



Texas GFOA

On the Horizon

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.

Technical Agenda—What Should Be On Your Radar

- Current Agenda
 - Financial reporting model (reexamination)
 - Revenue and expense recognition
 - Disclosure framework
 - Conduit debt
 - Subscription-based information technology arrangements
 - Public-private partnerships

- Research Agenda
 - Going concern
 - Deferred compensation plans
 - Compensated absences
 - Prior period adjustments

Due Process Documents

Exposure Draft: *Conduit Debt Obligations*

Project Timeline

Added to Current Technical Agenda	August 2017
Exposure Draft Approved	July 2018
Comment Deadline	November 2, 2018

Definition of Conduit Debt

- There are at least three parties involved:
 - The government-issuer
 - The third-party obligor (borrower)
 - The debt holder or debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.
- The issuer's commitment related to the debt service payments is limited.

Limited and Additional Commitments

- Generally, issuers' commitments are limited to the resources provided by the third-party obligor.
- “Additional commitments” – occasionally, an issuer may extend an additional commitment of its own resources and agree 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 guarantee
 - Pledging its own property, revenue, or other assets as security
 - Requesting appropriations without a moral obligation pledge or appropriation pledge

Recognition of Conduit Debt

- An issuer should not recognize a conduit debt obligation as a liability.
- The issuer, however, may have a related liability arising out of an additional commitment.
- The issuer should report a liability only when qualitative factors indicate it is more likely than not that the issuer will support debt service payments for a conduit debt obligation.

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.
 - Payments from the third-party obligor coincide with the debt service repayment schedule and sometimes are characterized as lease payments.
 - Ownership (title) of the capital asset may pass to the third-party obligor at the end of the arrangement or remain with issuer.
- Issuers would not (1) report those arrangements as leases, (2) recognize a liability for the related conduit debt obligations, or (3) recognize a receivable for the payments related to those arrangements.

Arrangements and Capital Assets (continued)

- If title passes to third-party obligor at the end of the arrangement, issuer would not report a capital asset either during the term of the arrangement or at the end of the arrangement.
- If title never passes to the third-party obligor:
 - ...and the third-party obligor has exclusive use of the entire capital asset, the issuer would not recognize a capital asset until the arrangement ends.
 - ...and the third-party obligor has exclusive use of only portions of the capital asset, the issuer would recognize a capital asset and a deferred inflow of resources at the inception of the arrangement. The deferred inflow of resources would be recognized as revenue in a systematic and rational manner over the term of the arrangement.

Arrangements and Capital Assets (continued)

Does title pass to third-party obligor at end of arrangement?	Does the issuer recognize a capital asset?	Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of <i>entire</i> capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only <i>portions</i> of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement

Disclosures

- A general description of the issuer's conduit debt obligations, organized by type of commitment:
 - Aggregate outstanding principal amount
 - Each type of commitment extended by the issuer
- If the issuer recognizes a related liability:
 - Beginning balances, increases, decreases, ending balances
 - Cumulative payments that have been made
 - Amounts, if any, expected to be recovered for those payments

Financial Reporting Model—Reexamination of Statement 34

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Expected	September 2018
Comment Deadline	February 15, 2019

Topics Covered in the Invitation to Comment

- Three possible recognition approaches to replace current financial resources/modified accrual:
 - Near-term financial resources
 - Short-term financial resources
 - Long-term financial resources
- Format of governmental funds resource flows statement
 - Existing format versus 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

Preliminary Views: Recognition in Governmental Funds

- The measurement focus for governmental funds to be presented in the PV is short-term financial resources
- Recognition based on whether an item arises from a short-term or long-term transaction:
 - Items arising from short-term transactions are recognized when the underlying transaction occurs
 - Items arising from long-term transactions are recognized when the payments to be received or made become due

Preliminary Views: Recognition in Governmental Funds (continued)

- Items that arise from short-term transactions and other events are 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 within one year from the inception of the transaction or other event
- Items that arise from long-term transactions and other events are those that normally are due to convert to or require the use of cash (or other financial assets) in periods that extend beyond one year from the inception of the transaction or other event

Alternative Views: Principles for Short-term (One Year)

- 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

Alternative Views: Issues With Normally

- Determining what is normal for all governments for each specific type of transaction would consume significant time and resources with resulting cost both in initial implementation and each period thereafter.
- No comprehensive resource or information source for this purpose and the professional judgment of preparers would be critically evaluated by auditors and users by necessity.
- Requiring all governments to apply what is normal for all governments may lead to illogical results and limit the usefulness of governmental funds financial information.

