses requests to revisit existing standards when the concerns are significant and raise new issues
- **When:** Effective for reporting periods beginning after June 15, 2016, except requirements related to selection of assumptions in a circumstance in which an employer's NPL is measured as of a date other than the employer's most recent FYE.
  - In that circumstance, those requirements are effective for that employer in the first reporting period in which the measurement date of the NPL is on or after June 15, 2017 or later

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Provisions of Statement 82

- Return to the use of *covered payroll,* defined as the payroll on which contributions to a pension plan are based, for the RSI schedules required by Statements 67 and 68
- Clarify that a *deviation* from the guidance in Actuarial Standards of Practice, as the term is used in ASOPs, is not considered to be in conformity with the requirements of Statements 67, 68, or 73 for the selection of assumptions in determining the total pension liability
- Payments made by an employer to satisfy contribution requirements identified by plan terms as plan member contributions should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68
  - Also requires that an employer's expense/expenditures for those amounts be classified as a type of compensation expense/expenditures but not as pension expense/expenditures

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
  - 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.

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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

Disclosures

- General description of ARO and associated tangible capital assets
  - Include source of AROs (federal, state, or local laws and regulations, contracts, or 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

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; business-type activities are uncertain about how to report fiduciary activities
- **When:** Effective for fiscal years beginning after December 15, 2018. Earlier application is encouraged.

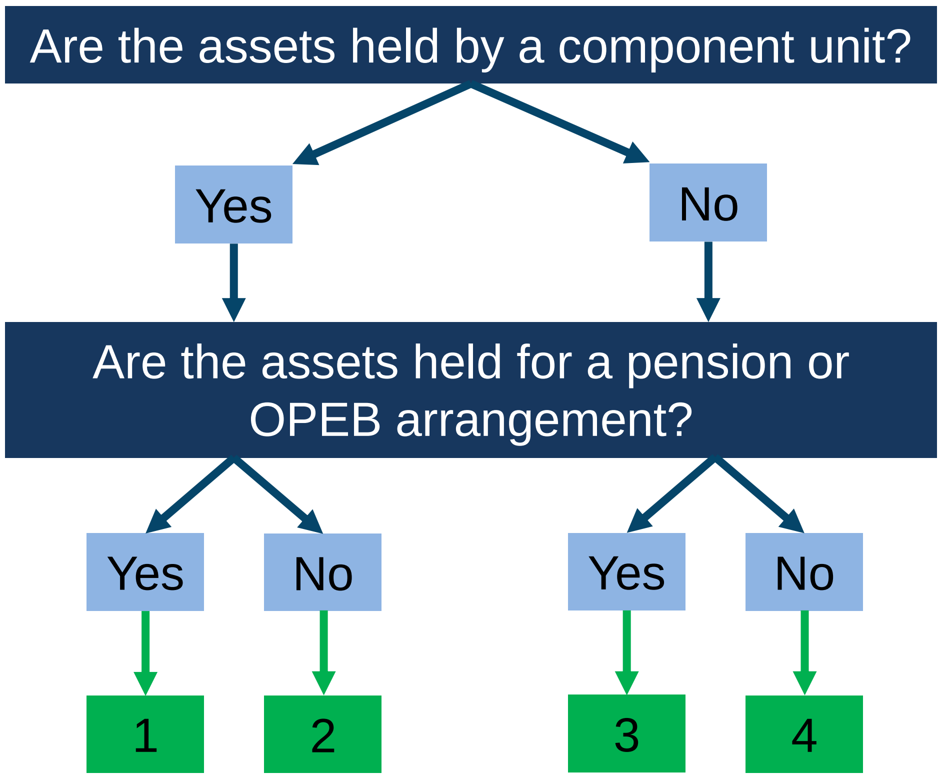
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:

- Component units that provide postemployment benefits
- Component units that do not provide postemployment benefits
- Postemployment benefit arrangements that are not component units
- All other activities

When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



1

Component Units That Provide Postemployment Benefits Are Fiduciary if…

- They are one of the following arrangements:
  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

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Other Component Units Are Fiduciary if…

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- They have one or more of the following characteristics:
  - The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
  - The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
  - The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

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When Does a Government Have Administrative Involvement or Direct Financial Involvement?

