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GASB Update

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Presentation Overview

- Pronouncements currently being implemented
- Documents issued for public comment
- Projects currently being deliberated by the Board

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Pronouncements Currently Being Implemented

Other Postemployment Benefits

Statement No. 75

Overview

- **What:** The Board issued Statement 75, making OPEB accounting and financial reporting consistent with the pension standards in Statement 68
- **Why:** Pension and OPEB standards were updated subsequent to a review of the effectiveness of the standards—objective was to establish a consistent set of standards for all postemployment benefits, providing more transparent reporting of the liability and more useful information about the liability and costs of benefits
- **When:** Effective for periods beginning after June 15, 2017

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Employer Scope and Applicability

- Applies same definition of OPEB as used in Statement 45
  - All postemployment healthcare benefits
  - Other forms of postemployment benefits not provided through a pension plan
- Addresses both defined benefit OPEB and defined contribution OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as those payments come due

Liability to Employees for OPEB

- Based on total OPEB liability—the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service
- Is OPEB administered through a trust that meets the specified criteria?
  - Yes—recognize net OPEB liability (total OPEB liability, net of OPEB plan fiduciary net position)
  - No—recognize total OPEB liability
- Employer's liability to employees for OPEB measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the employer's current fiscal year
  - Based on an actuarial valuation obtained at least biennially no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end

Measurement of the Total OPEB Liability—General Approach

- Three broad steps
  - Project benefit payments
  - Discount projected benefit payments to actuarial present value
  - Attribute actuarial present value to periods
- Methods and assumptions
  - Generally, assumptions in conformity with Actuarial Standards of Practice
  - Single attribution method—entry age, level percentage of pay

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Measurement of the Total OPEB Liability: Projections of OPEB Payments

- Consider established pattern of practice with regard to sharing of benefit-related costs with inactive employees
- Based on claims costs or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice
- Includes taxes or other assessments expected to be imposed on benefit payments
- Consider legal or contractual benefit caps if determined to be effective

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Measurement of the Total OPEB Liability: Alternative Measurement Method

- Alternative measurement method may be applied if fewer than 100 employees (active and inactive) are provided benefits through plan as of the beginning of the measurement period
  - Generally, same simplifications to assumptions can be used as were permitted by Statement 45

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Changes in the Liability

- Recognize most changes in liability for the current reporting period as OPEB expense immediately, except:
  - Changes in total OPEB liability:
    - Differences between expected and actual experience with regard to economic and demographic factors in the measurement of the total OPEB liability
    - Changes of assumptions in the measurement of the total OPEB liability
    - For OPEB not administered through a trust in which specified criteria are met, benefit payments
  - For OPEB administered through trust in which specified criteria are met:
    - Difference between projected and actual earnings on OPEB plan investments
    - Employer contributions

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Cost-Sharing Employers

- Relevant only for OPEB administered through trust in which specified criteria are met
- Recognize proportionate shares of collective net OPEB liability, OPEB expense, and deferred outflows of resources/deferred inflows of resources related to OPEB
- Proportion (%)
  - Basis required to be consistent with contributions
  - Use of relative long-term projected contribution effort encouraged
- Collective measure × proportion = proportionate share of collective measure

Notes and RSI

- Similar to those required for pensions
- Disclosure of effect on net/total OPEB liability of a discount rate +/- 1 percent
- Disclosure of effect on net/total OPEB liability of a healthcare cost trend rate +/- 1 percent
- Single and agent employers: 10-year RSI schedules for changes in the net OPEB liability, ratios, and actuarially determined contributions (statutorily or contractually determined contributions, if no actuarially determined contribution is calculated)
- Cost-sharing employers: 10-year RSI schedules for proportionate share/ratios, and statutorily or contractually determined contributions

Certain Asset Retirement Obligations

Statement No. 83

Certain Asset Retirement Obligations

- **What:** The Board issued Statement 83 to establish accounting and financial reporting standards for legal obligations to retire certain capital assets, such as decommissioning nuclear power plants and removing sewage treatment plants
- **Why:** Statement 18 addressed only municipal landfills but governments have retirement obligations for other types of capital assets. Diversity exists in practice.
- **When:** Effective for fiscal years beginning after June 15, 2018. Earlier application is encouraged.

