GASB

State of North Carolina

GASB Update

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.

FAF FINANCIAL ACCOUNTING FOUNDATION FASB FINANCIAL ACCOUNTING STANDARDS BOARD GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Who Sets the Standards and How Is It Accomplished?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

GASB Members

- David A. Vaudt (Chairman)
- Jeffrey J. Previdi (Vice Chairman)
- James E. Brown
- Brian W. Caputo
- Michael H. Granof
- Kristopher E. Knight
- David E. Sundstrom

GASB Standard-Setting Process

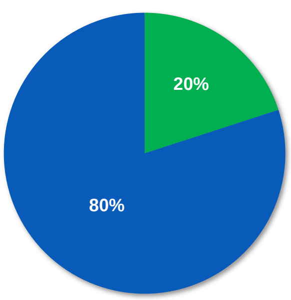
1. Identify Topic
2. Conduct Pre-agenda Research
3. Make Agenda Decision
4. Deliberate at Public Meeting
5. Issue Document for Public Comment
6. Host Public Hearings or Round Tables (Major Projects)
7. Re-deliberate Based on Comments & Research
8. Issue Final Standard
9. Education
10. Implementation

Due Process Documents

- Invitation to Comment
- Preliminary Views
- Exposure Draft

2017

How Are We Funded?



- Voluntary Reserve Fund Contribution (primarily derived from subscriptions & publications and investment income)
- GASB Accounting Support Fees (funds GASB recoverable expenses)

GASB 2017 Accounting Support Fee Assessment
Approx. 440 municipal bond broker-dealers (per Dodd-Frank)
$8.3 million (approx. $52 per firm per day)

Effective Dates of Standards Being (or to be) Implemented

Effective Dates—June 30, 2018

- Statement 75— *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB—Employers)
- Statement 81—*Irrevocable Split-Interest Agreements*
- Statement 85—*Omnibus* (primarily OPEB—bring in line with Statements 78 and 82)
- Statement 86—*Certain Debt Extinguishment Issues*
- Implementation Guide—2017-1, *Implementation Guidance Update—2017*
- Implementation Guide—2017-2*, OPEB Plan Implementation Guide*
- Implementation Guide—2017-3, OPEB Employer Implementation Guide

Effective Dates—June 30

- **2019**
  - Statement 83—*Certain Asset Retirement Obligations*
  - Statement 88—Certain Debt Disclosures
  - 2018-1—*Implementation Guidance Update—2018*
- **2020—**Statement 84—*Fiduciary Activities*
- **2021—**Statement 87—*Leases*

Expected Effective Dates—June 30

Current GASB Projects

- **2020**
  - Capitalization of Interest Costs
  - Equity Interest Ownership Issues

Blue Covers

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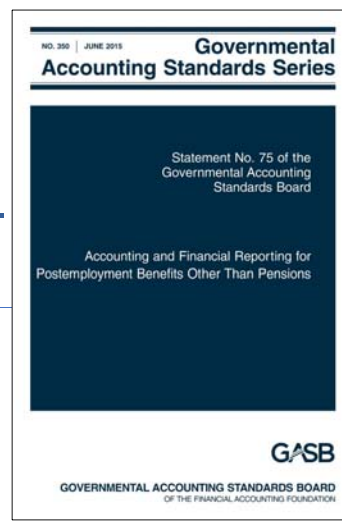
Other Postemployment Benefits—Employer: Statement 75


NO. 350 | JUNE 2015 Governmental Accounting Standards Series

Statement No. 75 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

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OF THE FINANCIAL ACCOUNTING FOUNDATION

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What Is the Fundamental Approach Employed in Statement 75?

- Fundamental approach for OPEB is the same as required for pensions in Statement 68
  - Viewed in the context of an ongoing, career-long employment relationship
  - Focus on the cost to taxpayers over time of providing government services
  - Accounting-based versus funding-based approach to measurement

How Is the Liability to Employees for OPEB Measured?