- Examples of administrative involvement
  - If it monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it has the ability to exercise discretion in how assets are allocated
- Example of direct financial involvement
  - If it provides matching resources for the activities

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Postemployment Benefit That Are Not Component Units Are Fiduciary if…

- The government **controls** the assets of the arrangement and the arrangement is one of the following arrangements:
  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

When Is a Government Controlling Assets?

- A government controls the assets of an activity if:
  - The government *holds* the assets.
  - The government has the ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

All Other Activities Are Fiduciary if…

All three of the following are met:

- The government **<u>controls</u>** the assets
- Those assets are *not* derived either:
  - Solely from the government's own-source revenues, or
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have administrative or direct financial involvement
- One of the criteria on the next slide is met

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All Other Activities (continued)

- The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
- The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
- The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

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Fiduciary Fund Types

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
  - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- *Custodial funds* would report fiduciary activities for which there is no trust agreement or equivalent arrangement.
  - External portions of investment pools that are *not* held in trust should be reported in a separate column under the custodial fund umbrella

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Stand-Alone Business-Type Activities

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

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Omnibus 2017

Statement No. 85

Omnibus 2017

- **What:** The Board issued Statement 85 which includes amendments to certain existing literature
- **Why:** The Board periodically reviews the need for amendments to existing literature based on stakeholder feedback and technical inquiries. Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project.
- **When:** Effective for periods beginning after June 15, 2017 (may be implemented by topic)

Component Units & Government Combinations

- Component unit presentation: Requirements for blending component units for single-column business-type activities
  - Component units must meet a criterion for blending in paragraph 53 of Statement 14, as amended
- Government combinations: Treatment of goodwill and “negative” goodwill
  - Reclassify existing goodwill as deferred outflows of resources
  - Include existing negative goodwill as part of restatement of beginning net position

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Fair Value Measurement & Application

- How to classify real estate held for both operations and investment purposes by insurance entities
  - Based on whether unit of account meets the definition of an investment
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
  - May be measured at amortized cost to the extent permitted by paragraph 9 of Statement 31

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Pensions & OPEB

- Timing of the measurement of pension and OPEB liabilities and related expenditures in financial statements prepared using the current financial resources measurement focus
  - Based on reporting period (rather than measurement period)
- Recognition of on-behalf payments for pensions or OPEB in employer financial statements
  - Primarily clarifies that expenditures and revenue should be recognized in employers' financial statements prepared using the current financial resources measurement focus

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OPEB

- Presentation of payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
  - OPEB plans present covered payroll, if contributions are based on pay; otherwise, no measure
  - Employers present covered payroll, if contributions are based on pay; otherwise, covered-employee payroll
- Requirements for employer-paid member contributions for OPEB
  - If employer makes payments to satisfy contribution requirements identified by OPEB plan terms as plan member contribution requirements, amounts should be classified as plan member (employee) contributions

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OPEB (continued)

- Simplifications related to the alternative measurement method
- Applicability of Statement 75 for employers whose employees are provided with OPEB through multiple-employer defined benefit OPEB plans that have characteristics similar to those identified in Statement 78

Implementation Guidance Updates

2016-1 and 2017-1

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:** 2016-1 is effective for periods beginning after June 15, 2016. 2017-1 is effective for periods beginning after June 15, 2017.

