

GASB Update

California Society of Municipal Finance Officers

GASB Update—The Big Three

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.

What Are the Big Three?

- Financial Reporting Model
 - Recognition Concepts
- Revenue and Expense Recognition
- Disclosure Framework
 - Disclosure Requirements

Preliminary Views: Recognition of Elements of Financial Statements

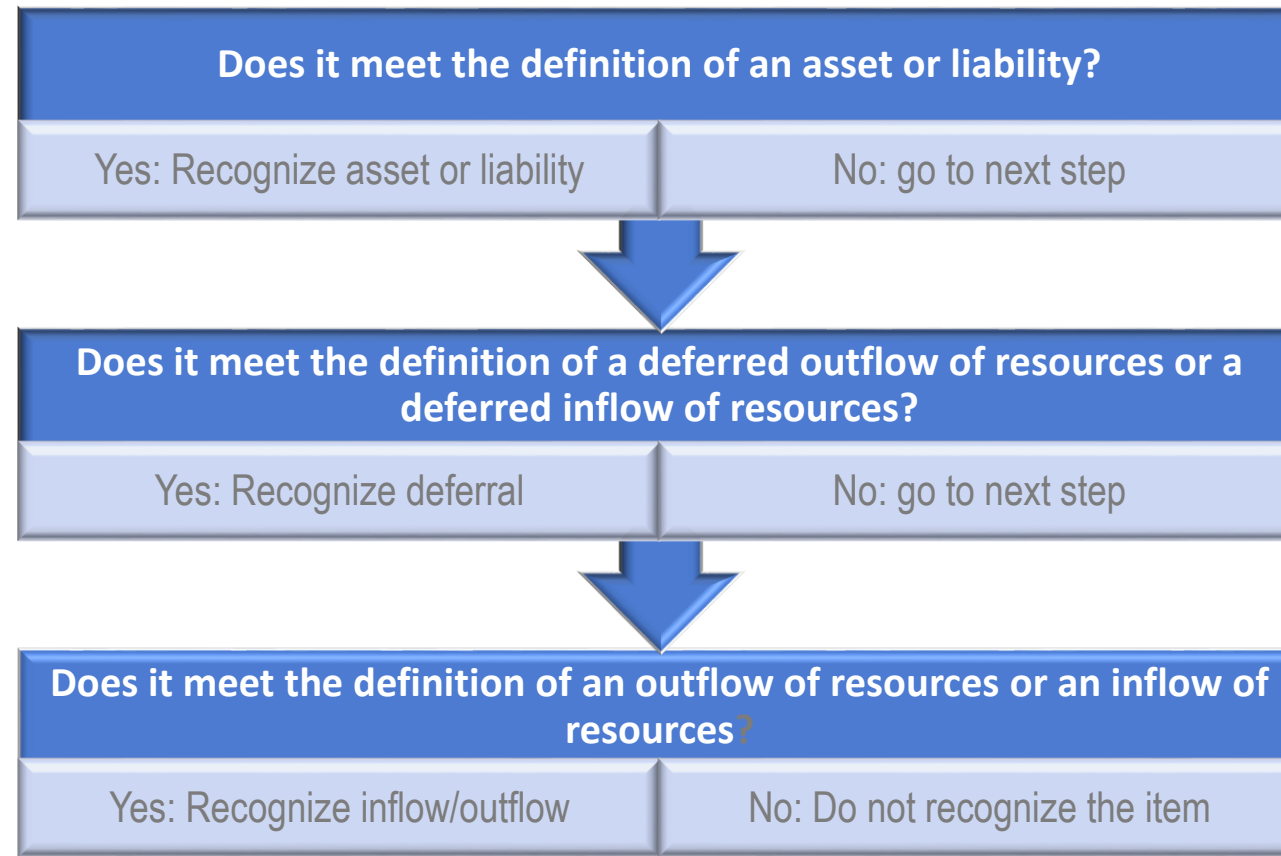
Recognition Concepts

The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

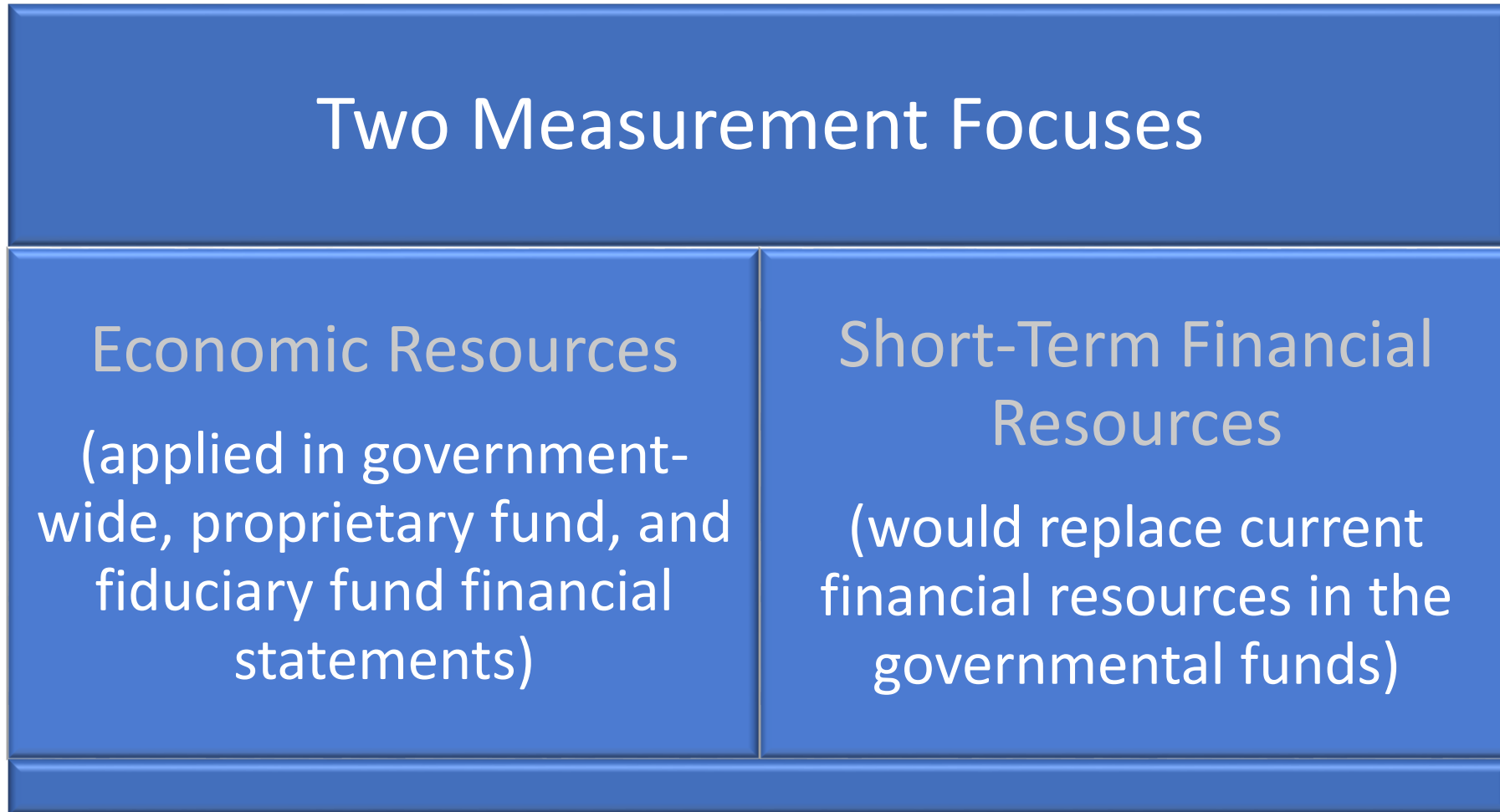
The related **basis of accounting** determines *when* those items should be reported.

