

California Society of Municipal Financial Officers

GASB—A Look into the Future

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



Presentation Overview

- Projects currently being deliberated by the Board that are not expected to result in a final pronouncement in 2015.

Leases

Preliminary Views on Leases

- **What:** The GASB has proposed revisions to existing standards on lease accounting and financial reporting (primarily NCGA Statement 5 & GASB Statement 13)
- **Why:** The existing standards have been in effect for decades without review to determine if they remain appropriate and continue to result in useful information; FASB and IASB have been conducting a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers
- **When:** Preliminary Views issued for public comment in November 2014; comment deadline is March 6, 2015

Scope and Approach

- Applied to any contract that meets the definition of a lease:
“A lease is a contract that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”
- All leases are financings of the right to use an underlying asset
 - Therefore, single approach applied to accounting for all leases except short-term leases

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible asset (right to use leased 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, probably residual guarantees, etc.)	NA
Lessor	<ul style="list-style-type: none"> • Lease receivable (including same items as lessee liability) • Continue to report leased asset 	NA	Equal to lease receivable plus any cash received up front

Subsequent Reporting

	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"> • Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less payment needed to cover accrued interest) • Amortize discount over term of the receivable 	NA	Recognize revenue over the lease term on a systematic and rational basis

Short-Term Leases

- 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

Project Timeline

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

Fiduciary Responsibilities



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Preliminary Views on Fiduciary Responsibilities

- **What:** The GASB has proposed standards that 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; business-type activities are uncertain about how to report fiduciary activities
- **When:** Preliminary Views issued for public comment in November 2014; comment deadline is March 6, 2015

When Is a Government a Fiduciary?

- A government is a fiduciary if it **controls** assets in any of the following ways:
 - From a pass-through grant for which the government does *not* have administrative or direct financial involvement
 - In accordance with a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary
 - For the benefit of individuals that are *not* required to be part of the citizenry as a condition of being a beneficiary, or organizations or other governments that are *not* part of the financial reporting entity

When Is a Government Controlling Resources?

Responsibility for Administering the Exchange of Assets					
	(1) Responsible for administering the exchange of assets	(2) Assigned and can reassign the responsibility for administering the exchange of assets	(3) No responsibility for administering the exchange of assets, but can establish parameters for those who are responsible	(4) No responsibility for administering the exchange of assets	
Legal Structure	(a) Government directly holds the assets outside of a trust agreement or equivalent arrangement	Control	Control	Control	Control
	(b) Government is acting as trustee for a trust agreement or equivalent arrangement	Control	Control	No Control	No Control
	(c) Legally separate entity is responsible for holding or acting as trustee	Control	Control	No Control	No Control

External Investment Pools

External Investment Pools

- **What:** The GASB is considering revisions to the accounting and financial reporting standards for 2a7-like investment pools
- **Why:** Securities and Exchange Commission changes to Rule 2a7 would make it difficult for external investment pools to meet the criteria to report as 2a7-like
- **When:** An Exposure Draft is expected for June 2015

Background

- Current standards allow pools that are considered to be 2a7-like to report investments at amortized cost rather than fair value
 - The SEC recently made significant changes to Rule 2a7
 - Concerns were raised regarding the cost-benefit of government pools applying the revised Rule 2a7 provisions
- The project will consider whether criteria should be developed independent of Rule 2a7 that could be applied by external investment pools to determine when a cost-based can be applied to investments.
 - If the Board agrees that independent criteria should be developed, the current 2a7 provisions and other regulatory provisions will be used as starting point.

Project Timeline

Pre-Agenda Research Starts	August 2014
Added to Current Technical Agenda	December 2014
Exposure Draft Expected	June 2015
Final Statement Expected	December 2015

Other GASB Activities

- **Current Technical Agenda Projects**
 - Asset Retirement Obligations
 - Blending Requirements for Certain Business-Type Activities
 - Irrevocable Charitable Trusts
- **Pre-Agenda Research**
 - Financial Reporting Model (Reexamination of Statement 34)
 - Debt Extinguishments (Reexamination of Statements 7, 23, and 62)

Asset Retirement Obligations

Asset Retirement Obligations

- **What:** The GASB is considering standards for reporting liabilities related to obligations to perform procedures to close certain capital assets, such as nuclear power plants
- **Why:** Existing standards (Statement 18) address only municipal landfills but governments have retirement obligations for other types of capital assets
- **When:** An Exposure Draft is expected for December 2015

