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

MODERATOR
R. Kinney Poynter
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NASACT

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Lisa Parker
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SPEAKER
Scott Reeser
Senior Project Manager
GASB
Presentation Overview

- Asset Retirement Obligations
- Debt Disclosures
- Capitalization of Interest
- Majority Equity Interests
- Conduit Debt
- Fiduciary Activities
- Leases
- Current Projects Overview
- Questions and Wrap-up
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 periods 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)

**Examples**
- Nuclear power plant decommissioning
- Coal ash pond closure
- Contractually required land restoration, such as removal of wind turbines
- Other similar obligations
## Recognition & Measurement

<table>
<thead>
<tr>
<th>Initial Recognition</th>
<th>ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events.</th>
<th>Deferred outflow of resources—same amount as the ARO liability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Measured based on the best estimate of the current value of outlays expected to be incurred.</td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

Initial and Subsequent Measurement Exception

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

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

Specific disclosure requirements in this circumstance
Effects of Funding and Assurance

- If legally required to provide funding and assurance, disclose that fact.
- Do not offset ARO with assets restricted for payment of the ARO.
- Costs to comply with funding and assurance provisions are period costs separate from the ARO expense.
Disclosures

- General description of ARO and associated tangible capital assets, including source of AROs (such as federal laws or regulations, contracts, court judgments)
- Methods and assumptions used to measure ARO liabilities
- Estimated remaining useful life of tangible capital assets
- How financial assurance requirements, if any, are being met
- Amount of assets restricted for payment of ARO liabilities, if not separately displayed in financial statements
- If a government has an ARO (or portions of an ARO) that is incurred but not yet recognized because it cannot be reasonably estimated, that fact and the reasons therefor
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 for periods beginning after June 15, 2018
Earlier application is encouraged
“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.

<table>
<thead>
<tr>
<th>New Disclosures about All Types of Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of unused lines of credit</td>
</tr>
<tr>
<td>Assets pledged as collateral for debt</td>
</tr>
<tr>
<td>Terms specified in debt agreements related to significant:</td>
</tr>
<tr>
<td>• Events of default with finance-related consequences</td>
</tr>
<tr>
<td>• Termination events with finance-related consequences</td>
</tr>
<tr>
<td>• Subjective acceleration clauses</td>
</tr>
</tbody>
</table>
Accounting for Interest Cost Incurred before the End of a Construction Period

Statement No. 89
What?
The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting.

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

When?
Effective for periods beginning after December 15, 2019. Earlier application is encouraged.
Recognizing Interest Cost

Financial statements prepared using the economic resources measurement focus:

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

Financial statements prepared using the current financial resources measurement focus:

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

Prospective application at transition
Accounting and Financial Reporting for Majority Equity Interests

Statement No. 90
Majority Equity Interests

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

**Why?**
Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance.

**When?**
Effective for periods beginning after December 15, 2018. Earlier application is encouraged.
| **Does the Majority Equity Interest Meet the Definition of an Investment?** |
|-----------------------------|-----------------------------|
| **YES**                     | **NO**                      |
| Report as an investment     | Report as a component unit  |
| Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205–209 | Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205–209 |
| *Exception:* the following should apply fair value in accordance with Statement 72, paragraph 64: • Special-purpose governments engaged only in fiduciary activities • Fiduciary funds • Endowments (including permanent and term endowments) and permanent funds | |
| Applied prospectively only  |                             |
100% Equity Interest That *Does Not* Meet the Definition of an Investment

- If a government acquires a 100% equity interest in a legally-separate entity that *does not* meet the definition of an investment,
- Component unit should remeasure assets, liabilities, and deferrals by applying acquisition value as described in Statement 69,
- Government holding the 100% equity interest would recognize an asset and measure by using acquisition value.

These provisions would be applied prospectively only.
Conduit Debt Obligations

Statement No. 91
Conduit Debt

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

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

When?
Definition of Conduit Debt

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

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

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

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

- **Do not** recognize a conduit debt obligation as a liability

- May have a related liability arising out of an additional or voluntary commitment

- **Additional commitment:** report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation

- **Voluntary commitment:** if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments

- Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding
Arrangements and Capital Assets

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

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

*Often characterized as “leases”
Arrangements and Capital Assets (continued)

Accounting by the issuer:

- Do not report those arrangements as leases
- Do not recognize a liability for the related conduit debt obligations
- Do not recognize a receivable for the payments related to those arrangements
- If the arrangement meets the definition of a service concession arrangement, follow Statement 60
### Arrangements and Capital Assets (continued)