Proposal: Recognition Hierarchy

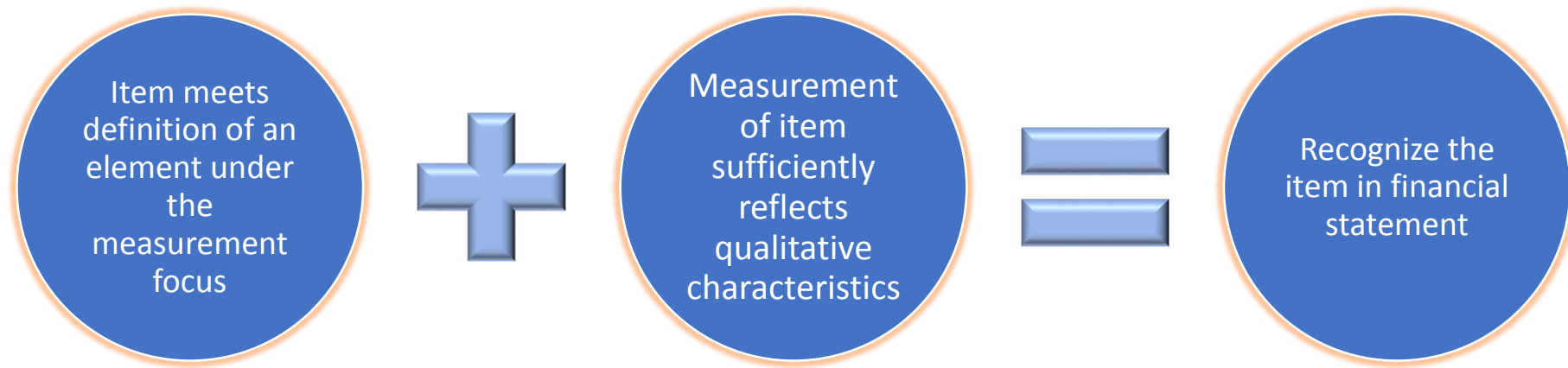
Follow a specific order when evaluating an item for recognition:



Proposal: Recognition Framework



Proposal: Recognition Framework



Preliminary Views: Financial Reporting Model Improvements

Concerns with Existing Reporting of Governmental Funds

Lack of conceptual consistency in recognition of assets and liabilities

Lack of conceptual 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)

- Focuses on financial resources rather than on economic resources
- Shorter time perspective than information in government-wide financial statements

Lack of consistency in short-term perspective

Proposal: Recognition in Governmental Funds

Short-Term Financial Resources Measurement Focus	
Items Arising from Short-Term Transactions and Events	Items Arising from Long-Term Transactions and Events
Those that normally are due to convert to or generate cash (or other financial assets) or require the use of cash (or other financial assets) entirely <i>within one year</i> from the inception of the transaction or other event	Those that normally are due to convert to or require the use of cash (or other financial assets) in periods that <i>extend beyond one year</i> from the inception of the transaction or other event
Recognized when the underlying transaction <i>occurs</i>	Recognized when the payments to be received or made become <i>due</i>