- 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

Total OPEB Liability: Measurement—Discounting

- Single discount rate that reflects:
  - Long-term expected rate of return on OPEB plan investments to extent that plan fiduciary net position from specified resources is:
    - Projected to be sufficient to make benefit payments
    - Expected to be invested using a strategy to achieve that return
  - Yield or index rate for 20-year, tax-exempt general obligation municipal bond rated AA/Aa (or equivalent) or higher, to extent that conditions for long-term expected rate of return are not met
- Calculated using the same process as required for pensions in Statement 68
- If not administered through a trust in which the specified criteria is met, the tax-exempt municipal bond rate is required to be used

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What Is Reported in Financial Statements?

- Government-wide and other accrual-basis statements
  - Net OPEB liability and deferrals, in the statement of net position
  - However, total OPEB liability if no assets have been set aside in a trust that meets specified criteria
  - OPEB expense allocated among programs and functions, in the statement of activities (total expense disclosed in notes)
- Governmental funds
  - Payable to OPEB plan for contributions/payments normally due and payable but not made prior to FYE, in the balance sheet
  - OPEB expenditure equal to contributions/payments normally due and payable, in statement of revenues, expenditures, and changes in fund balance

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Statement of Net Position

Deferred Outflows Of Resources:				
Deferred outflows from pensions	3,885,847	—	3,885,847	260,406
Deferred outflows from OPEB	640,932	—	640,932	—
Other deferred outflows of resources	571,764	—	571,764	136,418
Total deferred outflows of resources	5,098,543	—	5,098,543	396,824
Liabilities:				
Accounts payable and accrued liabilities	15,066,744	34,730	15,101,474	3,020,630
Accrued interest payable	1,079,876	90	1,079,966	175,085
Unearned revenue	3,610	29,423	33,033	470,984
Due to PG	—	—	—	2,516,160
Due to CUs, net	57,631	—	57,631	—
Estimated disallowance of Federal, State and other aid	552,875	—	552,875	—
Other	5,667,595	(3,754)	5,663,841	223,306
Derivative instruments-interest rate swaps	38,759	—	38,759	112,842
Noncurrent liabilities:				
Due within one year	5,884,716	79,170	5,963,886	1,887,437
Bonds & notes payable (net of amount due within one year)	[illegible]	—	[illegible]	[illegible]
Net pension liability	56,241,371	—	56,241,371	3,813,831
Net OPEB liability	88,422,672	—	88,422,672	7,531,903
Other (net of amount due within one year)	[illegible]	[illegible]	[illegible]	[illegible]
Total liabilities	273,597,685	465,841	274,063,526	64,849,546
Deferred Inflows Of Resources:				
Deferred inflows from pensions	5,386,509	—	5,386,509	47,715
Deferred real estate taxes	8,748,771	—	8,748,771	—
Deferred inflows from OPEB	9,451,365	—	9,451,365	694,750
Other deferred inflows of resources	222,812	—	222,812	99,710
Total deferred inflows of resources	23,809,457	—	23,809,457	842,175

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Descriptive Information

Members by type

Inactive employees or beneficiaries currently receiving benefit payments	1,307
Inactive employees entitled to but not yet receiving benefit payments	142
Active employees	8,356
	9,805

Assumptions used to measure the liability

Inflation	3.0 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	9.5 percent for 2019, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent for 2029 and later

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	40%	5.8%
Fixed income	35	1.0
Private equity	20	6.0
Real estate	3	5.9
Cash	2	0.0
Total	100%	

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Changes in the NOL

	Increase (Decrease)					
		Total OPEB Liability (a)		**Plan Fiduciary Net Position (b)**		**Net OPEB Liability/(Asset) (c) = (a) - (b)**
Balance at June 30, 2016	$	122,536,000	$	23,238,000	$	99,298,000
Changes Recognized for the Measurement Period:						
Service Cost		2,528,000		-		2,528,000
Interest on the total OPEB liability		8,560,000		-		8,560,000
Changes of benefit terms		-		-		-
Difference between expected and actual experience		(436,000)		-		(436,000)
Changes of assumptions		-		-		-
Contributions from the employer		-		11,037,000		(11,037,000)
Net investment income		-		3,037,000		(3,037,000)
Administrative expenses		-		(15,000)		15,000
Benefit payments		(5,673,000)		(5,673,000)		-
Net Changes during July 1, 2016 to June 30, 2017	$	4,979,000	$	8,386,000	$	(3,407,000)
Balance at June 30, 2017 (Measurement Date)	$	127,515,000	$	31,624,000	$	95,891,000

