

# GASB Update

## Florida GFOA

### GASB Update—What Is Behind Door Number 3?

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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- Financial Reporting Model
- Revenue and Expense Recognition
- Note Disclosures

# Financial Reporting Model— Reexamination of Statement 34

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# Why Is The GASB Reexamining the Financial Reporting Model?

- The GASB is committed not only to establishing standards but also to ensuring that they continue to be effective
- GASB Statement 34 was issued in June 1999
- Most of the requirements of Statement 34 became effective in 2002 for State governments
- Governmental funds basically left untouched
- Bottom line—is the model achieving its objectives

# What Is the Focus of the Initial Deliberations?

- First Due Process Document—December 2016
  - Governmental funds—what should they convey
  - Role of cash flows statements in governmental funds



# What Approaches Are Currently Being Considered?

- Near-term financial resources
- Short-term financial resources
- Long-term financial resources



# What Is the Near-Term Financial Resources Focus?

- Similar to current financial resources, but more conceptually based
- Near term generally viewed as a 60-90 day period after the date of the financial statements
  - Assets—normally receivable at the period end and due to be converted to cash with the near term (or available to be converted to cash)
  - Liabilities—normally payable at period end and due within the near term
- Challenges
  - Anticipation notes
  - Interest on debt



# What Are the Primary Benefits and Challenges of the Near-Term Financial Resources Approach?

## ■ Benefits

- Increased consistency and comparability of governmental fund financial statements
- Convey amounts available for spending
- A cash flow statement for governmental funds may not be necessary with this approach

## ■ Challenges

- Required principal payments on long-term debt are recognized as a liability only on the date that it is due
- Changes in current practice
  - Accrued interest on that same liabilities is recognized as a liability as incurred.
  - Short-term operational borrowings, such as tax anticipation notes, would be reported as inflows of resources, rather than as liabilities
- Near-term fund balances may be overstated as the result of certain budgetary actions (for example, failure to make pension contributions)

# What Is the Short-Term Financial Resources Focus?

- Focus is on the subsequent one-year operating cycle
  - Assets—normally receivable at period end and due to be converted to cash in the subsequent operating cycle and prepaid items and inventory that will be consumed in that cycle
  - Liabilities—normally payable at year end and due or expected to be paid with the subsequent operating cycle



# What Are the Primary Benefits and Challenges of the Short-Term Financial Resources Approach?

## ■ Benefits

- Conceptual consistent because all of the obligations that are payable and due in the subsequent operating cycle, along with the existing resources that are available in the same period to satisfy these obligations are recognized
- Better basis for assessing interperiod equity than the current model
- May better reflect the impact of certain budgetary actions (for example, failure to make pension contributions)

## ■ Challenges

- Additional efforts related to preparing and auditing balances for amounts expected to be paid in the subsequent operating cycle for non-structured liabilities (for example, postemployment liabilities)
- Governmental fund statements of cash flows would be considered essential to the financial reporting model

# What is the Long-Term Financial Resources Focus?

- Focus is on all assets and liabilities except capital assets and capital-related debt



# What Are the Primary Benefits and Challenges of the Long-Term Financial Resources Approach?

## ■ Benefits

- Conceptually consistent recognition principles for financial resources to be reported in governmental fund financial statements by recognizing all transactions related to financial resources.
- May better reflect the impact of certain budgetary actions (for example, failure to make pension contributions)
- May simplify the financial reporting model because there would be few differences from the measurement approach used for the government-wide financial statements

## ■ Challenges

- Governmental funds would no longer present a shorter-term view of the financial position and resource flows
- Additional efforts related to preparing and auditing assignments of long-term liabilities to the funds
- Governmental fund statements of cash flows would be considered essential to the financial reporting model

# Messages Conveyed by the Approaches

	Near-Term*	Short-Term	Long-Term
Information related to...	Spending and resources available for spending	Short-term (one year) financial assets and liabilities	Financial resources (noncapital assets and liabilities) on the accrual basis of accounting
Focused on...	Amount available for spending in the next period	Government's one-year operating cycle	Both shorter and longer time perspectives
Financial resources are...	Resources expected to be converted to cash	Cash; claims to cash, goods, and services; consumable goods; equity securities of another entity	Cash; claims to cash, goods, and services; consumable goods; equity securities of another entity

\* Length of near-term would be specified (for example, 60–90 days after reporting period)

# What Would the Approaches Report?

	Near-Term	Short-Term	Long-Term
Assets	<b>Receivable</b> at period-end and <b>normally</b> due to convert to cash within near term; long-term receivables when due	<b>Receivable</b> at period-end and <b>normally</b> due to convert to cash within operating cycle; prepaids & inventories that will be consumed in the next operating cycle	All noncapital assets
Liabilities	<b>Payable</b> at period-end and <b>normally</b> due within near term; principal on debt when due	<b>Payable</b> at period-end and <b>normally</b> due within the next operating cycle	All noncapital-related liabilities

# What Would the Approaches Report?

	Near-Term	Short-Term	Long-Term
Inflows and outflows of resources	<p>Inflows—newly acquired financial resources that do not result in corresponding liabilities and are available for spending.</p> <p>Outflows—spending for the period; principal payments on matured debt and other-than-near-term obligations.</p>	As the underlying transaction occurs and cash is collected or paid or due in the subsequent operating cycle	As the underlying transaction occurs, plus inflows and outflows for purchases and sales of capital assets and issuance and repayment of capital-related debt



# Other Issues in the Invitation to Comment

- Format of governmental funds resource flows statement
  - Existing format
  - 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