Proposal: Recognition in Governmental Funds

Short-Term Financial Resources Measurement Focus

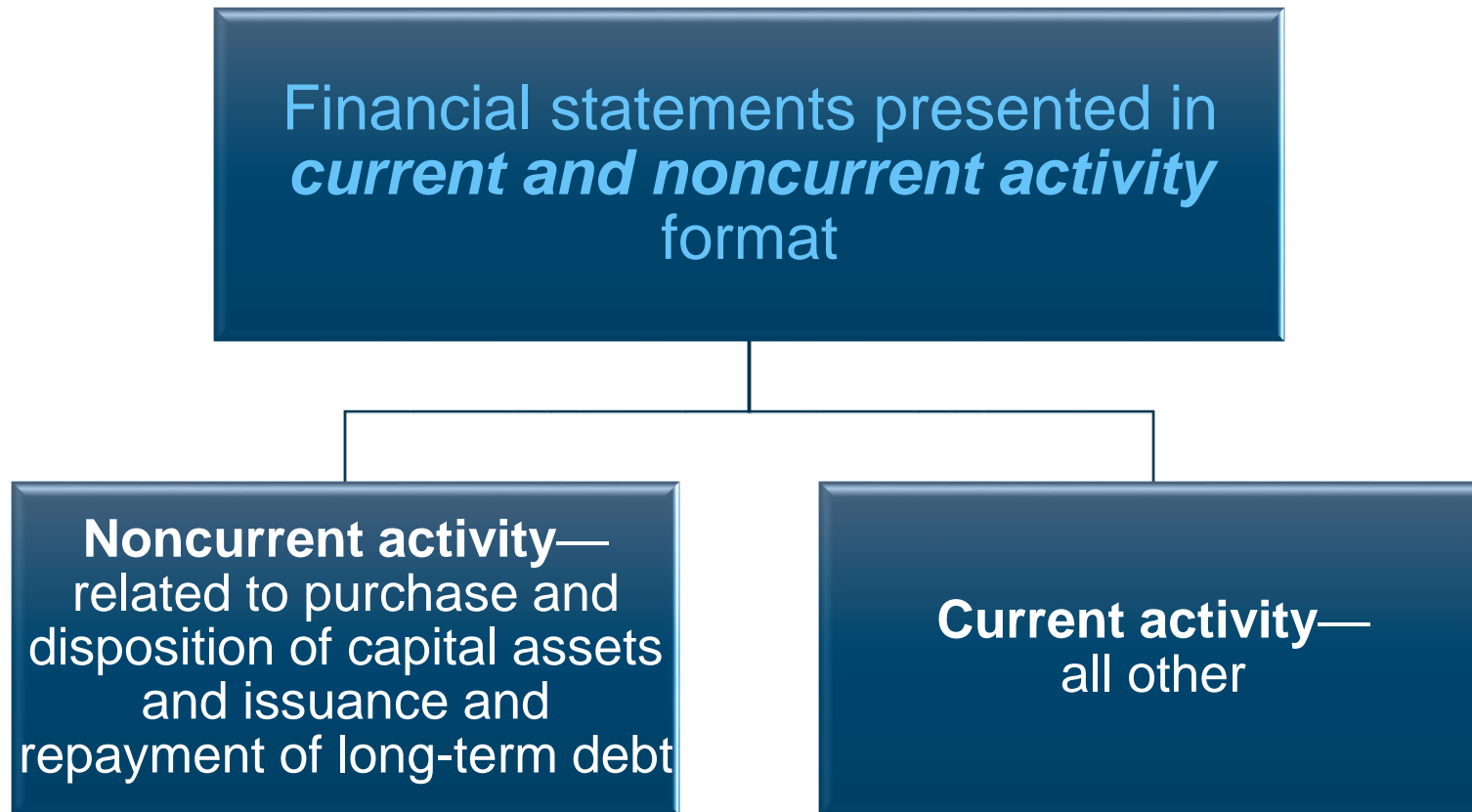
Operationalizing Short-Term Financial Resources Measurement Focus

- Transactions and other events are considered short-term or long-term for a class of transactions or other events, rather than individually for transactions and other events within a class.
- A class of transactions has common attributes that differentiate that class from others. For example, investment of idle cash and issuance of long-term debt are classes of transactions. Each investment purchased or debt issued would not be evaluated individually.
- Consistent with its use in Interpretation 6, *normally* is used in this measurement focus to refer to circumstances of **governments in general**, not the potentially unique circumstances of a single government or type of government.
- Therefore, the concept of *normally* is intended to enhance comparability by requiring governments to recognize assets and liabilities (a) in a manner consistent with other governments and (b) based on substance rather than form.

Alternative View: Recognition in Governmental Funds

Short-Term Financial Resources Measurement Focus
<i>One Year or Less</i>
<ul style="list-style-type: none">• The stated or contractual maturities of financial assets and liabilities• The best estimate of periods of receipt or payment of there is not stated or contractual maturities
<ul style="list-style-type: none">• Recognized when the underlying transaction <i>occurs</i>
<ul style="list-style-type: none">• <i>Exceptions—Capital assets, postemployment retirement benefits, asset retirement obligations</i>
<ul style="list-style-type: none">• <i>AV also would introduce a government-wide cash flows statement</i>

Proposal: Presentation of Governmental Funds



Proposal: Presentation of Governmental Funds—New Terminology

These financial statements would present a short-term view of governmental fund activities and report items of a long-term nature differently from how they are reported in government-wide financial statements

Short-Term Financial Resources Balance Sheet	Statement of Short-Term Financial Resource Flows
Short-term assets	Inflows of short-term financial resources for current activities
Deferred outflows of short-term financial resources	Outflows of short-term financial resources for current activities
Short-term liabilities	Net flows of short-term financial resources for noncurrent activities
Deferred inflows of short-term financial resources	
Short-term financial resources fund balances	