Sensitivity Analysis

Plan's Net OPEB Liability/(Asset)

Discount Rate - 1% (6.00%)	Current Discount Rate (7.00%)	Discount Rate + 1% (8.00%)
$ 112,777,000	$ 95,891,000	$ 82,033,000

Plan's Net OPEB Liability/(Asset)

Discount Rate - 1% (6.2% decreasing to 4.0%)	Healthcare Cost Tread Rates (7.2% decreasing to 5.0%)	Discount Rate + 1% (8.2% decreasing to 6.0%)
$ 78,869,000	$ 95,891,000	$ 116,898,000

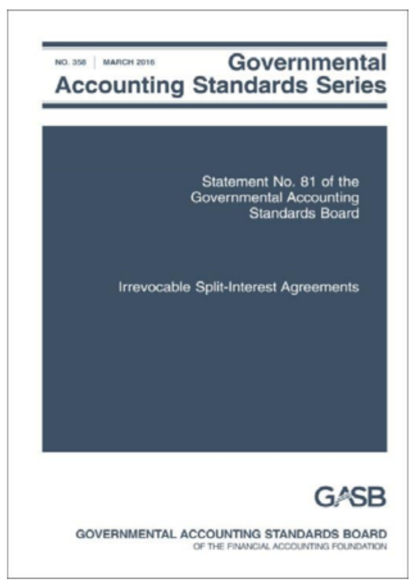
Deferrals

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 25,970	$ 14,134
Changes of assumptions	-	855
Net difference between projected and actual earnings on OPEB plan investments	17,782	-
Total	$ 43,752	$ 14,989

Amounts reported as deferred inflows of resources and deferred outflows of resources will be recognized in OPEB expense over an additional 5–7 years, as follows:

Year ended June 30:	
2019	$ 7,064
2020	7,384
2021	6,007
2022	4,482
2023	114
Thereafter	3,712

Irrevocable Split-Interest Agreements: Statement 81



Scope

- Irrevocable split-interest agreements for which the government is the intermediary (trustee or agent) and a beneficiary
  - Donor gives resources to government that also is a beneficiary in the agreement
  - Lead interest: payments during the life of the agreement, generally to non-governmental beneficiary (donor or donor's relative)
  - Remainder interest: assets remaining at termination of the agreement; generally goes to government
  - Life-interests in real estate
- Beneficial interests in resources held and administered by third parties
  - Refers to the right to receive resources in a future reporting period, from resources administered by a 3rd party

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Irrevocable Split-Interest Agreements with Resources Held by Governmental Entity

Measurement	Asset	Liability	Deferred Inflow
Initial	Resources measured at fair value	For benefit of *nongovernmental* beneficiary: • Lead interest—measure directly at settlement amount	For *government's benefit* in resources: • Remainder interest—residual amount (assets less liability)
Subsequent	Investments remeasured at fair value; changes in assets will be reflected in deferred inflow	Distributions to lead interest beneficiaries reduce the liability	

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Third Party Beneficiary

- The government is specified by name as beneficiary in the legal document underlying the donation.
- Donation agreement is irrevocable.
- Donor has not granted variance power to the intermediary with respect to the donated resources.
- Donor does not control the intermediary, such that the actions of the intermediary are not influenced by the donor beyond the specified stipulations of the agreement.
- Irrevocable split-interest agreement establishes a legally enforceable right for the government's benefit (an unconditional beneficial interest).

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Irrevocable Split-Interest Agreements with Resources Held by Third Party

Measurement	Asset	Deferred Inflow
Initial	Resources initially measured at fair value	Same as the asset
Subsequent	Changes in fair value of resources reflected in the deferred inflow	

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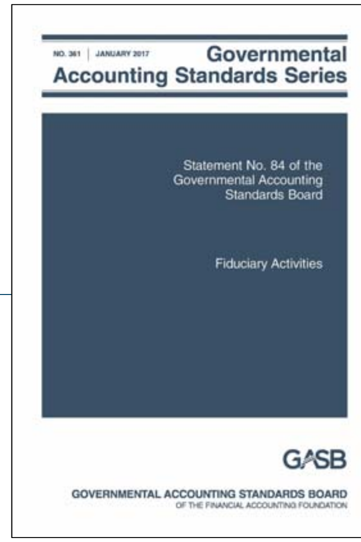
Fiduciary Activities: Statement 84