Alternative Views: Government Wide Statement of Cash Flows

- Many governments manage cash at an entity wide level, not at the fund level. Presentation of a government-wide cash flows statement will allow for greater transparency of operations through an assessment that is consistent with the operational practices of many state and local governments.
- The information a statement of cash flows provides should help financial statement users assess:
 - An entity's ability to generate future net cash flows
 - Its ability to meet its obligations as they come due
 - Its needs for external financing,
 - The reasons for differences between changes in net position and associated cash receipts and payments, and
 - The effects on the entity's financial position of both its cash and its noncash investing, capital, and financing transactions during the period.

Preliminary Views: Presentation of Governmental Funds

- Financial statements presented in current and noncurrent activity format
- Noncurrent activity—related to purchase and disposition of capital assets and issuance and repayment of long-term debt
- Current activity—all other

Preliminary Views: Presentation of Governmental Funds

- These financial statements present a short-term view of the governmental fund activities and report items of a long-term nature differently from how they are reported in the government-wide financial statements.
- Short-Term Financial Resources Balance Sheet
 - Short-term assets, short-term liabilities, deferred outflows of short-term financial resources, deferred inflows of short-term financial resources, short-term financial resources fund balances
- Statement of Short-Term Financial Resource Flows
 - Inflows of short-term financial resources for current activities, outflows of short-term financial resources for current activities, and net flows of short-term financial resources for noncurrent activities

Preliminary Views: Proprietary Funds

- Separate presentation of operating and nonoperating revenues and expenses
 - Nonoperating activities include
 - Subsidies received and provided
 - Revenues and expenses of financing
 - Resources from the disposal of capital assets and inventory
 - Investment income and expenses
 - Operating activities are those other than nonoperating activities

Preliminary Views: Proprietary Funds (continued)

- Separate presentation of operating and nonoperating revenues and expenses (continued)
 - 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
 - Includes resources for purchase of capital assets
 - Subtotal for operating income (loss) and noncapital subsidies

Preliminary Views: Budgetary Comparisons

- Would be presented in required supplementary information (no option for basic statements)
- Required variances would be final-budget-to-actual and original-budget-to-final-budget

Preliminary Views: Other Issues

- Major component unit presentations
 - When it is not feasible to present major component unit financial statements in a separate column in the reporting entity's statements of net position and activities, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements after the fund financial statements.

- Government-wide schedule of natural classification of expenses would be presented as supplementary information
 - Governmental activities expenses by function or program
 - Business-type activities expenses by different identifiable activity

Topics Expected to Be Addressed in an Exposure Draft

- Extraordinary and special items—explore options for clarifying the guidance for more consistent reporting
- Management’s discussion and analysis (MD&A)
 - Enhance the financial statement analysis component
 - Eliminate boilerplate
 - Clarify guidance for presenting currently known facts, decisions, or conditions
- Debt service funds—explore options for providing additional information, either individually or in aggregate in the financial statements or the notes