Statement of Short-Term Financial Resource Flows

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,311,156	\$ 2,015,047	\$ 27,648,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Special assessments	-	-	41,500	41,500
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,192,493	20,787,512
Investment earnings	5,829	11,384	119,043	136,256
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	654,482	771,287	5,642,709
Total inflows of short-term financial resources for current activities	106,760,279	5,977,022	19,516,177	132,253,478
OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
General government	14,053,444	6,961,201	2,213,691	23,228,336
Public health and safety	70,880,913	-	590,383	71,471,296
Highway and streets	12,137,714	-	4,715,808	16,853,522
Culture and recreation	3,581,583	335,659	1,808,065	5,725,307
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of short-term financial resources for current activities	101,304,999	7,296,860	13,201,992	121,803,851
Net flows of short-term financial resources for current activities	5,455,280	(1,319,838)	6,314,185	10,449,627
NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES				
Transfers in	-	-	10,651,605	10,651,605
Debt service	(2,434,544)	(366,412)	(9,198,505)	(11,999,461)
Capital outlay	(111,987)	(1,515)	(1,346,497)	(1,459,999)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net flows of short-term financial resources for noncurrent activities	(10,227,406)	(374,372)	(2,314,297)	(12,916,075)
Net change in short-term financial resources fund balances	(4,772,126)	(1,694,210)	3,999,888	(2,466,448)
Short-term financial resources fund balances at beginning of year	9,319,621	9,776,474	27,892,592	46,988,687
Short-term financial resources fund balances at end of year	\$ 4,547,495	\$ 8,082,264	\$ 31,892,480	\$ 44,522,239

Current and Noncurrent Activity Format

Proposals: 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

Proposals: Proprietary Funds

Add a new subtotal for *operating income (loss) and noncapital subsidies*

Subsidies are resources provided by another party or fund for the purpose of keeping the rates lower than otherwise would be necessary for the level of goods and services to be provided

	2016	2015
Operating revenues:		
Tuition and fees (net of discounts)	\$ 574,168	\$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	<u>1,146,343</u>	<u>1,091,377</u>
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	<u>1,681,544</u>	<u>1,596,059</u>
Income (loss) generated by operations	<u>(535,201)</u>	<u>(504,682)</u>
Noncapital subsidies:		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	<u>558,101</u>	<u>530,057</u>
Operating income (loss) and noncapital subsidies	<u>22,900</u>	<u>25,375</u>
Financing and investing activities:		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	<u>221,023</u>	<u>126,314</u>
Income before other items	<u>243,923</u>	<u>151,689</u>
Other items:		
Capital contributions	<u>23,231</u>	<u>74,830</u>
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	<u>\$ 3,328,265</u>	<u>\$ 3,061,111</u>

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

Other Proposals

Major component unit presentations

- If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements

Schedule of government-wide expenses by natural classification would be presented as supplementary information

- Governmental activities expenses by function or program
- Business-type activities expenses by different identifiable activity

Management's Discussion and Analysis—Users

Users of MD&A are the broad types of users discussed in paragraph 63 of Concepts Statement No. 1, *Objectives of Financial Reporting*.

Users of governmental reports tend to have different levels of knowledge and sophistication about governmental accounting and finance. To be publicly accountable, a government should issue financial reports that can be understood by those who may not have a detailed knowledge of accounting principles.

Concepts Statement 3—responsible for obtaining a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting, for studying the messages with reasonable diligence, and for applying relevant analytical skills.

MD&A—Basic Proposals

Proposals

- Analysis should be presented in a manner that avoids unnecessary duplication
- If a explanation is provided for a government-wide financial statement change, it should not be repeated in the fund statement analysis.
- 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.

MD&A—Currently Know Facts, Decisions, or Conditions

Proposals—Examples Provided

- Economic data, including population changes 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 labor contracts and whether new programs were added
- Information related to actions the government has taken after the reporting period related to postemployment benefit plans, capital improvement plans, and long-term debt
- 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

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Issued	September 2018
Comment Deadline	February 15, 2019
Public Hearings	March 5, 2019 (Rosemont, IL) March 12, 2019 (Atlanta, GA) March 14, 2019 (Flushing, NY)
User Forums	March 6, 2019 (Rosemont, IL) March 14, 2019 (Flushing, NY)

Revenue and Expense Recognition

Revenue and Expense Recognition Models

There are three components of a revenue and expense recognition model

Classification is the process of identifying the *type* of transaction (for example, is the transaction exchange or nonexchange?)

Recognition is the process of determining *what* element should be reported and *when* (for example, recognize revenue when earned)

Measurement is the process of determining the *amount* to report for the element (not addressed in the Invitation to Comment)

Exchange/Nonexchange Model

Classification

Is the transaction an exchange?