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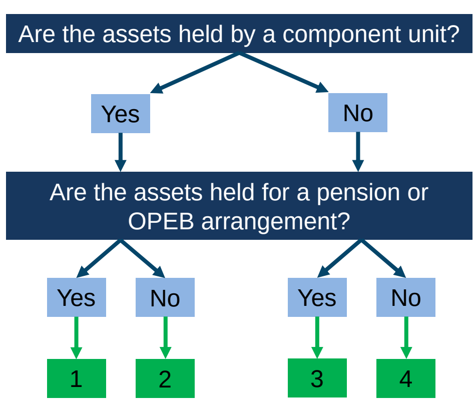
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



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How Can A Component Unit be a Fiduciary Activity?

- The activity needs to meet the definition of a component unit
  - Legally separate
    - Trusts generally are legally separate
  - Appointment of a majority of the governing body
    - What if there is no governing body?
  - Imposition of will or financial benefit or burden
    - Contributions to a pension or OPEB plan is a financial burden
  - Misleading to exclude

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When Are Component Units That Provide Postemployment Benefits a Fiduciary Activity?

- 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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When Are All Other Activities a Fiduciary Activity?

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

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What Are the Other Criteria?

- Assets are
  - Administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary,
  - Dedicated to providing benefits to recipients in accordance with the benefit terms, and
  - Legally protected from the creditors of the government.
- Assets are for the benefit of individuals
  - Government does not have administrative involvement with the assets or direct financial involvement with the assets
  - Assets are not derived from the government's provision of goods or services to those individuals.
- Assets are for the benefit of organizations or other governments that are not part of the financial reporting entity
  - Assets are not derived from the government's provision of goods or services to those organizations or other governments.

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When Does a Government Control Assets from a Fiduciary Standpoint?

- A government controls the assets of an activity if:
  - 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.

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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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What Changes Have Been Made to the Fiduciary Fund Type?

- 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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Where Do Stand-Alone Business-Type Activities Stand?

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements
- Resources expected to be held three 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

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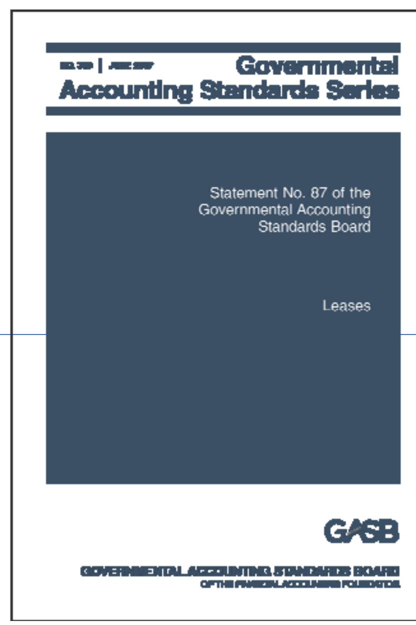
What Are Some Implementation Tips?

- Discuss implications of Statement 84 with business-type activities sooner rather than later
- Determine classification and fund category no later than 2018
- Determine how to capture inflow and outflow information for activities previously reported as agency funds
- Watch for implementation guide

Statement 87: Leases



What Is the Definition of a Lease?

- A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.

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What Is Reported in Financial Statements?

- Government-wide and other accrual-basis statements
  - Net OPEB liability and deferrals, in the statement of net position
  - However, total OPEB liability if no assets have been set aside in a trust that meets specified criteria
  - OPEB expense allocated among programs and functions, in the statement of activities (total expense disclosed in notes)
- Governmental funds
  - Payable to OPEB plan for contributions/payments normally due and payable but not made prior to FYE, in the balance sheet
  - OPEB expenditure equal to contributions/payments normally due and payable, in statement of revenues, expenditures, and changes in fund balance

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How Is Control Described in the Context of a Lease?

