

# California Society of Municipal Finance Officers

## GASB Update—Waiting in the Wings

*The views expressed in this presentation are those of Mr. Bean. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.*

# Technical Agenda—What Should Be On Your Radar

- **Current Agenda**
  - Major projects
    - Leases
    - Reporting model (reexamination)
    - Revenue and expense recognition
  - Practice issues
    - Debt disclosures
    - Equity interest ownership issues
    - OPEB employer implementation guide
- **Research Agenda**
  - Going concern
  - Note disclosures (reexamination)

# Leases: Exposure Draft

---

# What Is The Basic Approach Used for Leases?

- Single model
  - No classification of leases into operating/capital or other categories
  - Underlying assumption that leases are financings
  - Exceptions: short-term leases and those that transfer ownership

# How Should Leases Be Initially Reported?

	Assets	Liability	Deferred Inflow
<b>Lessee</b>	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
<b>Lessor</b>	<ul style="list-style-type: none"> <li>• Lease receivable (generally including same items as lessee liability)</li> <li>• Continue to report leased asset</li> </ul>	NA	Equal to lease receivable plus any cash received up front that relates to a future period

# How Should Leases Be Subsequently Reported?

	Assets	Liability	Deferred Inflow
Lessee	Amortize over shorter of useful life or lease term	Reduce by lease payments (less amount of interest expense)	NA
Lessor	<ul style="list-style-type: none"> <li>• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)</li> <li>• Reduce receivable by lease payments (less payment needed to cover accrued interest)</li> </ul>	NA	Recognize revenue over the lease term on a systematic and rational basis

# What Are Short-Term Leases and How Should They Be Reported?

- 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
  - Disclose short-term leases expense/expenditure recognized during the reporting period
- Lessors recognize lease payments as revenue based on the terms of the contract
  - Do not recognize receivables or deferred inflows associated with the lease



# What Is the Project Timeline?

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



# Big Three

# Financial Reporting Model— Reexamination of Statement 34

---

# Why Is The GASB Reexamining the Financial Reporting Model?

- The GASB is committed not only to establishing standards but also to ensuring that they continue to be effective
- GASB Statement 34 was issued in June 1999
- Most of the requirements of Statement 34 became effective in 2002 for State governments
- Governmental funds basically left untouched
- Bottom line—is the model achieving its objectives

# What Is the Focus of the Initial Deliberations?

- First Due Process Document—December 2016
  - Governmental funds—what should they convey
  - Role of cash flows statements in governmental funds



# What Approaches Are Currently Being Considered?

- Near-term financial resources
- Short-term financial resources
- Long-term financial resources



# What Is the Near-Term Financial Resources Focus?

- Similar to current financial resources, but more conceptually based
- Near term generally viewed as a 60-90 day period after the date of the financial statements
  - Assets—normally receivable at the period end and due to be converted to cash with the near term (or available to be converted to cash)
  - Liabilities—normally payable at period end and due within the near term
- Challenges
  - Anticipation notes
  - Interest on debt



# What Are the Primary Benefits and Challenges of the Near-Term Financial Resources Approach?

## ■ Benefits

- Increased consistency and comparability of governmental fund financial statements
- Convey amounts available for spending
- A cash flow statement for governmental funds may not be necessary with this approach

## ■ Challenges

- Required principal payments on long-term debt are recognized as a liability only on the date that it is due
- Changes in current practice
  - Accrued interest on that same liabilities is recognized as a liability as incurred.
  - Short-term operational borrowings, such as tax anticipation notes, would be reported as inflows of resources, rather than as liabilities
- Near-term fund balances may be overstated as the result of certain budgetary actions (for example, failure to make pension contributions)



# What Is the Short-Term Financial Resources Focus?

- Focus is on the subsequent one-year operating cycle
  - Assets—normally receivable at period end and due to be converted to cash in the subsequent operating cycle and prepaid items and inventory that will be consumed in that cycle
  - Liabilities—normally payable at year end and due or expected to be paid with the subsequent operating cycle



# What Are the Primary Benefits and Challenges of the Short-Term Financial Resources Approach?

## ■ Benefits

- Conceptual consistent because all of the obligations that are payable and due in the subsequent operating cycle, along with the existing resources that are available in the same period to satisfy these obligations are recognized
- Better basis for assessing interperiod equity than the current model
- May better reflect the impact of certain budgetary actions (for example, failure to make pension contributions)

