

# **GASB Update**

## **California Society of Municipal Finance Officers**

### **Projects Under Construction**

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.

# Big Three

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# What Are the Big Three?

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

# Financial Reporting Model

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# Tentative Decisions: Recognition in Governmental Funds

## Short-Term Financial Resources Measurement Focus

### Recognition Terms

The applicable payment terms of the transaction or other event that are used in recognition

- *Contractual terms* – the specific applicable contractual terms (or statutory terms) of the transaction or other event
  - Estimated payments when there are no contractual or statutory terms

### Recognition Method

How transactions will be recognized; begins with determining whether a transaction or other event is short term or long term

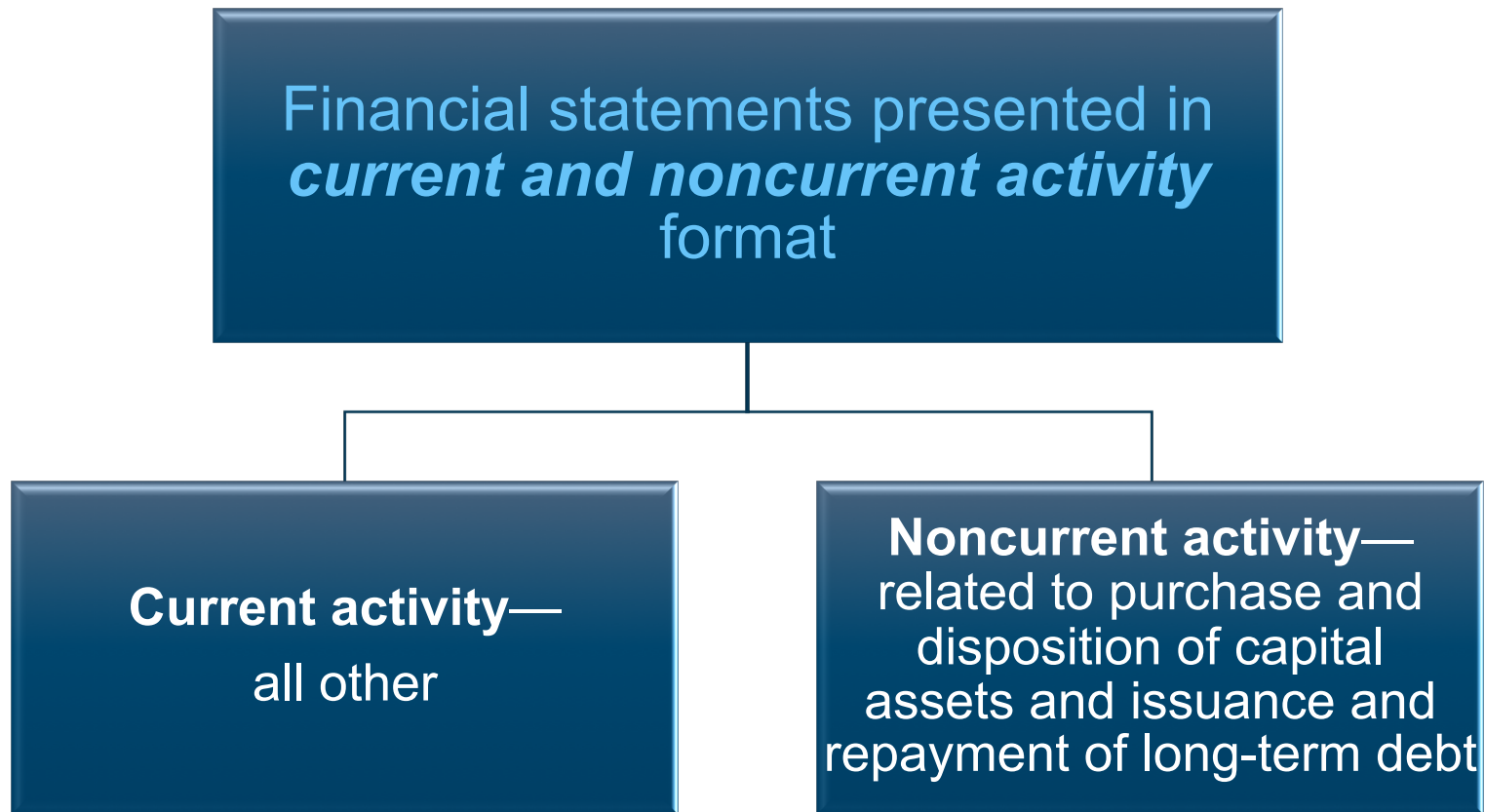
- Items arising from *short-term* transactions or other events – recognize *when incurred*
- Items arising from *long-term* transactions or other events – recognize *when due*
  - The date at which payment is scheduled to be made (if not scheduled, expected) in accordance with the recognition terms