- Control requires both of the following:
  - The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and
  - The right to determine the nature and manner of use of the underlying asset

What Are the Scope Exclusions to Statement 87?

- 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 (See GASB Statement 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)

How Is a Lease Term Determined?

- Starts with the noncancelable period, plus periods covered by lessees' and lessors' options to:
  - Extend the lease, if the option is reasonably certain of being exercised
  - Terminate the lease, if the option is reasonably certain of NOT being exercised
- Excludes "cancelable" periods
  - Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend
    - Rolling month-to-month leases
- Fiscal funding/cancelation clauses not taken into consideration unless reasonably certain of being exercised

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When Does a Lease Term Need to be Reassessed?

- Reassess the lease term only if one or more of the following occurs:
  - Lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option
  - Lessee or lessor elects to not exercise an option even though previously determined that it was reasonably certain that the lessee or lessor would exercise that option
  - An event specified in the contract that requires an extension or termination of the lease takes place.

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What Is a Short Term Lease?

- A short-term lease is one that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised
  - For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the noncancelable period including any notice period

Why Are Short-term Leases Important?

- LESSEE — lease payments recognized as expenses/expenditures based on the payment provisions of the contract
  - No recognition of assets or liabilities associated with the right to use the underlying asset for short-term leases
- LESSOR — lease payments recognized as revenue based on the payment provisions of the contract
  - No recognition of receivables or deferred inflows associated with the lease
- No resource flows recognized during rent holiday periods
- No required disclosures

How Should Contracts With Multiple Components be Accounted For?

- Separate contracts into lease and nonlease components or multiple lease components
- Allocate consideration to multiple underlying assets if:
  - Differing lease terms, or
  - Are in differing major asset classes for disclosure
- Allocation process:
  - First — use any prices for individual components if price allocation not unreasonable based on contract terms and professional judgment (maximizing observable information)
  - If no prices or if not reasonable, use best estimate based on professional judgment (maximizing observable information)
  - If not practicable to determine best estimate, should account for components as single lease unit

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Leases—Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible 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 (including fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	• Lease receivable (generally including same items as lessee liability) • Continue to report leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

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Leases—Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible 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 payment needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

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What Are Some Implementation Tips?

- Determine if bond covenants or debt limit provisions need to be modified
- Establish policies now so that those policies can be applied to leases that are currently being entered into and still will be in effect when Statement 87 becomes effective
- Potential policies that could be considered
  - Identify a working threshold for assessing leases
  - Operationalize “reasonably certain”
  - Operationalize allocation procedures for nonlease components
- Develop a system to capture data related to lease terms, estimated lease payments, and other components of lease agreements that could effect the liability being reporting
- Watch for implementation guide

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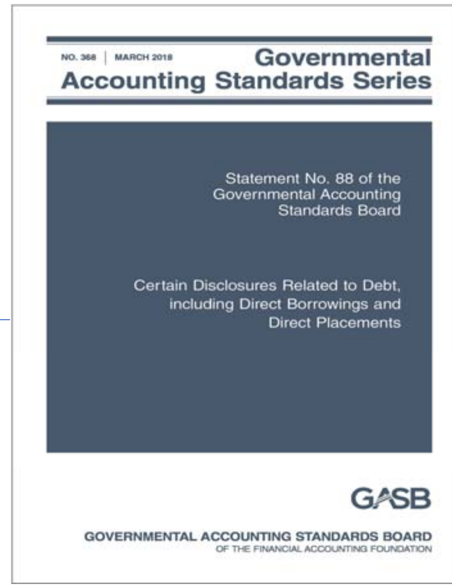
Debt Disclosures



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What Is the Definition of Debt?

- For purposes of disclosure in notes to financial statements, debt is defined as:
  - A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.
    - For disclosure purposes, debt does not include leases, except those contracts reported as a financed purchase of the underlying asset, or accounts payable.
    - For purposes of this determination, interest to be accrued and subsequently paid (such as interest on variable-rate debt) or interest to be added to the principal amount of the obligation (such as interest on capital appreciation bonds) does not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.

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What New Note Disclosures Are Required by Statement 88?