YES

NO

Recognition

Earnings recognition approach:

- Government controls a resource, ~~or incurs an obligation to~~ sacrifice a resource, **and**
- The change in net assets is not applicable to a future period

Provisions of Statement 33:

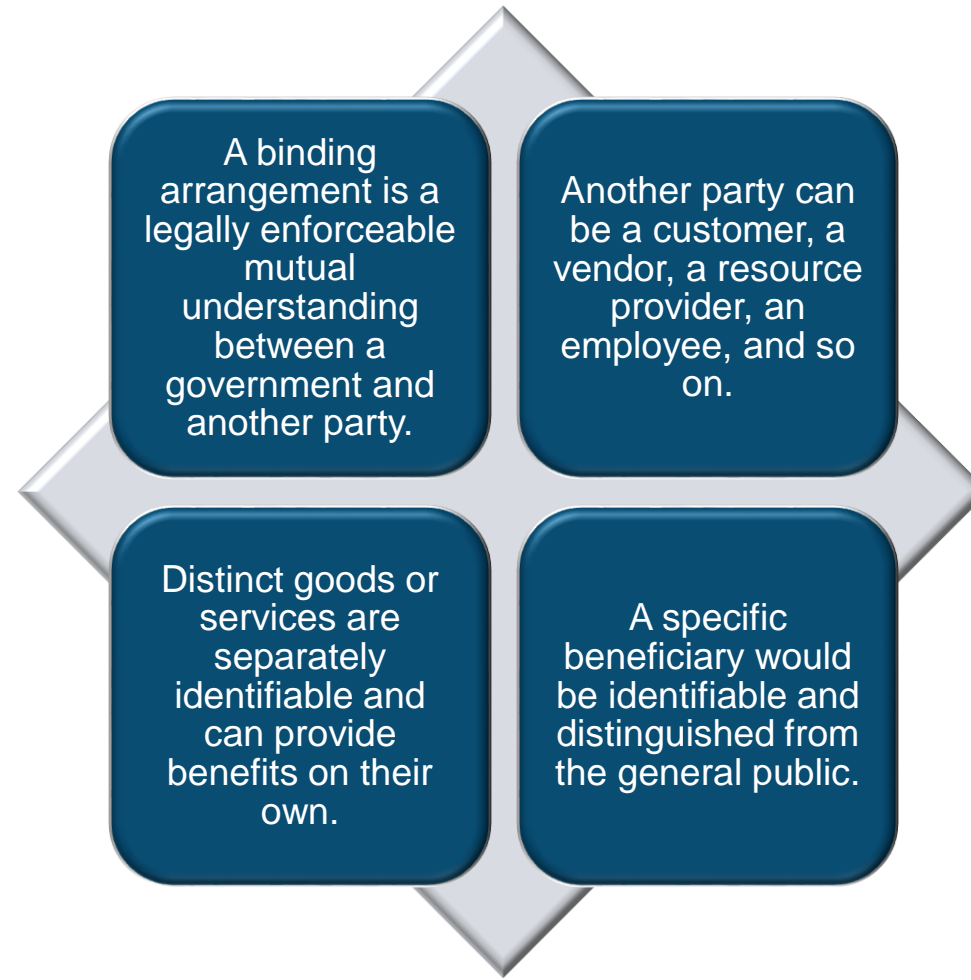
- Derived tax revenue
- Imposed nonexchange revenue
- ~~Government mandated~~ nonexchange transaction
- Voluntary nonexchange transaction

Measurement

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

Performance Obligation Definition

A performance obligation is a promise in a *binding arrangement* between a government and *another party* to provide *distinct goods or services* to a *specific beneficiary*.



Performance Obligation/ No Performance Obligation Model

Classification

Does the transaction contain a performance obligation?

YES

Performance recognition approach:

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

NO

Provisions of Statement 33:

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

Recognition

Measurement

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

Project Timeline

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

Conceptual Framework— Disclosure Framework

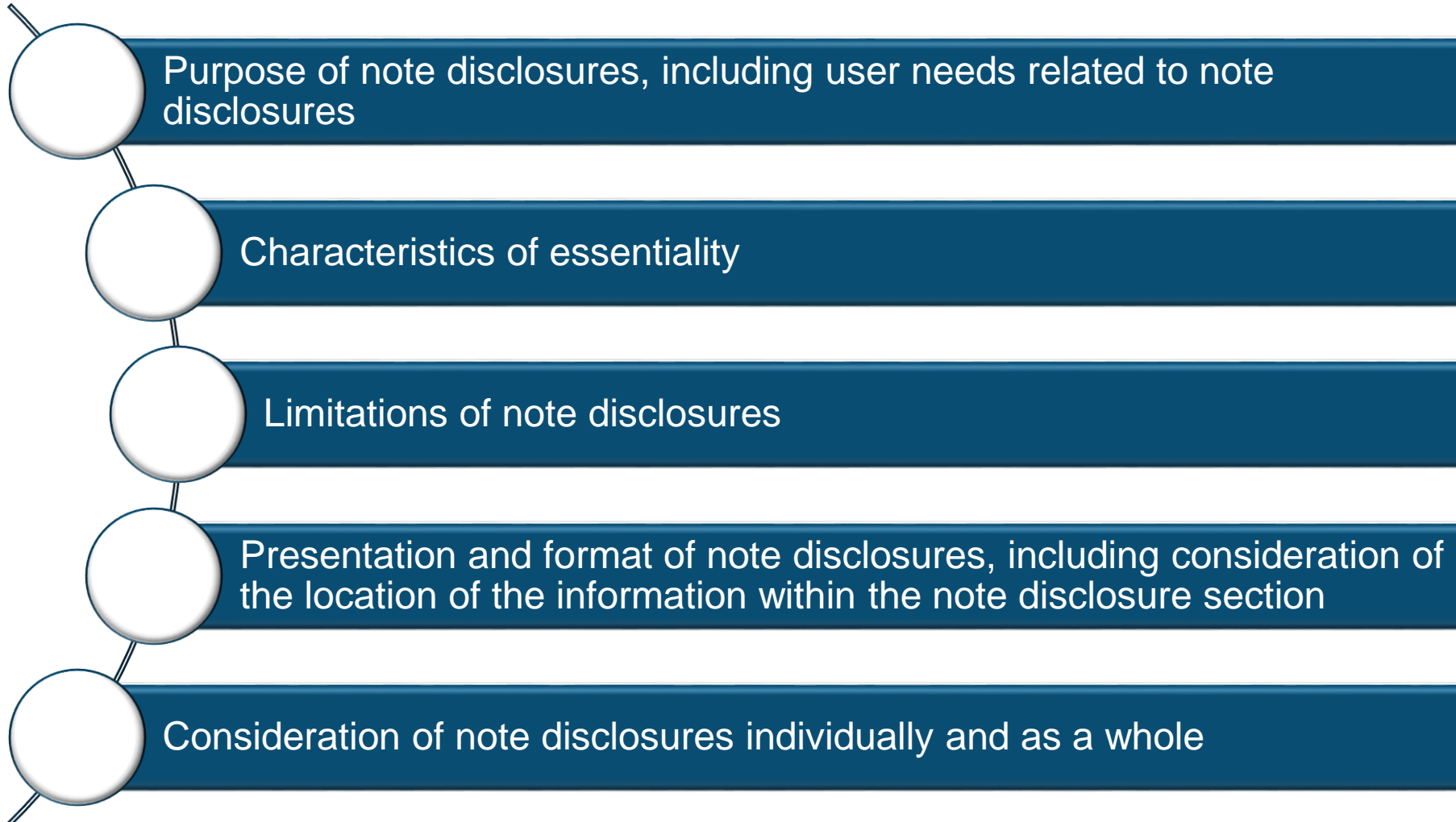
Concepts Related to Disclosures

Concepts Statements guide the Board's decisions when setting accounting and financial reporting standards

Concepts Statement 3 establishes criteria for what communication method should be used to report information – financial statements, notes to financial statements, required supplementary information, and supplementary information

Notes to financial statements are integral to financial statements and are **essential** to a user's understanding of financial position or inflows and outflows of resources.