Definitions and Scope

- **Asset retirement obligation**—Legally enforceable liability associated with the retirement of a tangible capital asset
- **Retirement** of a tangible capital asset—The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)
- Includes:
  - Nuclear power plant decommissioning
  - Coal ash pond closure
  - Contractually required land restoration, such as removal of wind turbines
  - Other similar obligations

Recognition & Measurement

Initial Recognition	ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events. Measured based on the best estimate of the current value of outlays expected to be incurred.	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	• At least annually, adjust for general inflation or deflation • At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant	An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned.

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Measurement Exception for a Minority Owner of a Jointly Owned Capital Asset

- Minority share (less than 50 percent) of ownership interest in an undivided interest arrangement is one of the following:
  - A nongovernmental entity is the majority owner
  - No majority owner, but a nongovernmental owner has the operational responsibility
- Initial and Subsequent Measurement Exception
  - The governmental minority owner should report its minority share of ARO using the measurement produced by the nongovernmental joint owner
- The measurement date of such an ARO should be no more than one year and one day prior to the government's financial reporting date
- Specific disclosure requirements in this circumstance

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Effects of Funding and Assurance

- If legally required to provide funding and assurance, disclose that fact
- Do not offset ARO with assets restricted for payment of the ARO
- Costs to comply with funding and assurance provisions are period costs separate from the ARO expense

Disclosures

- General description of ARO and associated tangible capital assets
  - Include source of AROs (federal, state, or local laws and regulations, contracts, or court judgments)
- Methods and assumptions used to measure ARO liabilities
- Estimated remaining useful life of tangible capital assets
- How financial assurance requirements, if any, are being met
- Amount of assets restricted for payment of ARO liabilities, if not separately displayed in financial statements
- If a government has an ARO (or portions of an ARO) that is incurred but not yet recognized because it cannot be reasonably estimated, that fact and the reasons therefor

Fiduciary Activities

Statement No. 84

Fiduciary Activities

- **What:** The Board issued Statement 84 to 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:** Effective for fiscal years beginning after December 15, 2018. Earlier application is encouraged.

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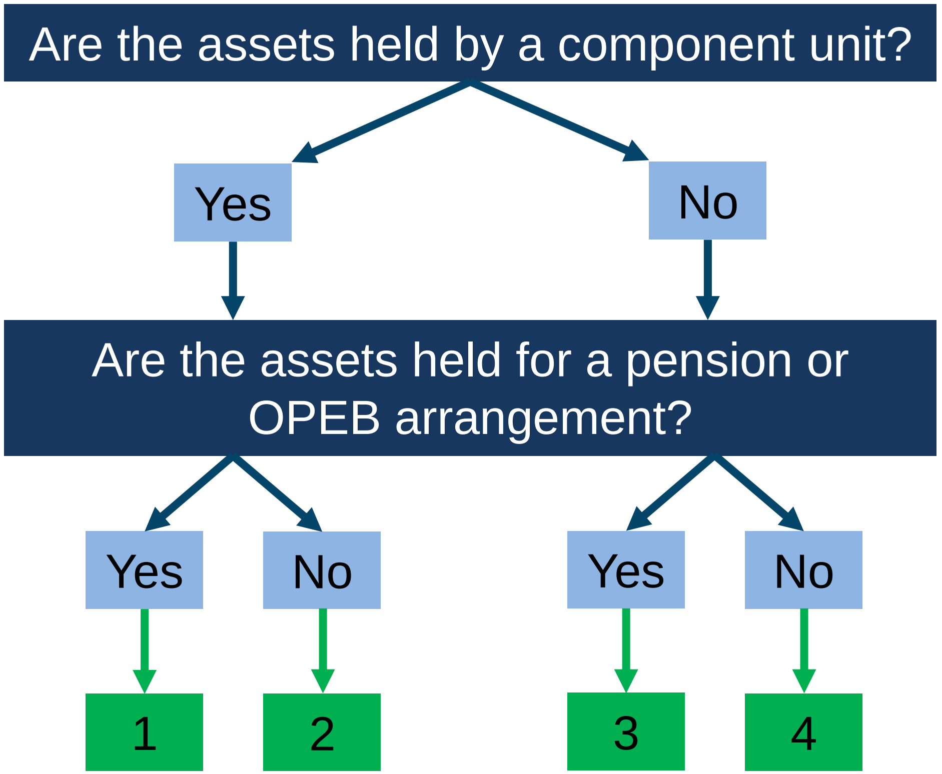
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:

- Component units that are postemployment benefit arrangements
- Component units that are not postemployment benefit arrangements
- Postemployment benefit arrangements that are not component units
- All other activities

When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



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Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if…

- They are one of the following arrangements:
  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

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Other Component Units Are Fiduciary if… 2

- They have one or more of the following characteristics:
  - The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
  - The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
  - The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

When Does a Government Have Administrative Involvement or Direct Financial Involvement?