### Recognition Period

Period associated with the recognized assets and liabilities

Will be converted to or generate cash (or other financial assets) or require the use of cash (or other financial assets) *within one year* from the inception of the transaction or other event

# Proposal: Presentation of Governmental Funds



# Statement of Short-Term Financial Resource Flows

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
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
<b>OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
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
<b>NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES</b>				
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 (continued)

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

## Subsidies are:

- Resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided
- Resources provided to another party or fund that results in higher rates than otherwise would be established 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>

# Tentative Decisions: Management's Discussion and Analysis

Users of MD&A “have different levels of knowledge and sophistication about governmental accounting and finance,” “may not have a detailed knowledge of accounting principles” (as in Concepts Statement 1, paragraph 63)

Move budgetary analysis and discussion of infrastructure assets (if applicable) to the relevant parts of RSI

Add clarification and structure to the requirement for brief discussion of the basic financial statements, including their relationships and significant differences

Emphasize the level of thoroughness required for the analysis of year-to-year changes and the need to avoid unnecessary duplication

Amend the requirements for currently known facts, decisions, or conditions with examples, such as economic trends; subsequent year's budget; actions government has taken on postemployment benefits, capital improvement plans, and long-term debt; actions other parties have taken that affect the government

# Other Proposals

## 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

## 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

# Other Tentative Proposals for the Exposure Draft

## Debt Service Funds

- Reporting requirements would not be changed to provide additional information because the expected benefits do not justify the perceived costs of providing and auditing the information

## Special and Extraordinary Items

- Requirement to separately present them would be replaced with a requirement to separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence
- Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management

# Revenue and Expense Recognition

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# Revenue and Expense Recognition Model

## ***Categorization***

Identify the *type* of transaction



## ***Recognition***

Determine *what* element should be reported and *when*



## ***Measurement***

Determine the *amount* to report

# To Exchange or Not to Exchange

- Invitation to Comment
  - Exchange and nonexchange model
  - Performance obligation and nonperformance obligation model
- To develop a model in which revenue and expense transactions would be organized into two categories: Category A and Category B (the AB Model).

