GASB Update

National Association of State Comptrollers

The views expressed in this presentation are those of Mr. Bean. Official positions of the GASB are reached only after extensive due process and deliberations.
# Effective Dates—June 30

<table>
<thead>
<tr>
<th>Year</th>
<th>Statements and Guides</th>
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</table>
| 2020 | • Statement 84—Fiduciary Activities  
      • Statement 90—Majority Equity Interests  
      • Implementation Guide 2019-1  
      • Implementation Guide 2019-2 |
| 2021 | • Statement 87—Leases  
      • Statement 89—Interest Cost Incurred before the End of a Construction Period  
      • Statement 92—Omnibus 2020  
      • Implementation Guide 2019-3 |
| 2022 | • Statement 91—Conduit Debt |
Recent Events

Outside the Standards-Setting Arena
Recent Events

- New chairman—Joel Black
- Status of Board member appointment
  - State Auditor background
- Post-implementation review
  - Who conducts the review
  - Oversight
Project Updates

Big Three
Financial Reporting Model

Exposure Draft—June 2020
Management Discussion and Analysis

- MD&A should be developed for a broad set of users
- Guidance will emphasize the level of thoroughness of the analysis
- Analysis will be presented in a manner that avoids unnecessary duplication
- Analysis of the budget will be presented as notes to budgetary comparison information
- Information about infrastructure assets accounted for using the modified approach will no longer be required
Currently Known Facts, Decisions, or Conditions

- Trends in economic data, including population growth, customer base, and unemployment rates
- Details of the subsequent year’s adopted or approved budget, including
  - Change in total amount available for appropriation with reference narratively to the types of revenues (taxes and fees) and changes in rates and bases;
  - Changes in planned spending with reference to sources such as inflation, labor contracts with unions, adjustments, and whether new programs were added; and
  - Expected changes in fund balance
- Information related to actions the government has taken related to postemployment benefit plans, capital improvement plans, and long-term debt
- Information related to actions other parties have taken that affect the government, such as legislative changes, litigation, and new regulations or standards imposed on the government.
Measurement Focus and Basis of Accounting

- Measurement Focus—Short-term financial resources
- Basis of Accounting—Accrual
Short-term Financial Resources

- Short-term transactions or other events and long-term transactions or other events should be established by the specific applicable terms of the transaction or other event or estimated payments when there are no terms.
  - The recognition period should be one year.

- Short-term transactions or other events should be recognized when incurred

- Long-term transactions or other events should be recognized when due—the date at which payment is scheduled or, if not scheduled, expected to be made in accordance with the recognition terms
Long-term Items and Exceptions

- Effective hedging derivative instruments are long-term transactions.
- Accrued interest related to a long-term transaction also is a long-term transaction.
- An exception from the recognition concepts of the short-term financial resources measurement focus for long-term debt issued for short-term purposes.
  - Grant anticipation notes
Accrual Basis of Accounting

- “Applicability of the reporting period” for transactions and events should be determined by applying an accrual basis of accounting to the fundamental transaction (applying interperiod equity in the context of the short-term financial resources measurement focus).
  - Would result in the deferral of items such as upfront payments for tobacco settlements and service concession arrangements.
Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

- Operating
  - Activities other than nonoperating activities

- Nonoperating
  - Subsidies received and provided
  - Revenues and expenses of financing
  - Resources from the disposal of capital assets and inventory
  - Investment income and expenses
Budgetary Reporting

- Required supplementary information should be the single communication method for budgetary comparison information.

- Variances required between
  - Final budget and actual amounts and
  - Original budget and final budget amounts
Revenue and Expense Recognition

Preliminary Views
Scope (exclusions)

- Broadly, revenues and expenses that are not explicitly excluded below

- Financial instruments
  - Investments
  - Derivative instruments
  - Long-term debt

- Capital assets and inventory
  - Purchase, sale, or impairment
  - Capitalization and depreciation
  - Inventory valuation

- Post Employment
  - Pensions
  - OPEB
  - Other: compensated absences
What is a Revenue and Expense Recognition Model?

Categorization
Identify the type of transaction

Recognition
Determine what element should be reported and when

Measurement
Determining the amount to report
Categorization Component

Is there a binding arrangement?
- Rebuttable presumption of enforceability
- Economic substance
  
  Yes
  
  Is there mutual assent of the parties of capacity?
  
  Yes
  
  Can each party identify substantive rights and obligations?
  
  Yes
  
  Are each set of rights and obligations dependent on the existence of each other, such that there is recourse for failure of either party?
  