Implementation Guide 2016-1

- Adds new questions on recent standards regarding fair value and tax abatement disclosures
- Reinstates certain previously superseded Q&As that have been updated for the effects of recent standards on pensions, other postemployment benefits, and fair value

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

Current Technical Agenda Projects

Capitalization of Interest Cost

Capitalization of Interest Cost

- **What:** The Board will reconsider the accounting and financial reporting standards for capitalization of interest cost, 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:** Deliberations are scheduled to begin in July 2017.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Topics to Be Considered

- Should interest cost that is capitalized under existing standards instead be reported as an outflow of resources?
- If capitalization of interest cost were to be retained:
  - Should the beginning of capitalization differ depending on whether a borrowing is taxable or tax exempt?
  - What are the most suitable criteria for determining when capitalization should begin?

Project Timeline

Added to Current Technical Agenda	December 2016
Exposure Draft Expected	November 2017

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Certain Debt Extinguishment Issues

Certain Debt Extinguishment Issues

- **What:** In August 2016, the Board issued an Exposure Draft proposing guidance for certain issues related to debt extinguishments
- **Why:** Research found that Statements 7 and 23 on debt refundings and Statement 62 on debt extinguishments are working effectively, but that certain issues need to be addressed
- **When:** Comment deadline was October 28, 2016. Final Statement expected May 2017. Effective date would be periods beginning after June 15, 2017.

Proposals: In-Substance Defeasance Using Only Existing Resources

- Debt considered defeased in substance (like refundings) when *only* existing resources are placed in trust, if trust restricted to only essentially risk-free monetary assets (like for refundings)
- Would 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* refundings)
- Notes to the financial statements:
  - Would describe the transaction in the period it occurs (like refundings)
  - Would disclose remaining outstanding balance in each period the defeased debt remains outstanding (may combine with refunded amount)

Proposals: Prepaid Insurance for *All* Debt Extinguishments

- At the time debt is extinguished/defeased, any related prepaid insurance that remains would 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

Proposals: Note Disclosure on Substitution Risk

- Would apply 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 would 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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Pre-Agenda Research Started	August 2014
Added to Current Technical Agenda	September 2015
Exposure Draft Approved	August 2016
Final Statement Expected	May 2017

Debt Disclosures, including Direct Borrowing

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Debt Disclosures

- **What:** The Board added a project to consider improvements to existing standards for disclosure of debt, in particular related to short-term debt and direct borrowing
- **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:** The Board added the project to the current technical agenda in August 2016

Tentative Decisions

- The definition of debt for disclosure purposes would be “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 should not preclude that amount from being considered fixed.
- Leases and trade accounts payable would be excluded from the definition of debt.

Additional Topic to Be Considered

- Current requirements do not specifically address direct borrowings. Should specific disclosures related to direct borrowings be required?

Project Timeline

Pre-Agenda Research Started	April 2015
Added to Current Technical Agenda	August 2016
Exposure Draft Expected	June 2017

Equity Interest Ownership Issues

Equity Interest Ownership Issues

- **What:** The Board is considering revisions to existing standards to address ownership of an equity interest in a legally separate entity.
- **Why:** Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance.
- **When:** The Board added the project in December 2016

Topics to Be Considered

- Current reporting is based on whether the intent of ownership is as an investment or to provide service; however, the intent of ownership is not always clear or may have multiple purposes.
  - How should the majority equity ownership in a legally separate entity be reported in the financial statements?
- Acquisition of an entity that ceases to exist is measured differently from the 100 percent acquisition of a legally separate entity that is reported as a component unit.
  - How should a government report the assets, deferred inflows of resources, liabilities, and deferred outflows of resources of a component unit when it is wholly acquired?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	December 2016
Exposure Draft Expected	January 2018

Financial Reporting Model—Reexamination of Statement 34

Financial Reporting Model Reexamination

- **What:** In December 2016, the Board cleared an Invitation to Comment, the first due process document in the project reexamining the effectiveness of the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6
- **Why:** A review of these standards found that they generally were effective, but that there were aspects that could be significantly improved.
- **When:** Comment deadline was March 31, 2017

Scope of the Invitation to Comment: Governmental Funds

- Recognition approaches (measurement focus and basis of accounting)
- Format of the governmental funds statement of resource flows
- Specific terminology
- Reconciliation to the government-wide financial statements
- For certain recognition approaches, a statement of cash flows