- Examples of administrative involvement
  - If it monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it has the ability to exercise discretion in how assets are allocated
- Example of direct financial involvement
  - If it provides matching resources for the activities

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Postemployment Benefit Arrangements That Are Not Component Units Are Fiduciary if…

- The government **controls** the assets of the arrangement and the arrangement is one of the following arrangements:
  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

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When Is a Government Controlling Assets?

- A government controls the assets of an activity if one or both of the following are true:
  - The government *holds* the assets.
  - The government has the ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

All Other Activities Are Fiduciary if…

All three of the following are met:

- The government **controls** the assets
- Those assets are *not* derived either:
  - Solely from the government's own-source revenues, or
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have administrative or direct financial involvement
- One of the criteria on the next slide is met

All Other Activities (continued)

- The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
- The assets are for the benefit of individuals and the government does *not* have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
- The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations or other governments.

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Fiduciary Fund Types

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
  - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- *Custodial funds* would report fiduciary activities for which there is no trust agreement or equivalent arrangement.
  - External portions of investment pools that are *not* held in trust should be reported in a separate column under the custodial fund umbrella

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Stand-Alone Business-Type Activities

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Certain Debt Extinguishment Issues

Statement No. 86

Certain Debt Extinguishment Issues

- **What:** The Board issued Statement 86 to establish guidance for certain issues related to debt extinguishments, primarily in-substance defeasance of debt
- **Why:** Research found that Statements 7 and 23 on debt refundings and Statement 62 on debt extinguishments are working effectively, but that certain issues needed to be addressed
- **When:** Effective date is periods beginning after June 15, 2017

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

In-Substance Defeasance Using Only Existing Resources

- Debt is considered defeased in substance (like advance refundings) if only existing resources are used to fund an irrevocable trust that is restricted to owning only essentially risk-free monetary assets (like for refundings)
- Recognize the difference between the net carrying amount of the debt and the reacquisition price as a gain or loss in the period of defeasance (*unlike* advance refundings, which defer and amortize the difference)

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In-Substance Defeasance Using Only Existing Resources (continued)

- Notes to the financial statements:
  - Describe the transaction in the period it occurs (like refundings)
  - Disclose remaining outstanding balance in each period the defeased debt remains outstanding (may combine with refunded amount)

Prepaid Insurance for *All* Debt Extinguishments

- At the time debt is extinguished/defeased, any related prepaid insurance that remains should be included in the net carrying amount of the debt for the purpose of calculating the difference between its reacquisition price and net carrying amount

Note Disclosure on Substitution Risk

- Applies to *all* in-substance defeasances
- If substitution of the essentially risk-free monetary assets in escrow with monetary assets that are not essentially risk-free is *not* prohibited, a government should disclose in the notes to the financial statements:
  - In the period of the defeasance: the fact that substitution is not prohibited
  - In subsequent periods: the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Leases

Statement No. 87

Leases

- **What:** The Board issued Statement 87 to improve lease accounting and financial reporting
- **Why:** The existing standards had been in effect for decades without review to determine if they remain appropriate in light of GASB conceptual framework and continue to result in useful information; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers
- **When:** Effective date is periods beginning after December 15, 2019

Scope and Approach

- Applied to any contract that meets the definition of a lease: “A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”
  - The right-to-use asset is that “specified in the contract”
  - Control is manifested by (1) the right to obtain present service capacity from use of the underlying asset and (2) the right to determine the nature and manner of use of the underlying asset
- Leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for leases with some exceptions, such as short-term leases

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Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset
- Biological assets (including timber, living plants, and living animals)
- Inventory
- Service concession arrangements (Statement 60)
- Assets financed with outstanding conduit debt, unless both the asset and the debt are reported by the lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)

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
- Lessors recognize lease payments as revenue based on the payment provisions of the contract
  - Do not recognize receivables or deferred inflows associated with the lease

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible lease 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
Lessor	• Lease receivable (generally includes same items as lessee's liability) • Continue to report the leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less amount needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Example: Equipment Lease