Public Hearings

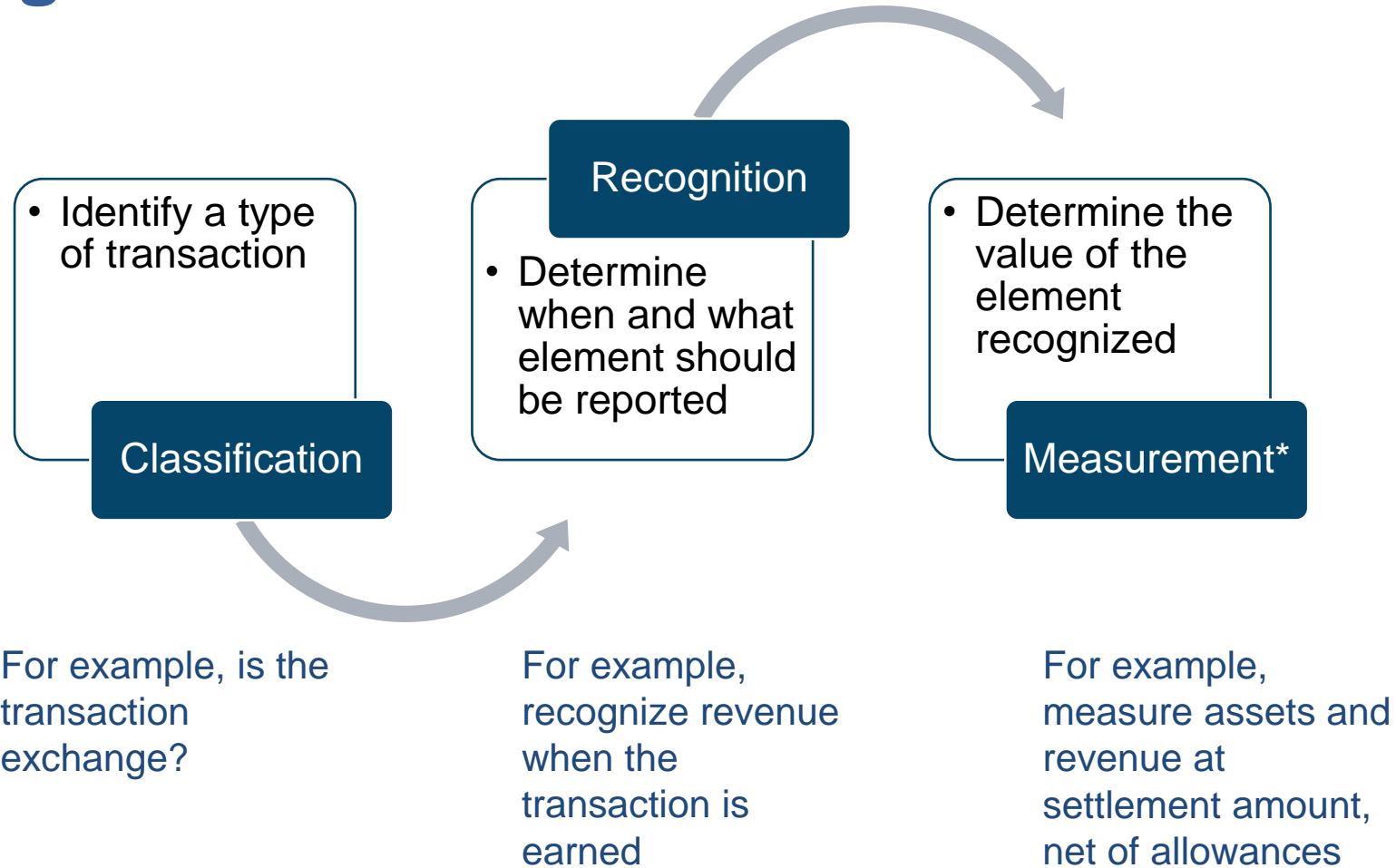
- March 5—Chicago
- March 12—Atlanta (in conjunction with NASC conference)
- March 14—New York

Revenue and Expense Recognition

Project Timeline

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

What Is a Revenue and Expense Recognition Model?



*The Invitation to Comment did not address *measurement*

Project Scope

- The project scope broadly encompasses revenue and expense recognition but excludes the following:
 - Topics with guidance developed considering the current conceptual framework, such as pensions and other post-employment benefits
 - Topics related to financial instruments, such as investments, derivatives, leases, and insurance
 - Topics related to transactions arising from recognition of capital assets or certain liabilities, such as depreciation, asset retirement obligations, and pollution remediation obligations

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 is 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*.
 - A binding arrangement is a legally enforceable mutual understanding between a government and another party.
 - Another party can be a customer, a vendor, a resource provider, an employee, and so on.
 - Distinct goods or services are separately identifiable and can provide benefits on their own.
 - A specific beneficiary would be identifiable and distinguished from the general public.

Performance Obligation/ No Performance Obligation Model

Classification

Does the transaction contain a performance obligation?

YES

NO

Recognition

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)

Provisions of Statement 33:

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

Measurement

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

Disclosure Framework

Project Timeline

Pre-Agenda Research Approved	April 2017
Added to Current Technical Agenda	April 2018
Exposure Draft Expected	June 2019

Topics Being Considered

- Does Concepts Statement 3 provide a sufficient framework for establishing disclosure requirements or should additional framework criteria be developed for all disclosures?
 - What approach, if any, would help to reduce repetition within disclosures and the overall length of the notes section?
 - Do the required note disclosures meet their intended objectives and continue to provide information that is useful for making decisions and assessing accountability?
 - What unmet user needs exist that might require new note disclosures? Alternatively, what existing disclosure requirements do not provide useful information to users of governmental financial reports?

Questions



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