Concerns with Governmental Funds Financial Statements

- Lack of conceptual consistency in recognition of assets and liabilities
- Lack of foundation from which to develop standards for complex transactions
- Some consider it ineffective in conveying that the information is related to fiscal accountability (rather than operational accountability)
  - Focus on financial resources, rather than on economic resources
  - Shorter time perspective than information in government-wide financial statements

Recognition Approaches

- Three possible recognition approaches to replace current financial resources/modified accrual:
  - Near-term financial resources
  - Short-term financial resources
  - Long-term financial resources

Common Characteristics of the Approaches

- Relationship with budgetary reporting
- Focus on financial resources, rather than on economic resources
- Improvements to presentation:
  - Same-page reconciliations to government-wide financial statements
  - Titles and line item totals that indicate the measurement focus
  - Notification on top of statement that the presentation is a short-term view and that the government-wide statements present the long-term view

Messages Conveyed by the Approaches

	Near-Term*	Short-Term	Long-Term
Information related to…	Spending and resources available for spending	Short-term (one year) financial assets and liabilities	Noncapital financial resources on the accrual basis of accounting
Focused on…	Amount available for spending in the next period	Government's one-year operating cycle	Both shorter and longer time perspectives
Financial resources are…	Resources expected to be converted to cash	Cash; claims to cash, goods, and services; consumable goods; equity securities of another entity	Cash; claims to cash, goods, and services; consumable goods; equity securities of another entity

* Length of near-term would be specified (for example, 60–90 days after reporting period)

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What Would the Approaches Report?

	Near-Term	Short-Term	Long-Term
Assets	***Receivable*** at period-end and ***normally*** due to convert to cash within near term; long-term receivables when due	***Receivable*** at period-end and ***normally*** due to convert to cash within operating cycle; prepaids & inventories that will be consumed in the next operating cycle	All noncapital assets
Liabilities	***Payable*** at period-end and ***normally*** due within near term; principal on debt when due	***Payable*** at period-end and ***normally*** due within the next operating cycle	All noncapital-related liabilities

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What Would the Approaches Report?

	Near-Term	Short-Term	Long-Term
Inflows and outflows of resources	Inflows—newly acquired financial resources that do not result in corresponding liabilities and are available for spending. Outflows—spending for the period; principal payments on matured debt and other-than-near-term obligations.	As the underlying transaction occurs and cash is collected or paid or due in the subsequent operating cycle	As the underlying transaction occurs, plus inflows and outflows for purchases and sales of capital assets and issuance and repayment of capital-related debt

Other Issues in the Invitation to Comment

- Format of governmental funds resource flows statement
  - Existing format
  - Current and long-term activities format
- Governmental funds cash flows statement
  - Could be needed for short-term and long-term financial resources approaches because the time perspective is not close to cash

Topics Expected to Be Addressed in a Preliminary Views

- Format of the government-wide statement of activities
  - Existing format
  - Traditional format with expenses by function or program
  - Functional or programmatic expenses by natural classification
- Separate presentation of operating and nonoperating revenues and expenses—in proprietary fund and business-type activity (BTA) financial statements

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Topics Expected to Be Addressed in a Preliminary Views (continued)

- Budgetary comparisons
  - Determine method of communication (either as basic financial statements or required supplementary information)
  - Which budget variances, if any, should be required to be presented
- Permanent funds
  - Determine recognition approach and presentation for permanent funds

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
Comment Deadline	March 31, 2017
Public Hearings and User Forums	April and May 2017

Leases

Leases

- **What:** In January 2016, the GASB issued an Exposure Draft proposing revisions to existing standards on lease accounting and financial reporting (primarily Statement 62) based on public comments received on the November 2014 Preliminary Views
- **Why:** The existing standards have been in effect for decades without review to determine if they remain appropriate 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:** Comment period ended May 31, 2016; tentative effective date is periods beginning after December 15, 2019