- Lease contract provisions:
  - Lease starts 1/01/21
  - $1,000 monthly payment for equipment, due 1st of each month, plus $5/hour for every hour used beyond 200 hours during prior month
  - $80 monthly payment for repairs and maintenance, due 1st of each month
  - 60-month (5-year) lease, with a $200 lessee option to extend for 24 additional months at the original price. At the end of the term (5 or 7 years) the lease becomes month-to-month and each monthly payment can be adjusted upward based on CPI with 30 days' notice
  - Stated interest rate of 4%
  - If equipment is destroyed, lessee will pay $40,000 equipment value, at which time lessee will become the owner

Example: Equipment Lease (continued)

- There is a separate contract with the lessor for delivery and installation of the equipment (an initial direct cost):
  - $1,500 ($800 delivery and $700 installation)
- Other assumptions:
  - Lessee is not yet sure whether it will exercise its option to extend the lease

Example: Equipment Lease (continued)

- Determine the lease term:
  - Based on noncancelable period—60-month lease (5 years)
  - Lease extension option —
    - *Exclude* because not reasonably certain of being exercised
  - Potential month-to-month payments after 5 years —
    - *Exclude* because not enforceable (either party can cancel)

Example: Equipment Lease (continued)

- Determine lease payments for the lease term:
  - Monthly payments
    - Include $1,000/month fixed payment
    - *Exclude* $80/month repair and maintenance because it is a **service** (nonlease) component
    - *Exclude* $5/hour excess use charge because it is a **variable** charge not fixed in substance
  - One-time payments
    - Include $1,500 delivery and installation payment because it is a capitalizable lease payment
    - *Exclude* equipment loss penalty because it is a contingency

Example: Equipment Lease (continued)

- Calculate present value of lease payments:

PV of \$1000 (due 1st of each month) for 60 months at 4%	**\$54,480**
PV of delivery and installation payment	**1,500**
Total PV	**\$55,980**

- Lease liability beginning balance = \$55,980
- Lease asset beginning balance = \$55,980
- Monthly amortization of lease asset
  - If using straight line, would be \$933/month
- Accrue interest and record payments each month

Example: Equipment Lease (continued)

- First year's payment schedule

Date	Beginning Balance	Interest	Principal	Payment	Balance after Payment
1/1/2021	55980.07		2500.00	2500.00	53480.07
2/1/2021	53480.07	178.27	821.73	1000.00	52658.33
3/1/2021	52658.33	175.53	824.47	1000.00	51833.86
4/1/2021	51833.86	172.78	827.22	1000.00	51006.64
5/1/2021	51006.64	170.02	829.98	1000.00	50176.66
6/1/2021	50176.66	167.26	832.74	1000.00	49343.92
7/1/2021	49343.92	164.48	835.52	1000.00	48508.40
8/1/2021	48508.40	161.69	838.31	1000.00	47670.09
9/1/2021	47670.09	158.90	841.10	1000.00	46828.99
10/1/2021	46828.99	156.10	843.90	1000.00	45985.09
11/1/2021	45985.09	153.28	846.72	1000.00	45138.37
12/1/2021	45138.37	150.46	849.54	1000.00	44288.83
12/31/2021	44288.83	147.63			
		1956.40	11691.23		

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General Lessee Disclosures

- General description of leasing arrangements
- Total amount of lease assets (by major classes of underlying assets), and the related accumulated amortization
- Amount of outflows of resources recognized for the period for variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease liability
- Principal & interest requirements to maturity for each of the next 5 fiscal years and in 5-year increments thereafter
- Commitments under leases that have not yet begun (other than short-term leases)
- Components of any net impairment loss recognized on the lease asset during the period.

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General Lessor Disclosures

- General description of leasing arrangements
- Total amount of inflows of resources (such as lease revenue and interest revenue, if not otherwise displayed
- Amount of inflows of resources recognized for the period for variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease receivable
- The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments

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Other Topics Covered by Statement 87

- Lease term
- Contracts with multiple components
- Contract combinations
- Lease modifications & terminations
- Lease incentives
- Subleases
- Sale-leasebacks
- Lease-leasebacks

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Statement No. 88

Debt Disclosures

- **What:** The Board issued Statement 88 to improve existing standards for disclosure of debt
- **Why:** A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made
- **When:** Effective date is periods beginning after June 15, 2018

Definition of Debt for Disclosure Purposes

- "A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established"
  - For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.