# Public Hearings and User Forums Held

Public Hearings	User Forums
April 28, 2017 in Atlanta, GA	April 27, 2017 in New York, NY
May 3, 2017 in Dallas, TX	May 12, 2017 in San Francisco, CA
May 11, 2017 in San Francisco, CA	May 18, 2017 in Washington, DC
May 21, 2017 in Denver, CO (GFOA)	
May 24, 2017 in Norwalk, CT	

## Additional Information about the Proposals

- Series of brief videos are available on the GASB website

# What Additional Topics Will Be Addressed in the PV?

- **Government-Wide Financial Statements**—explore alternatives for the format of the statement of activities and consider whether a government-wide statement of cash flows should be required
- **Proprietary Fund and Business-Type Activity (BTA) Financial Statements**—explore operating performance measure alternatives in conjunction with evaluating the guidance for the separate presentation of operating and nonoperating revenues and expenses.
- **Budgetary Comparisons**—explore the appropriate method of communication (either as basic financial statements or required supplementary information) and which budget variances, if any, should be required to be presented
- **Fiduciary Fund Financial Statements**—explore where these financial statements should be presented in the basic financial statements

# What Topics Will Be Addressed in the ED?

- **Management's Discussion and Analysis (MD&A)**—options for enhancing the financial statement analysis component, eliminating requirements that are boilerplate and no longer necessary for understanding the financial reporting model, and clarifying guidance for presenting currently known facts, decisions, or conditions
- **Major Funds**—explore options for providing additional information about debt service funds, either individually or in aggregate in the financial statements or the notes
- **Extraordinary and Special Items**—explore options for clarifying the guidance for more consistent reporting

# What Is the Project Timetable?

Pre-Agenda Research Starts	August 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Expected	September 2018
Exposure Draft Expected	June 2020
Final Statement Expected	December 2021

# What Recognition Approach Do You Support?

- A—Near-term financial resources
- B—Short-term financial resources
- C—Long-term financial resources
- D—A combination of the approaches
- E—None of the above

# Revenue and Expense Recognition

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# Why Is GASB Addressing Revenue and Expense Recognition?

- Exchange revenue standards were incorporated from FASB literature “as is”
  - Not reviewed to consider their appropriateness for governments
  - Not comprehensive
- The FASB has introduced new revenue recognition standards
- Exchange expenses have not been addressed from an overall standpoint
- Non-exchange revenue and expense standards were recently subjected to a post-implementation review



# What Alternatives Are Being Assessed?

- New performance obligation versus no performance obligation model
- Traditional exchange versus nonexchange model

# What Is A Performance Obligation?

- A binding promise with another party to provide a distinct good, service, or other resource (or a bundle of goods, services, or other resources).
  - Two alternatives will be presented for the definition of a performance obligation: the first including the notion of “groups of individuals” as resource providers or resource recipients and the second excluding the notion of “groups of individuals.”

# What Is the Project Timetable?

Pre-Agenda Research Starts	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Expected	January 2018
Preliminary Views Expected	October 2019
Exposure Draft Expected	April 2021
Final Statement Expected	June 2022

# Note Disclosures

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# Why Is the GASB Researching Note Disclosure Issues?

- A comprehensive review of note disclosures has not been conducted since Statement 38 was issued
  - Board now has Concepts Statement No. 3, *Communications Methods*, in its toolbox
- Concern has been expressed by some preparers and auditors regarding disclosure overload
- Concern has been expressed by some financial statement users that certain disclosure requirements have not kept pace with the ever-changing environment
- Added to the research agenda in April 2016

# Note Disclosures—Research to Date

- Archival research
- Roundtables
  - Fifteen roundtables held in twelve cities
  - Results of these roundtables currently are being analyzed

# Note Disclosures—Timeline

- Develop and conduct stakeholder surveys beginning in July 2017
  - Overlapping—preparers, auditors, and users
- Develop and conduct interviews beginning in September 2017
- Results of research will be:
  - Scheduled to be discussed with GASAC at its June 2018 meeting
  - Scheduled to be formally presented to the Board at its July 2018 meeting
- Board will then consider whether a project will be added to the technical agenda

# What Is the Research Timetable?

- Research should be complete by November 2018
- Potential project could be considered by the Board in December 2018



# Going Concern

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# Why Is the GASB Researching Going Concern Issues?

- Current going concern guidance picked up generally “as is” from the auditing literature in Statement 56
- Governments generally do not go out of business
- Need early warning system (severe financial stress) before an entity is not considered to be a going concern has been identified, but solutions remain elusive

# Going Concern—Background

- Added to the research agenda in April 2015
- Research issues:
  - Are the current going concern indicators appropriate within the context of the government environment?
  - What, if any, other criteria might better achieve the objective of disclosing severe financial stress uncertainties?
  - What information do financial statement users need with respect to the disclosure of severe financial stress uncertainties?

# Going Concern—Research Activities to Date

- Literature review—over 150 articles and academic studies related to going concern uncertainties, fiscal stress, and fiscal financial health of governmental entities
- Two Crain grant projects
  - Governments that have received going concern opinions
  - Governments that have dissolved
- Interviews and surveys
  - State monitoring programs
  - User survey
- Statistical analysis
  - Financial reports of almost 500 governments over a 10 year period has been collected
  - Reports will be used to test potential indicators of serve financial stress

# Going Concern—Timeline

- Complete statistical analysis
- Discuss results with advisory group
- Timetable will be reevaluated in August 2017

# Questions?

- Visit [www.gasb.org](http://www.gasb.org)