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Tentative Decisions: 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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: 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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	• Lease receivable (generally including same items as lessee liability) • Continue to report leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible 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 payment needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

Project Timeline

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

Revenue and Expense Recognition

Revenue and Expense Recognition

- **What:** Development of a comprehensive application model for recognition of revenues and expenses from nonexchange, exchange, and exchange-like transactions
- **Why:** Stakeholders have raised questions about how to account for revenues from transactions that are neither fully exchange or nonexchange; the revenue recognition standards incorporated in Statement 62 have not been revised for governments in nearly 50 years; current literature does not provide guidance for exchange and exchange-like expenses
- **When:** The Board added the project in April 2016

Topics to Be Considered

- Should revenue recognized at the time of sale or when (or as) the obligation is fulfilled?
- Should a performance obligation approach be used for transactions of a government? If so, for which transactions?
- Should guidance for nonexchange transactions be revised in light of the GASB Concepts Statements?
- Should guidance be developed for exchange expenses that are not in the scope of existing guidance?
- Should additional information be disclosed regarding revenue and expense transactions?

Tentative Decisions: Project Scope

- The project scope will be revisited after the Invitation to Comment to incorporate feedback on the models presented.
- For the Invitation to Comment, the scope includes three categories:
  - Topics initially excluded from the scope
  - Topics to-be-determined
  - Topics initially included

Tentative Decisions: Project Scope (cont'd)

- Topics initially excluded
  - Topics with guidance developed considering the current conceptual framework, such as pensions and other post-employment benefits
  - Topics related to financial transactions, 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

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Tentative Decisions: Project Scope (cont'd)

- Topics to be determined
  - These topics may be used as examples during the development of the models of recognition, but may not be in the scope of future due process documents
  - Topics for which current guidance exists, but was developed before the conceptual framework, such as special assessments
  - Potential standards-setting topics
- Topics initially included
  - Broadly defined rather than list of specific items
  - Revenues from exchange, exchange-like, and nonexchange transactions
  - Expense from exchange and nonexchange transactions

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Revenue and Expense Recognition Models

- The Invitation to Comment will present comprehensive application models for the recognition of revenue and expense.
- Two primary models have been identified for inclusion in the Invitation to Comment.
  - Performance obligation model
  - Exchange/nonexchange model
- Additional models, or variations of the models above, also may be included in the Invitation to Comment.

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Tentative Decisions: Performance Obligation

- A performance obligation is a binding promise with another party to provide a distinct good, service, or other resource (or a bundle of goods, services, or other resources).
- A performance obligation may exist if the transaction involves a specific individual or entity as either the resource provider or as the resource beneficiary.

Tentative Decisions: Recognition

- For transactions that have a performance obligation, revenue and expense would be recognized as the performance obligation is satisfied, either at a point in time or over time.
- For transactions that do not have a performance obligation, revenue and expense would be recognized with respect to key characteristics of those transactions, many of which are reflected in current guidance for recognition of revenue and expense from nonexchange transactions.

Tentative Decisions: Exchange-Nonexchange

- Derived tax revenues: recognition provisions in Statement 33 are consistent with the conceptual framework
  - Potential modifications to the existing guidance will not be presented in the Invitation to Comment.
- Imposed nonexchange transactions: recognition provisions in Statement 33 are consistent with the conceptual framework
  - Additional research will be conducted before considering whether potential modifications should be presented in the Invitation to Comment.

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Tentative Decisions: Exchange-Nonexchange

- Government-mandated and voluntary nonexchange transactions (other than pledges and beneficial interests in perpetual trusts reported by endowments)
  - Revenue recognition that depends on the satisfaction of eligibility requirements (required characteristics of recipients, time requirements, a reimbursement requirement, and contingencies) is consistent with the conceptual framework
    - Potential modifications to the guidance regarding eligibility requirements (except time requirements) will not be presented.
    - With respect to time requirements, additional research will be conducted regarding pledges and beneficial interests in perpetual trusts reported by endowments before potential presentation in the Invitation to Comment.