- Summarized information about the following items:
  - Amount of unused lines of credit
    - Not limited to lines of credit associated with debt
  - Assets pledged as collateral for debt
    - Does not include assets constructed with the related debt proceeds
  - Terms specified in debt agreements related to significant:
    - Events of default with finance-related consequences
    - Termination events with finance-related consequences
    - Subjective acceleration clauses.
- Separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt

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What Are Some Implementation Tips?

- Classify liabilities as debt/non-debt and review with auditor
- Establish mechanism to identify all lines of credit and pledged assets
- Review debt arrangement for specific terms
- Identify direct borrowings and direct placements (if any)

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Implementation Issues

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.

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Sales Taxes Collected (GIC Z.77.2)

- A state government enters into an agreement with a business in which the business commits to open 10 new retail stores within the state.
- The agreement meets all of the aspects of the definition of a tax abatement, according to Statement 77, except that it does not involve taxes for which the business would otherwise be liable.
  - Under the terms of the agreement, the business is allowed to retain 40 percent of the state sales tax collected from its customers in the new stores for the first 5 years of their operation. Those are taxes the business otherwise would remit to the state, but the taxes are being paid by the business' customers.
- Even though the taxes are the obligation of the customers and the business is acting solely as the remitter of the sales taxes, the state government forgoes tax revenues as a result of this agreement. Consequently, this agreement meets the definition of a tax abatement under Statement 77.

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Sales Taxes Normally to be Paid

- A state government enters into an agreement with a company in which the company commits to build a manufacturing plant within the state.
- The agreement meets all of the aspects of the definition of a tax abatement, according to Statement 77, except the taxes foregone are sales taxes that typically would be paid by the company (it is issued a tax exemption certificate)
  - Information on the taxes foregone is not collected by the state

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Nonexchange Transactions

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Definition of a Nonexchange Transaction

- Transaction in which a government gives (or receives) value without directly receiving (or giving) equal value in exchange

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Licenses and Business Permits (CIG Z.33.2)

- Licenses and permits are generally exchange or exchange-like transactions
- Many license and permit fees are designed specifically to offset the cost of processing the license or permit.
- Business permits are generally exchange or exchange-like transactions because the cost of a license or permit typically does not exceed the value of the services and rights received in exchange (the cost of processing the license or permit and the value of the right to conduct business).

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Recognition of Fines (CIG Z.33.10)

- Undisputed fines should be recognized when payments are made or when the statutory time allowed for dispute lapses, whichever occurs first.
- Disputed fines should be recognized when the appropriate legal authority (for example, court) rules that the fine is valid (legally enforceable) and should be recognized net of estimated refunds from rulings overturned on appeal.
- Legal enforceability generally occurs when the parties pay their fines, when the statutory time allowed for dispute lapses, or, if disputed, when a court later rules that the fine is enforceable.

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Recognition of Grants (CIG Z.33.16)

- A state provides a grant to the city. The city meets all of the eligibility requirements, but the state has not yet appropriated resources for the grant.
- In the absence of a court order requiring the state to pay the grant whether or not the legislature appropriates the resources, the state should appropriate resources before the state can recognize the grant expenditure/expense.
- An appropriation is essential to make the enabling legislation effective for a particular period of time. In these circumstances, . . . a government does not have a liability to transmit resources under a particular program, and a recipient does not have a receivable, unless an appropriation for that program exists and the period to which the appropriation applies has begun

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Capital Assets

Capitalize or Expense—Authoritative Guidance

- Capital assets should be reported at historical cost.
- Capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.
- The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use.
  - Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees.
- Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.
- Additional guidance in the modified approach—all expenditures made for those assets (except for additions and improvements) should be expensed in the period incurred

Capitalization Thresholds (CIG 7.9.5)

- Minimum level for the capitalization of assets
- Different types of assets, subsystems, or networks may have different capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts.
- Qualitative characteristics may also affect capitalization policies.
  - Different thresholds may be established and used for purposes other than financial reporting—for example, for management control purposes or for compliance with laws and regulations
  - Disclosure of capitalization policies, which include capitalization thresholds

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Individual Versus Collective Acquisitions (CIG 7.9.8)

- Purchase 100 computers costing $1,500 each
- Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied.
  - Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of record keeping for capital assets.
- It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. Computers, classroom furniture, and library books are assets that may not meet the capitalization policy on an individual basis, yet might be considered material collectively.