  Yes
  
  Category A Transactions
  
  Increase in net assets Category A Revenue Recognition
  
  Decrease in net assets Category A Expense Recognition

  No
  
  Out of scope of the project

  No
  
  No
  
  No
  
  Yes
  
  Category B Transactions
  
  Increase in net assets Category B Revenue Recognition
  
  Decrease in net assets Category B Expense Recognition

  No
  
  No
  
  No
  
  Yes

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Recognition Principles—Expense

Step 1: There is a decrease in net assets

Step 2: Is the decrease in net asset a related asset?
  - Yes: Recognize the asset
  - No: Step 3

Step 3: Is the decrease in net assets applicable to a future period?
  - Yes: Recognize a deferred inflow of resources
  - No: Recognize expense

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Measurement

- Principle—Measure the liquid flow of resources

- Transaction amount
  - Variable consideration
  - Financing components
  - Nonmonetary consideration
Conceptual Framework—Disclosure Framework

Exposure Draft
Purpose of Notes

- Note disclosures is to provide information that:
  - Explains,
  - Describes, or
  - Supplements the financial statements, and

- Is essential to users in making economic, social, and political decisions and assessing accountability.
Users of Notes

- Responsible for:
  - Obtaining a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting,
  - Studying the information with reasonable diligence, and
  - Applying relevant analytical skills.
Information that has one of the following characteristics is essential:

• Characteristic A: Evidence that the information, regardless of its source, *currently* is being utilized in users’ analyses for decision making or assessing accountability.

• Characteristic B: Evidence that if the information becomes available, users would modify their analyses for decision making or assessing accountability to incorporate that information.
Certain Component Unit Criteria
Exposure Draft
Fiduciary Component Units

- Intended to clarify other Implications of Statement 14, as amended
  
  • Financial accountability applicability (Q4.4-Q4.6)
    o No board equivalent to appointment of a majority of board if government performs the duties that the Board normally would (Q4.5)
  
  • Implication of being legally obligated or otherwise assuming the obligation to make contributions to a pension or OPEB plan (Q4.7)
When Is There a Component Unit?

Legally separate? Yes
No

Voting majority? Yes
No

Financial benefit/burden or imposition of will? Yes
No

Component Unit

Fiscal dependency and financial benefit/burden? Yes
Not a component unit

Component Unit
Timetable

- Issues raised during liaison meetings—October and November
- Stakeholder outreach—December and January
- Board decision to add project—January 27
- Project timetable
  - February Board Meeting—PreBallot of Exposure Draft
  - March Board Meeting—Ballot of Exposure Draft
  - March 9—Exposure Draft for Comment
  - April 10—Comment Deadline
  - May Board Meeting—Consider Comments and PreBallot of Final Statement
  - June Board Meeting—Ballot of Final Statement
Proposals

- Bring “the primary government is performing the duties that a governing board would” guidance into Level A literature

- Exclude defined contribution pension and OPEB plans administered through trusts that meet the criteria and other employee benefit plans that otherwise would be defined contribution pension plans but to which only employees contribute from the provision—immediately

- Exclude those plans from financial burden modification introduced in Statement 84 (employer contributions)—immediately
Replacement of Interbank Offered Rate (IBOR)

Secured Overnight Financing Rate (SOFR)
Qualified Amendments and Replacements

- The hedging derivative instrument is amended or replaced to change the reference rate of the hedging derivative instrument’s variable payment or to add or change fallback provisions related to the reference rate.

- If the reference rate of the amended or replacement hedging derivative instrument’s variable payment is multiplied by a coefficient or adjusted by adding a constant, the coefficient or constant is limited to what is necessary to essentially equate the replacement rate and the original rate.

- If the replacement of the reference rate is effectuated by ending the original hedging derivative instrument and entering into a replacement hedging derivative instrument, those transactions occur on the same date.

- The terms that affect changes in fair values and cash flows in the original and replacement hedging derivative instruments are identical, except for the term changes that may be necessary for the replacement of the reference rate.
Allowable Term Changes

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

- Two-step transitions to SOFR when
  - Reference rate of the original hedging derivative instrument's variable payment is a reference rate that replaced an IBOR-based rate in the previous amendment or replacement and
  - All of the criteria presented on Slide 32 are met.

- Encompass the circumstance in which a government needs to make or receive an up-front payment, in addition to adjusting the replacement rate by a coefficient or a constant, in order for the replacement and original rates to essentially equate.
Subscription-Based Information Technology Arrangements
An SBITA would be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

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

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

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<th>Timetable</th>
<th>Description</th>
<th>Comment Deadline</th>
<th>Final Date</th>
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<tbody>
<tr>
<td>Subscription-Based IT Arrangements</td>
<td>Exposure Draft—May 2019</td>
<td>was August 23</td>
<td>Final—May</td>
</tr>
<tr>
<td>Public-Private Partnerships</td>
<td>Exposure Draft—June 2019</td>
<td>was September 13</td>
<td>Final—March</td>
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<tr>
<td>Certain Component Unit Criteria/Deferred Compensation Plans</td>
<td>Exposure Draft—March 2020</td>
<td>was April 10</td>
<td>Final—June</td>
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<tr>
<td>Secured Overnight Financing Rate</td>
<td>Exposure Draft—September 2019</td>
<td>was November 27</td>
<td>Final—March</td>
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<tr>
<td>Implementation Guide</td>
<td>Exposure Draft—November 2019</td>
<td>was January 31</td>
<td>Final—April</td>
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<tr>
<td>Compensated Absences</td>
<td>Exposure Draft—March 2021</td>
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<tr>
<td>Prior Period Adjustments, Accounting Changes, and Error Corrections</td>
<td>Exposure Draft—March 2021</td>
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Questions

Website information: www.gasb.org