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Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Expected	January 2018

Questions?

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Pre-Agenda Research Activities

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conduit Debt: Reexamination of Interpretation 2

Conduit Debt

- **What:** A review of existing standards related to conduit debt
- **Why:** Interpretation 2 has been in effect for 20 years without being evaluated to determine if it continues to be effective. In particular, it has not been reviewed in light of the definition of a liability in the GASB's conceptual framework.
- **When:** The Board added the pre-agenda research in December 2016

Topics to Be Considered

- How useful has information about conduit debt been for making decisions and assessing accountability?
- Considering the Concepts Statement 4 definition of a liability, under what circumstances, if any, do conduit debt obligations constitute a liability of the government issuing the debt?
- If conduit debt is a liability of the issuing government, is the amount owed by third-party entities an asset (receivable) of the government?
- If conduit debt has been defeased, how should it be reported or disclosed?

Going Concern Disclosures: Reexamination of Statement 56

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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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Information Technology Arrangements, including Cloud Computing

Information Technology Arrangements

- **What:** Research current practices with respect to reporting cloud computing contracts and similar information technology (IT) arrangements and identify whether there is a need for specific guidance
- **Why:** Stakeholders are concerned that these transactions may not be covered by the guidance in Statement 51 or the forthcoming leases standards.
- **When:** The Board added the pre-agenda research in April 2017.

Topics to Be Considered

- What are the features of contracts for cloud computing and similar IT arrangements entered into by governments?
  - Do they contain components related to services, hardware, software, or a combination of all three?
- How are governments accounting for and reporting cloud computing contracts at present?
- Could existing standards be appropriately applied to these arrangements, or is there a need for specific guidance for cloud computing contracts?
- What information needs do users have, if any, with regard to these arrangements?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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

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?

Public-Private Partnerships, including Reexamination of Statement 60

Public-Private Partnerships

- **What:** Research to identify public-private partnerships (P3s) that may not be subject to Statement 60 on service concession arrangements or the forthcoming leases standards and to evaluate the effectiveness of Statement 60
- **Why:** The GASB routinely reviews whether existing standards are meeting their intended objectives. In addition, stakeholders are concerned that some P3 transactions outside the scope of Statement 51 also will not be covered by the forthcoming leases standards.
- **When:** The Board added the pre-agenda research in April 2017.

Topics to Be Considered

- What transactions, if any, are outside the scope of both Statement 60 and the forthcoming standards on leases?
  - If so, which standards should be applied to them?
- Do the existing standards continue to appropriately capture the economic substance of SCAs?
- Have disclosures presented in conformity with the requirements of Statement 60 sufficiently met user needs?

Social Impact Bonds

Social Impact Bonds

- **What:** An examination of the nature of these emerging transactions and whether existing standards adequately reflect their economic substance.
- **Why:** SIBs (also called social innovation financing and pay-for-success financing) are receiving greater attention from governments and could increase in frequency and value.
- **When:** The Board added the pre-agenda research in December 2016

Topics to Be Considered

- Do SIBs meet the definition of a liability that should be recognized in the financial statements?
- Are SIBs commitments that should be disclosed in the notes to the financial statements? If so, what criteria should be applied to determine when recognition as a liability should occur?
- What information do financial statement users need regarding these transactions, their payment provisions, and the likelihood that a government will have to make payment?