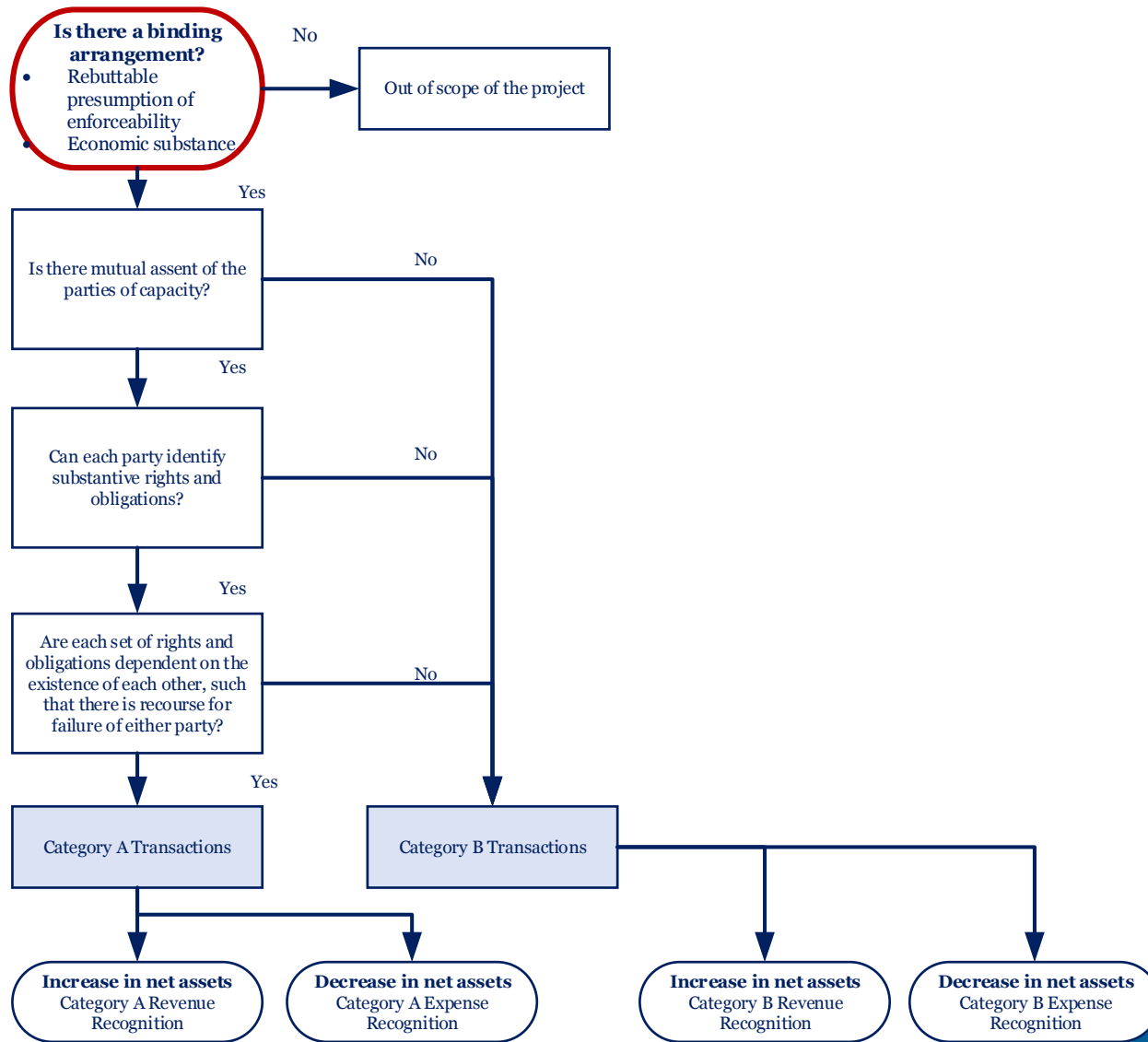


# The AB Model—Conceptual

- 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



# Categorization Component



# Model Outcomes\*

Category A	Category B
Fees for service (water, electric, garbage)	Taxes (property tax, income tax, sales tax)
Eligibility-based grants	Punitive fees
Research grants and revolving loans	Special assessments
Medicaid fees for services	Donations
Tuition fees	Regulatory fees (drivers licenses, building permits, marriage licenses, professional licenses)
Most expenses	Purpose-restricted grants
	Capital fees (developer fees, PFCs)
	Medicaid supplementary payments

\* Transactions highlighted in blue have different outcomes under current literature

# Conceptual Framework— Disclosure Framework

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# 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

# Tentative Decisions

The purpose of 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.

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.

# Practice Issue Projects

Timetable		
Subscription-Based IT Arrangements	Exposure Draft—May 2019	Comment Deadline—was August 23
Public-Private Partnerships	Exposure Draft—June 2019	Comment Deadline—was September 13
Deferred Compensation Plans	Exposure Draft—June 2019	Comment Deadline—was September 27
Omnibus	Exposure Draft—June 2019	Comment Deadline—was October 4
Secured Overnight Financing Rate	Exposure Draft—September 2019	Comment Deadline—was November 27
Implementation Guide	Exposure Draft—November 2019	Comment Deadline—January 31
Compensated Absences	Exposure Draft—March 2021	
Prior Period Adjustments, Accounting Changes, and Error Corrections	Exposure Draft—March 2021	

# Subscription-Based Information Technology Arrangements

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**GASB** Exposure Draft

May 13, 2019  
Comments Due: August 23, 2019

Proposed Statement  
of the Governmental Accounting Standards Board

## Subscription-Based Information Technology Arrangements

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities  
Project No. 38

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Governmental Accounting Standards Board



# SBITA—Definition

A subscription-based information technology arrangement (SBITA) “is a contract that conveys control of the right to use another party’s (the vendor’s) hardware, software, or a combination of both, including IT infrastructure (the underlying hardware or software) as specified in the contract for a period of time in an exchange or exchange-like transaction.”