Scope

- *Asset retirement obligation*—A legal obligation associated with the retirement of a capital asset
 - *Retirement of a capital asset*—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal in some other manner)
 - Includes legal obligations associated with the retirement of a tangible capital asset, such as nuclear power plant decommissioning, storage tank removal, removal of radiologically contaminated medical equipment

Project Approach and Measurement Attribute

- Approach—General guidance with specific guidance added as needed to operationalize the principles.
- Measurement attribute—Settlement amount

Project Timeline

Pre-Agenda Research Starts	December 2013
Added to Current Technical Agenda	August 2014
Exposure Draft Expected	December 2015
Final Statement Expected	October 2016

Blending Requirements for Certain Business-Type Activities

Blending Requirements

- **What:** The GASB is considering revising the standards regarding how certain component units of business-type activities should be presented in the financial statements of the primary government
- **Why:** There is diversity in practice, with some component units blended for reasons not included in Statement 14
- **When:** An Exposure Draft is expected for June 2015

Project Timeline

Pre-Agenda Research Starts	December 2013
Added to Current Technical Agenda	August 2014
Exposure Draft Expected	June 2015
Final Statement Expected	March 2016

Irrevocable Charitable Trusts

Irrevocable Charitable Trusts

- **What:** The GASB is considering establishing standards for reporting split-interest agreements, which are particularly prevalent among public colleges and universities
- **Why:** Limited guidance exists for split-interest agreements where the government acts as trustee and as a beneficiary; no guidance exists for the recognition of *beneficial interests* in assets held and administered outside the government; users need information about these arrangements
- **When:** An Exposure Draft is expected for June 2015

Project Timeline

Pre-Agenda Research Starts	December 2013
Added to the Current Technical Agenda	April 2014
Exposure Draft Expected	June 2015
Final Statement Expected	January 2016

Pre-Agenda Research Activities



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Financial Reporting Model— Reexamination of Statement 34



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Financial Reporting Model Research

- **What:** In August 2013, the Board decided to begin pre-agenda research examining the effectiveness of the financial reporting model – Statements 34, 35, 37, 41, and 46, and Interpretation 6
- **Why:** The GASB is committed not only to establishing standards but also to ensuring that they continue to be effective; most of the requirements of Statement 34 became effective between 2002 and 2004; the provisions related to reporting existing general infrastructure assets were fully effective in 2006 and 2007
- **When:** The research is expected to conclude in mid-2015

Research Activities

- During 2013 the following activities were conducted:
 - 11 research roundtables in 8 cities, focusing on either general purpose or special-purpose governments, consisting of a mix of financial statement preparers, auditors, and users
 - Primary purpose was to identify any major, overarching issues that have arisen since Statement 34 was implemented
- During 2014 the following activities were conducted:
 - Broad surveys of financial statement preparers, auditors, and users, as well as an additional survey of preparers using the modified approach for reporting infrastructure
 - Archival research with annual financial reports
 - Literature review
 - Primary purpose was to identify how Statement 34 has been implemented in practice and to explore further the issues raised in the roundtables

Timeline

- 150 interviews will be conducted in 2015 to seek input on how to address the issues raised in the roundtables and surveys
- Research is expected to last until the middle of 2015
- At that time, *if* the Board believes that significant improvements can be made to the standards, it will begin to deliberate over potential changes to propose for public review and comment
- Although this review will not take 15 years, like the project that resulted in the issuance of Statement 34, it is reasonable to expect that Board deliberations and the public review and input process will last at least several years

Debt Extinguishments



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Debt Extinguishments

- **What:** A review of existing standards for debt extinguishments (Statement 62), including debt refundings (Statements 7 and 23)
- **Why:** The debt extinguishment standards were incorporated from FASB literature “as is” and not reviewed to consider their appropriateness for governments; the debt refundings standards have been in effect for many years, and the GASB is committed to ensuring that standards continue to be effective
- **When:** The research is expected to conclude in the first quarter of 2015

Topics to Be Considered

- What constitutes an extinguishment of debt?
- What information should be reported or disclosed when debt is extinguished?
- Should the standards for specific types of debt extinguishments, such as refundings, be consistent with the general standards for debt extinguishment?
- Does the governmental environment operate in a manner such that the Board's perspective of substitution of debt still prevails?

Topics to Be Considered

- How decision-useful is information about refundings?
- What are the distinguishing indicators of a refunding versus a change in a bond's? Does restructured debt qualify as an advanced refunding?
- If the new debt issued is more than the amount needed to refund the old debt, how should the disclosure requirements of paragraph 11 of Statement 7 apply, and how should the cash flow difference in economic gain or loss be calculated?
- For purposes of the recognition period, how do call options affect what is considered the remaining life of the refunded bonds?

Questions?

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