Potential Topics to Consider



Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	August 2018
Due Process Document Scheduled	February 2020

Other Projects

Other Projects

Timetable

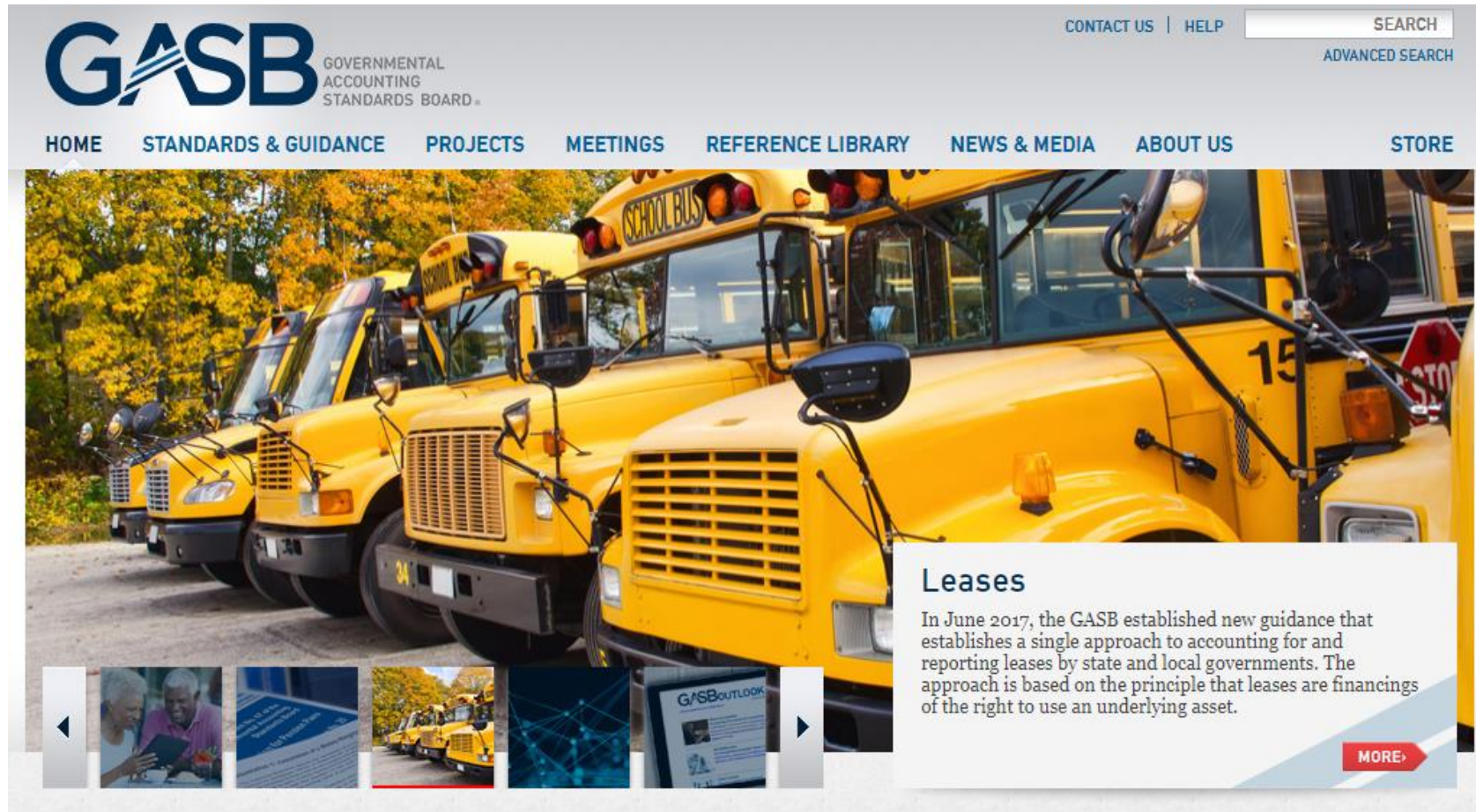
Conduit Debt	Final Statement—May 2019
Subscription-Based IT Arrangements	Exposure Draft—May 2019
Public-Private Partnerships	Exposure Draft—June 2019
Deferred Compensation Plans	Exposure Draft—June 2019
Omnibus	Exposure Draft—June 2019
Secured Overnight Financing Rate	Exposure Draft—August 2019
Implementation Guide Update	Final—April 2019
Implementation Guide—Fiduciary	Final—June 2019
Implementation Guide—Lease	Exposure Draft—February 2019

Questions



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Leases

In June 2017, the GASB established new guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The approach is based on the principle that leases are financings of the right to use an underlying asset.

[MORE](#)

The banner image shows a line of yellow school buses parked outdoors. Below the main banner is a row of six small thumbnail images: an elderly couple, a document, a school bus, a network diagram, a GASB Outlook magazine, and a navigation arrow.

Website Resources