To determine whether a contract conveys control of the right to use the underlying hardware or software, a government would assess whether it has both:

- The right to obtain the present service capacity from use of the underlying hardware or software as specified in the contract
- The right to determine the nature and manner of use of the underlying hardware or software as specified in the contract.

# SBITA—Recognition and Measurement

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

- Outlays would be expensed as incurred

## Initial implementation stage

- 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

## Post-implementation/operation stage

- Outlays would be expensed as incurred

# Public-Private and Public-Public Partnerships and Availability Payment Arrangements

**GASB** Exposure Draft

June 6, 2019  
Comments Due: September 13, 2019

Proposed Statement  
of the Governmental Accounting Standards Board

## **Public-Private and Public-Public Partnerships and Availability Payment Arrangements**

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities  
Project No. 30-1

Governmental Accounting Standards Board

# Definitions: PPPs and APAs

**Public-private partnerships and public-public partnerships (PPPs)** are arrangements “in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate or use infrastructure or other nonfinancial assets (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.”

## Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government’s infrastructure or other nonfinancial asset
- Entity receives payments from the government based on the asset’s availability for use
- Asset’s availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

# PPP—Recognition and Measurement Basics

A PPP that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (SCA) – would be reported under Statement 87.

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

# PPP—Transferor Reporting

## For all PPPs, recognize:

- Receivable for installment payments to be received, if any
- Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the PPP term

## If underlying PPP asset is a new asset or an existing asset that has been improved...

- ...and the PPP is an SCA: also recognize the capital asset at acquisition value when placed into operation
- ...and the PPP is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

# PPP—Operator Reporting

For all PPPs,  
recognize:

- Liability for installment payments to be received, if any

If underlying PPP asset is (a) existing asset or (b) a new asset/improved existing asset and the P3 is an SCA...

- ...also recognize an intangible right-to-use asset

If underlying PPP asset is a new asset/improved existing asset and the PPP is not an SCA...

- Also recognize the underlying PPP asset until ownership is transferred
- And a liability for the underlying PPP asset, measured at the estimated carrying value as of the future date of the transfer



# Exposure Draft, *Replacement of Interbank Offered Rates*

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# Criteria

**Continue to apply hedge accounting to an effective hedging derivative instrument (HDI) with a variable payment based on an IBOR, if all criteria are met:**

HDI is amended or replaced to change the reference rate of its variable payment or add/change reference rate-related fallback provisions

Any coefficient or constant applied to the rate is limited to what is necessary to essentially equate the replacement rate and the original rate

The original HDI is ended and the replacement HDI entered into on the same date

Terms that affect changes in fair values and cash flows in the original and replacement HDIs are **identical**, except for these term changes that may be necessary for the replacement of the reference rate:

- 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

# Modifications and Clarifications

Add the Effective Federal Funds Rate and the Secured Overnight Financing Rate (SOFR) as appropriate benchmark interest rates for taxable debt when applying the consistent critical terms method for the purpose of hedge accounting

Remove LIBOR as an appropriate benchmark interest rate for taxable debt when applying the consistent critical terms method

Clarify the definition of *reference rate*, as it is used in Statement 53

Clarify that replacing an IBOR as the reference rate of the *hedged item* would not terminate hedge accounting

Clarify that uncertainty related to the continued availability of IBORs would not, by itself, affect the assessment of whether a hedged expected transaction is probable

Provide an exception to the lease modifications guidance in Statement 87 for certain lease contracts that are amended to replace an IBOR upon which variable payments depend

# Research

- Capital Assets
- Going Concern Disclosures
- Interim Reporting
- Investment Fees

# Questions

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Website information: [www.gasb.org](http://www.gasb.org)