New Disclosure Requirements

- Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures
- In addition to existing debt disclosures, governments should disclose the following about all types of debt:
  - Amount of unused lines of credit
  - Assets pledged as collateral for debt
  - Terms specified in debt agreements related to significant:
    - Events of default with finance-related consequences
    - Termination events with finance-related consequences
    - Subjective acceleration clauses.

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Tax Increment Financing (TIF) Debt

- Bonds and/or promissory notes issued in the name of the government/TIF
- Payable solely by incremental taxes in TIF District
  - No other revenue stream is securing the debt
- Does the issuing government record a liability upon issuance of the bonds/promissory notes
  - Yes, the government created the TIF and the revenue stream
  - Record the liability, note disclose the limited nature of the obligation
  - Not a contingent liability

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Accounting for Interest Cost Incurred before the End of a Construction Period

Statement No. 89

Interest Cost Incurred before the End of a Construction Period

- **What:** The Board issued Statement 89, with the goal of enhancing the relevance of capital asset information and potentially simplifying financial reporting
- **Why:** Accounting guidance historically has been based upon FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of the definitions of financial statement elements in GASB Concepts Statement 4
- **When:** Effective date is periods beginning after December 15, 2019, with earlier application encouraged

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Recognizing Interest Cost

- Financial statements prepared using the economic resources measurement focus:
  - Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.
- Financial statements prepared using the current financial resources measurement focus:
  - Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.
- Prospective application at transition

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implementation Guidance Update

2017-1

Implementation Guide 2017-1

- **What:** GASB annual updates its Q&A implementation guidance
- **Why:** New guidance is added as new pronouncements are issued and new issues arise; existing guidance is revised to reflect the effects of new pronouncements
- **When:** Effective for periods beginning after June 15, 2017.

Implementation Guide 2017-1

- Adds new questions related to pensions, tax abatements, external investment pools, and other topics
- Updates existing Q&A guidance related to pensions, the financial reporting entity, the financial reporting model, and other topics

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tax Abatements

What Is the Definition of a Tax Abatement?

- Statement 77 applies only to transactions meeting this definition:
  - A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which:
    - One or more governments promise to forgo tax revenues to which they are otherwise entitled and
    - Individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Tax Increment Financing—Traditional (GIC Z.77.1)

- A government utilizes tax increment financing (TIF) bonds are issued by the government to finance infrastructure improvements in a specific geographic area
  - Baseline for sales tax revenues for the geographic area, including the proposed development, is established prior to the start of the project
  - Additional sales tax revenues above the baseline are specifically set aside for the payment of the bonds.
- This arrangement does not meet the definition of a tax abatement under Statement 77
  - It is not an agreement with an individual or entity
  - TIF agreement does not result in a reduction of the government's tax revenues
  - Name of the transaction is not relevant to the determination of whether it is a tax abatement for financial reporting purposes

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Tax Increment Financing—With a Twist (CIG Z.77.9)

- Based on an agreement a real estate developer will construct a building
  - Baseline for property tax revenues for the specific geographic area in which the building will be constructed will be established prior to the start of the project
  - Developer will receive an amount from the additional property tax revenues above the baseline, based on certain costs incurred by the developer related only to the developer's building.
- This arrangement meets the definition of a tax abatement under Statement 77
  - The developer is promising to take the specific action of constructing a building for purposes of economic development
  - Government is forgoing tax revenues to which it is otherwise entitled by providing some or all of the additional property tax revenues above the baseline to the developer
  - Fact that the developer pays property taxes and subsequently receives amounts from the government related to the additional property tax revenues means that the government did, in substance, forgo tax revenues.

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Tax Increment Financing—Reimbursement (2018-1)

- Building constructed by the developer is or will become an asset of the government (not conduit debt-related)

- Incremental tax revenues to repay debt issued by the government and this arrangement which rebates the incremental tax revenues to a developer are approaches to financing improvements to an asset of the government.
  - The same would be true if, instead of a building, the developer had installed new sidewalks, sewers, or water mains that are ancillary to the developer's building and those ancillary capital assets become the property of the government.