<table>
<thead>
<tr>
<th>Does title pass to third-party obligor at end of arrangement?</th>
<th>Does the issuer recognize a capital asset?</th>
<th>Does the issuer recognize a deferred inflow of resources?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>No, and third party has exclusive use of <em>entire</em> capital asset</td>
<td>Yes, when the arrangement ends</td>
<td>No</td>
</tr>
<tr>
<td>No, and third party has exclusive use of only <em>portions</em> of the capital asset</td>
<td>Yes, at the inception of the arrangement</td>
<td>Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement</td>
</tr>
</tbody>
</table>
Disclosures by Type of Commitment

A general description of the issuer’s conduit debt obligations

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

If the issuer recognizes a related liability

• Description of timing of recognition and measurement of the liability
• Beginning balances, increases, decreases, ending balances
• Cumulative payments that have been made
• Amounts expected to be recovered, if any, for those payments
Statement 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; BTAs are uncertain about how to report fiduciary activities.

**When?**
Effective for periods 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:

1. Are the assets held by a component unit?
   - Yes
   - No

2. Are the assets held for a pension or OPEB arrangement?
   - Yes
   - No

3. Yes
   - 1
   - 2

4. No
   - Yes
   - No
   - 3
   - 4
Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if…

They are one of the following arrangements:

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

They have one or more of the following characteristics:

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

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

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

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

- Arrangement is one of those in 1 AND
- The government **controls** the assets of the arrangement
  - Control means one or both of the following is true:
    - Government *holds* the assets
    - Government has ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries
All Other Activities Are Fiduciary if...

Arrangement meets one or more of the criteria in

2

and

The government controls the assets

and

Those assets are not derived either:

- Solely from the government’s own-source revenues, or
- From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement
# Fiduciary Fund Classes

<table>
<thead>
<tr>
<th>Pension and other employee benefit trust fund</th>
<th>Investment trust fund</th>
<th>Private-purpose trust fund</th>
<th>Custodial fund</th>
</tr>
</thead>
</table>

Trust agreement or equivalent arrangement should be present
Stand-Alone Business-Type Activities

A stand alone BTA’s fiduciary activities should be reported in separate fiduciary fund financial statements.

Exception: Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows.
Implementation Guide 2019-2

**What?**
GASB has published an Implementation Guide to Statement 84 on fiduciary activities

**Why?**
Guidance is needed by preparers and auditors for the implementation of Statement 84

**When?**
Available now to download free on the GASB website
Earlier application is encouraged.
Statement 84 Guide

52 questions and answers, including:

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

Revisions to 3 existing questions and answers
Leases

Statement No. 87
Leases

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

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

**When?**
Effective for periods beginning after December 15, 2019
Earlier application is encouraged
Scope and Approach

- Statement 87 applies to any contract that meets the definition of a lease:
  
  "A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction."

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

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

- Capital/operating distinction is eliminated
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 generating facility)
Lease Term

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

<table>
<thead>
<tr>
<th>Lessee</th>
<th>Lessor</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td>Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>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</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Lease receivable (generally includes same items as lessee’s liability)</td>
<td>NA</td>
<td>Equal to lease receivable plus any cash received up front that relates to a future period</td>
</tr>
<tr>
<td></td>
<td>• Continue to report the leased asset</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Subsequent Reporting

<table>
<thead>
<tr>
<th>Lessee</th>
<th>Lessor</th>
<th>Liability</th>
<th>Deferred Inflow</th>
</tr>
</thead>
</table>
| Amortize the intangible lease asset over shorter of useful life or lease term | • 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) | Reduce by lease payments (less amount for interest expense) | NA |
| | | Recognize revenue over the lease term in a systematic and rational manner | NA |
### Short-Term Leases

<table>
<thead>
<tr>
<th>Definition</th>
<th>At beginning of lease, <em>maximum possible term</em> under the contract is 12 months or less</th>
</tr>
</thead>
</table>
| Lessee accounting | • Recognize expenses/expenditures based on the terms of the contract  
• Do not recognize assets or liabilities associated with the right to use the underlying asset |
| Lessor accounting | • Recognize lease payments as revenue based on the payment provisions of the contract  
• Do not recognize receivables or deferred inflows |
Other Topics Covered by Statement 87

- Disclosures
- Lease term
- Contracts with multiple components
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks
Implementation Ideas

- Implement internal controls to identify leases and lease modifications
- Update accounting systems for new information needs
- Consider impact on capitalization policy
- Consider effects of reporting lease liabilities on—
  - Debt limitations
  - Bond covenants
  - Grant agreements
Leases Implementation Guide