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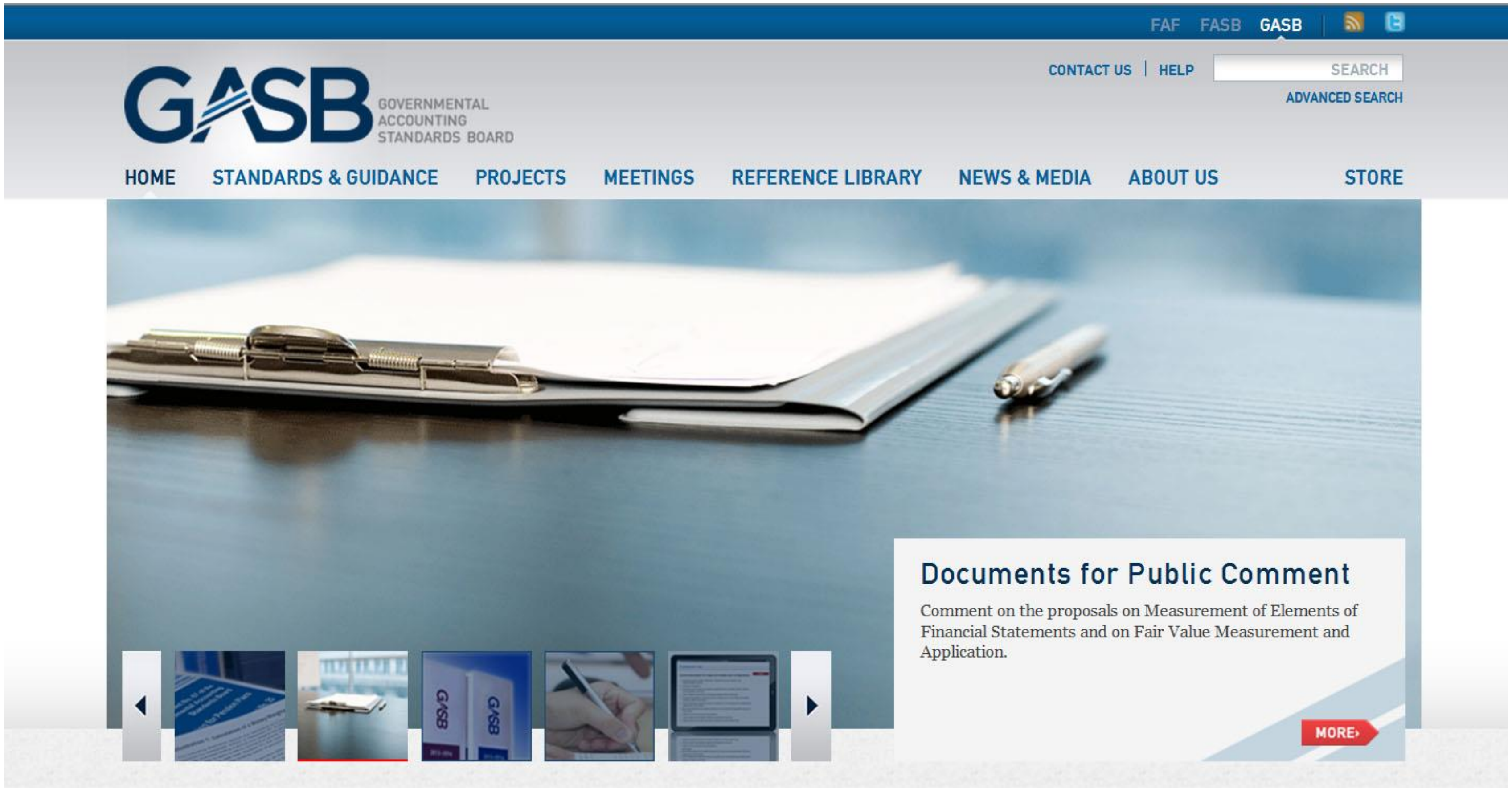

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Website Resources

- Free download of Statements, Interpretations, Concepts Statements and other pronouncements
- Free access to the basic view of the Codification
- 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
- Resources for financial statement users

Plain-Language Materials

- The GASB is committed to communicating in plain language with constituents about its standards and standards-setting activities.
- Plain-language articles accompany major proposals and final pronouncements
- Fact Sheets are prepared for complex projects to answer commonly raised questions
  - Series of 8 fact sheets on Statements 67 & 68 on pensions
- Series of 7 brief videos developed regarding the Invitation to Comment on governmental fund financial statements

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