## ■ Challenges

- Additional efforts related to preparing and auditing balances for amounts expected to be paid in the subsequent operating cycle for non-structured liabilities (for example, postemployment liabilities)
- Governmental fund statements of cash flows would be considered essential to the financial reporting model

# What is the Long-Term Financial Resources Focus?

- Focus is on all assets and liabilities except capital assets and capital-related debt



# What Are the Primary Benefits and Challenges of the Long-Term Financial Resources Approach?

## ■ Benefits

- Conceptually consistent recognition principles for financial resources to be reported in governmental fund financial statements by recognizing all transactions related to financial resources.
- May better reflect the impact of certain budgetary actions (for example, failure to make pension contributions)
- May simplify the financial reporting model because there would be few differences from the measurement approach used for the government-wide financial statements

## ■ Challenges

- Governmental funds would no longer present a shorter-term view of the financial position and resource flows
- Additional efforts related to preparing and auditing assignments of long-term liabilities to the funds
- Governmental fund statements of cash flows would be considered essential to the financial reporting model

# 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	Financial resources (noncapital assets and liabilities) 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)



# What Would the Approaches Report?

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

# What Would the Approaches Report?

	Near-Term	Short-Term	Long-Term
Inflows and outflows of resources	<p>Inflows—newly acquired financial resources that do not result in corresponding liabilities and are available for spending.</p> <p>Outflows—spending for the period; principal payments on matured debt and other-than-near-term obligations.</p>	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

# Public Hearings and User Forums

Public Hearings	User Forums
April 28, 2017 in Atlanta, GA	April 27, 2017 in New York, NY
May 3, 2017 in Dallas, TX	May 12, 2017 in San Francisco, CA
May 11, 2017 in San Francisco, CA	May 18, 2017 in Washington, DC
May 21, 2017 in Denver, CO (GFOA)	
May 24, 2017 in Norwalk, CT	

## Additional Information about the Proposals

- Series of brief videos are available on the GASB website

# What Would the Approaches Report?

	Near-Term	Short-Term	Long-Term
Inflows and outflows of resources	<p>Inflows—newly acquired financial resources that do not result in corresponding liabilities and are available for spending.</p> <p>Outflows—spending for the period; principal payments on matured debt and other-than-near-term obligations.</p>	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

# What Is the Project Timetable?

Pre-Agenda Research Starts	August 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Expected	December 2016
Preliminary Views Expected	July 2018
Exposure Draft Expected	April 2020
Final Statement Expected	November 2021

# What Recognition Approach Do You Support?

- A—Near-term financial resources
- B—Short-term financial resources
- C—Long-term financial resources
- D—A combination of the approaches
- E—None of the above

# Revenue and Expense Recognition

---

# Why Is GASB Addressing Revenue and Expense Recognition?

- Exchange revenue standards were incorporated from FASB literature “as is”
  - Not reviewed to consider their appropriateness for governments
  - Not comprehensive
- The FASB has introduced new revenue recognition standards
- Exchange expenses have not been addressed from an overall standpoint
- Non-exchange revenue and expense standards were recently subjected to a post-implementation review



# What Alternatives Are Being Assessed?

- New performance obligation versus no performance obligation model
- Traditional exchange versus nonexchange model

# What Is the Project Timetable?

Pre-Agenda Research Starts	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Expected	January 2018
Preliminary Views Expected	October 2019
Exposure Draft Expected	April 2021
Final Statement Expected	June 2022

# Note Disclosures

---

# Why Is the GASB Researching Note Disclosure Issues?

- A comprehensive review of note disclosures has not been conducted since Statement 38 was issued
  - Board now has Concepts Statement No. 3, *Communications Methods*, in its toolbox
- Concern has been expressed by some preparers and auditors regarding disclosure overload
- Concern has been expressed by some financial statement users that certain disclosure requirements have not kept pace with the ever-changing environment

# What Is the Research Timetable?

- Research should be complete by November 2018
- Potential project could be considered by the Board in December 2018

# Going Concern

---

# Why Is the GASB Researching Going Concern Issues?

- Current going concern guidance picked up generally “as is” from the auditing literature in Statement 56
- Governments generally do not go out of business
- Need early warning system (severe financial stress) before an entity is not considered to be a going concern has been identified, but solutions remain elusive



# What Is the Research Timetable?

- Research is expected to be completed by November 2017
- If there are viable paths forward the Board may consider adding a project to its current technical agenda in December 2017

# Questions?

- Visit [www.gasb.org](http://www.gasb.org)