- Exposure Draft issued February 2019
- Proposed 80 questions and 3 illustrations
- 31 comment letters received, including NASACT and several individual states
- Redeliberations in progress
- Final guide expected mid-August 2019
- Additional questions to be considered for future Implementation Guide updates
Current Projects: Overview
# Major and Practice Issue Projects

<table>
<thead>
<tr>
<th>Timetable</th>
<th>Subscription-Based IT Arrangements</th>
<th>Exposure Draft—May 2019</th>
<th>Comment Deadline—August 23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription-Based IT Arrangements</td>
<td>Exposure Draft—June 2019</td>
<td>Comment Deadline—September 13</td>
<td></td>
</tr>
<tr>
<td>Deferred Compensation Plans</td>
<td>Exposure Draft—June 2019</td>
<td>Comment Deadline—September 27</td>
<td></td>
</tr>
<tr>
<td>Omnibus</td>
<td>Exposure Draft—June 2019</td>
<td>Comment Deadline—October 4</td>
<td></td>
</tr>
<tr>
<td>Secured Overnight Financing Rate</td>
<td>Exposure Draft—August 2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Big Three

<table>
<thead>
<tr>
<th>Timetable</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Reporting Model</td>
<td>Exposure Draft—June 2020</td>
</tr>
<tr>
<td>Revenue and Expense Recognition</td>
<td>Preliminary Views—May 2020</td>
</tr>
<tr>
<td>Note Disclosures</td>
<td>Concepts Due Process Document—February 2020</td>
</tr>
</tbody>
</table>
Financial Reporting Model—Reexamination of Statement 34
Operating Versus Nonoperating
Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

Operating
- Activities other than nonoperating activities

Nonoperating
- Subsidies received and provided, including capital
- Revenues and expenses of financing
- Resources from the disposal of capital assets and inventory
- Investment income and expenses
Budgetary Comparisons
Proposal: Budgetary Comparisons

Would be presented as required supplementary information (no option for basic statements)

Required variances would be final-budget-to-actual and original-budget-to-final-budget
Management’s Discussion and Analysis (MD&A)
MD&A—Basic Proposals

<table>
<thead>
<tr>
<th>Proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Analysis should be presented in a manner that avoids unnecessary duplication</td>
</tr>
<tr>
<td>• If an explanation is provided for a government-wide financial statement change, it should not be repeated in the fund statement analysis.</td>
</tr>
<tr>
<td>• Discussion of significant variations between the original and final budget amounts and between the final budget amounts and actual results for the general fund should be located as notes to budgetary comparison information, which is proposed to be presented as required supplementary information.</td>
</tr>
</tbody>
</table>
## MD&A—Currently Know Facts, Decisions, or Conditions

<table>
<thead>
<tr>
<th>Proposals—Examples Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Economic data, including population changes and unemployment rates</td>
</tr>
<tr>
<td>• Details of the subsequent year’s adopted or approved budget, including:</td>
</tr>
<tr>
<td>• Change in total amount available for appropriation with reference narratively to the types of revenues (taxes and fees) and changes in rates and bases</td>
</tr>
<tr>
<td>• Changes in planned spending with reference to sources such as labor contracts and whether new programs were added</td>
</tr>
<tr>
<td>• Information related to actions the government has taken after the reporting period related to postemployment benefit plans, capital improvement plans, and long-term debt</td>
</tr>
<tr>
<td>• Information related to actions other parties have taken after the reporting period that affect the government, such as legislative changes, litigation, and new regulations or standards imposed on the government</td>
</tr>
</tbody>
</table>
PV Versus AV
Future Direction For This Project

[Image of a road sign saying "WHAT'S NEXT?"]
Revenue and Expense Recognition
The AB Model—Conceptual

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

- **Category B**
  - Either an acquisition or a sacrifice
  - Single-flows
  - Either rights or obligations
The AB Model—Operational

Out of scope of the project

Identify valid arrangement

Yes

Assess mutual assent of the parties

No

Identify rights and obligations

Yes

Rights and obligations dependent of each other?

No

Category B Transactions

Yes

Category A Transactions
Conceptual Framework—Disclosure Framework
Topics Being Considered

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

- 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.

- Evidence supporting the determination of the characteristic of essentiality should be applied to individual pieces of information such that individual disclosures required by a final GASB pronouncement have characteristic A or characteristic B.
Questions?

Visit www.gasb.org