- Because the government's tax revenues are being used to improve an asset of the government, the taxes are not forgone, and the arrangement does not meet the definition of a tax abatement.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Documents Issued for Public Comment

Exposure Draft:
Conduit Debt Obligations

Conduit Debt

- **What:** The Board has proposed improvements to the existing standards related to conduit debt obligations that would provide a single reporting method for government issuers
- **Why:** Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, the Board believes improvements are needed
- **When:** The Board approved an Exposure Draft in July 2018; the comment deadline is November 2, 2018

Proposal: Definition of Conduit Debt

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

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Proposal: 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

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Proposal: 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.

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Proposal: 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.

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Proposal: 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.

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Proposal: 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 *entire* capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only *portions* 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

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Proposal: 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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

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

Current Technical Agenda Projects

Accounting and Financial Reporting for Majority Equity Interests

Equity Interest Ownership Issues

- **What:** The Board proposed revisions to Statement 14 to address ownership of an equity interest in a legally separate entity; final Statement is expected in August 2018
- **Why:** Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance
- **When:** The comment deadline was January 19, 2018

Background

- Current reporting is based on whether the intent of ownership is as an investment or to provide service; however, the intent of ownership is not always clear or may have multiple purposes.
  - How should the majority equity ownership in a legally separate entity be reported in the financial statements?
- Acquisition of an entity that ceases to exist is measured differently from the 100 percent acquisition of a legally separate entity that is reported as a component unit.
  - How should a government report the assets, deferred inflows of resources, liabilities, and deferred outflows of resources of a component unit when it is wholly acquired?

Tentative Decisions

- A majority equity interest in a legally-separate entity that meets the definition of an investment should be reported as an investment.
  - Measure by applying the equity method prescribed in Statement 62, paragraphs 205–209, except the following should apply fair value in accordance with Statement 72, paragraph 64:
    - Special-purpose governments engaged only in fiduciary activities
    - Fiduciary funds
    - Endowments (including permanent and term endowments) and permanent funds

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Tentative Decisions (continued)

- A majority equity interest in a legally-separate entity that does *not* meet the definition of an investment should measure the majority equity interest by applying the equity method prescribed in Statement 62, paragraphs 205—209.
  - This provision would be applied prospectively only.
- A 100 percent equity interest in a legally-separate entity that continues to exist should be reported using acquisition value
  - This provision would be applied prospectively only.

Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	December 2016
Exposure Draft Approved	November 2017
Comment Deadline	January 19, 2018
Final Statement Expected	August 2018

Public-Private Partnerships, including Reexamination of Statement 60

Public-Private Partnerships

- **What:** The Board is considering (1) establishing standards for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87 and (2) making certain improvements to Statement 60
- **Why:** The GASB routinely reviews whether existing standards are meeting their intended objectives; GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60's guidance for service concession arrangements
- **When:** Deliberations began in May 2018

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Tentative Decisions

- For Statement 60 on service concession arrangements (SCAs), the project will look at providing or improving guidance on:
  - The definition of SCAs
  - Assessing the term of SCAs
  - Initial measurement, including variable payments, the discount rate, and amortization of the discount
  - Remeasurement
  - Asset classification and application of impairment guidance
  - Payments for construction and other revenue recognition
  - Disclosures
  - Public-public partnerships

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Other Topics to Be Considered

- Should Statement 60 be amended to address differences with Statement 87?
- What is the definition of a public-private partnership?
- Should recognition and measurement guidance for P3s be based on Statement 60, Statement 87, or some other model?
- What disclosures should be required for P3s, if any?

Project Timeline

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

Subscription-Based Information Technology Arrangements

Information Technology Arrangements

- **What:** The Board is considering establishing standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts
- **Why:** Stakeholders are concerned that these transactions may not be covered by the guidance in Statements 51 or 87
- **When:** Deliberations began in August 2018

Topics to Be Considered

- Do SBITAs or particular stages of SBITAs meet the definition of an asset in Concepts Statement 4? If so, do SBITAs meet the Statement 51 definition of an intangible asset?
- What are the similarities and differences between SBITAs and on-premise software arrangements?
- How should governments account for fees paid for SBITAs?
- If the contract for an SBITA is separate from the contract for the initial implementation of that SBITA, how should governments account for outlays incurred during the initial implementation?

Topics to Be Considered (continued)

- Should outlays associated with SBITAs be grouped into three stages, similar to the three stages described for developing and installing internally generated computer software in Statement 51?
- Some SBITAs have multiple components that may go into service at different times. Should governments account for those components separately?

Project Timeline

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

Questions?