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Estimated Useful Life (CIG 7.14.1)

- Consider an asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service and technology demands
  - For an intangible asset, a government also should consider any legal, regulatory, or contractual provisions that may limit the length of the asset's useful life
  - Useful lives should be based upon the government's own experience and plans for the assets
    - Although comparison with other governments or other organizations may provide some guidance, property management practices, asset usage, and other variables (such as weather) may vary significantly between governments
- Componentization [not addressed in CIG]

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Subsequent Review of Useful Life (CIG 7.14.4)

- Periodic review of this useful life is necessary for depreciation to reflect that allocation.
- Many factors may affect the useful life of an asset
  - Planned preventative maintenance may not be performed, resulting in a reduction in the useful life of an asset
  - The use of the asset may have changed, or the asset may have been damaged or impaired by weather or other circumstances
- Any change in useful life is applied prospectively

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Technical Agenda—What Should Be On Your Radar

- Reporting model (reexamination)
- Revenue and expense recognition
- Cloud computing arrangements
- Conduit debt
- Public-private partnerships

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Financial Reporting Model

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What Has the Board Tentatively Decided Regarding the Definition of Financial Resources?

- Cash, resources that are expected to be converted to cash, and resources that are consumable in lieu of cash.

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Who Appears to Have Lost the Reporting Model Game of Thrones?

- In November 2017, the Board discussed the
  - Current financial resources recognition approach with modifications,
  - Economic resources recognition approach,
  - Presentation outside of the basic financial statements should be pursued further in developing the PV.
- In December 2017, the Board discussed the
  - Long-term financial resources approach
    - As proposed in the ITC
    - With the columnar presentation of capital assets and debt
  - Near-term financial resources recognition approach as proposed in the ITC
  - Short-term financial resources recognition approach as proposed in the ITC
- The Board tentatively decided that none of those alternatives should be pursued during the development of the next due process document.

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What Has the Board Tentatively Decided Would Be the Foundation of the Reporting Model?

- Retaining a shorter time perspective in the governmental fund financial statements is appropriate.
- Governmental fund financial statements should continue to present information that facilitates comparisons with a government's budgetary information.

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So What Is the Proposed Financial Reporting Model?

- Preliminary Views tentatively would propose a one-year (operating cycle) period of availability for governmental funds. The longer period of availability is needed to resolve several issues with the near-term approach, including recognition of prepaid items, inventory, tax and revenue anticipation notes, and certain grant receivables.
- Short-term/long-term approach should be used to determine fund liabilities. This approach most closely reflects the fundamental focus of governmental fund financial statements—that of a short-term view of a governmental net position and resource flows.

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Revenue and Expense Recognition

What Is the Tentative Scope of the Project?

The project scope broadly encompasses revenue and expense recognition but excludes:

Current Guidance	Financial Instruments	Capital Assets and Certain Liabilities
• Topics developed considering current conceptual framework • Examples: pensions and OPEB	• Topics related to financial instruments • Examples: investments, derivative instruments, leases	• Revenues and expenses related to capital assets and certain liabilities • Examples: depreciation, asset retirement obligation

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What Is the Exchange/nonexchange Model?

Classification
- Is the transaction an exchange transaction?

Recognition
- Yes-Earnings Recognition Approach
- No-Provisions of Statement 33

Measurement*
- To be included in subsequent due process document

*The Invitation to Comment does not include *measurement*

What Is the Performance Obligation/No Performance Obligation Model?

Classification
- Does the transaction contain a performance obligation?

Recognition
- Yes-Performance obligation recognition
- No-Provisions of Statement 33

Measurement*
- To be included in subsequent due process document

*The Invitation to Comment does not include *measurement*

What Is the Definition of a Performance Obligation?

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***.

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Project Timeline

Invitation to Comment Approved
- January 2018

GASB Webinar
- Available for Replay—No CPE

Comment Deadline Ended
- April 27, 2018

Public Hearings
- May 2018

Re-deliberations Expected to Begin
- June 2018

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Research Agenda

- Note disclosures (reexamination)
- Going concern
- Deferred compensation plans

Questions?

- Visit www.gasb.org

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