

Central Ohio AGA



## The Perfect Storm: GASB's Three Big Projects

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The views expressed in this presentation are those of Ms. Dolan.  
Official positions of the GASB are reached only after extensive due process and deliberations.



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## What are the “Big Three” Projects ?

- 1) Financial Reporting Model Reexamination
- 2) Revenue and Expense Recognition
- 3) Disclosure Framework



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## Financial Reporting Model— Reexamination of Statement 34

*Preliminary Views, Financial Reporting Model  
Improvements (comment deadline 2-15-19)*



## Financial Reporting Model Reexamination

### What:

•The Board is considering improvements to the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6

### Why:

•A review of those standards found that they generally were effective, but that there were aspects that could be significantly improved

### When:

•An Invitation to Comment was issued in December 2016; A Preliminary Views was issued September 2018; comment deadline is February 15, 2019



## Concerns with Existing Reporting of Governmental Funds

Some consider it ineffective in conveying that the information is related to fiscal accountability (rather than operational accountability)

- Focuses on financial resources rather than on economic resources
- Shorter time perspective than information in government-wide financial statements

Lack of conceptual consistency in recognition of assets and liabilities

Lack of conceptual foundation from which to develop standards for complex transactions

Lack of consistency in short-term perspective



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## Proposal: Recognition in Governmental Funds

### Short-Term Financial Resources Measurement Focus

Items Arising from Short-Term Transactions and Events	Items Arising from Long-Term Transactions and Events
Those that normally are due to convert to or generate cash (or other financial assets) or require the use of cash (or other financial assets) entirely <i>within one year</i> from the inception of the transaction or other event	Those that normally are due to convert to or require the use of cash (or other financial assets) in periods that <i>extend beyond one year</i> from the inception of the transaction or other event
Elements recognized when the underlying transaction <i>occurs</i>	Elements recognized when the payments to be received or made become <i>due</i>



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## Illustrative Transactions: Taxes Receivable Other Than Property Taxes

Balance of \$13,000,000, of which \$3,000,000 is due 3 months after year-end and \$10,000,000 is due 6 months after year-end.

Current Approach	
Taxes receivable	\$13,000,000
Deferred inflow	10,000,000
Revenue	3,000,000

Short-Term Approach	
Taxes receivable	\$13,000,000
Inflows of resources	13,000,000



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## Illustrative Transactions: Special Assessments Receivable

Starting balance of \$120,000, of which \$40,000 matured and was collected, leaving an ending balance of \$80,000, all due beyond 3 months after year-end.

Current Approach	
Special assessments receivable	\$80,000
Deferred inflow	80,000
Revenue	40,000

Short-Term Approach	
Inflows of resources	\$40,000



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## Illustrative Transactions: Leases Payable

Starting balance of \$4,700,000. New leases commenced during year of \$230,000 and principal paid was \$1,300,000. Ending balance was \$3,630,000.

Current Approach	
Expenditures (in capital outlay)	\$230,000
Expenditures (in debt service)	1,300,000
Other financing sources	230,000

Short-Term Approach	
Outflows of resources for debt service	\$1,300,000



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## Illustrative Transactions: Accrued Interest on Long-Term Debt and Leases

Starting balance of \$900,000. Interest incurred during year was \$2,400,000. Interest paid during year was \$2,450,000. Ending balance was \$850,000.

Current Approach	
Debt service expenditures	\$2,450,000

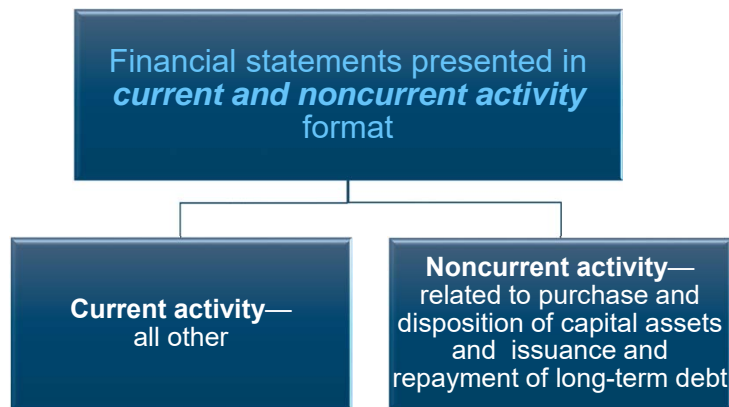
Short-Term Approach	
Accrued interest payable	\$850,000
Outflows of resources for debt service	2,400,000



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## Proposal: Presentation of Governmental Funds



## Proposal: Presentation of Governmental Funds

**These financial statements would present a short-term view of governmental fund activities and report items of a long-term nature differently from how they are reported in government-wide financial statements**

Short-Term Financial Resources Balance Sheet	Statement of Short-Term Financial Resource Flows
Short-term assets	Inflows of short-term financial resources for current activities
Deferred outflows of short-term financial resources	Outflows of short-term financial resources for current activities
Short-term liabilities	Net flows of short-term financial resources for noncurrent activities
Deferred inflows of short-term financial resources	
Short-term financial resources fund balances	

# Proposal: Presentation of Governmental Funds

**ABC Government  
Statement of Short-Term Financial Resource Flows  
Governmental Funds  
Year Ended June 30, 20XX**

This financial statement presents a short-term view of the governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements.

	<u>General Fund</u>	<u>Special Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,311,156	\$ 2,015,047	\$ 27,648,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Special assessments	-	-	41,500	41,500
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,192,493	20,787,512
Investment earnings	5,829	11,384	119,043	136,256
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	654,482	771,287	5,642,709
Total inflows of short-term financial resources for current activities	<u>106,760,279</u>	<u>5,977,022</u>	<u>19,516,177</u>	<u>132,253,478</u>



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# Proposal: Presentation of Governmental Funds (continued)

**OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES**

General government	14,053,444	6,961,201	2,213,691	23,228,336
Public health and safety	70,880,913	-	590,383	71,471,296
Highway and streets	12,137,714	-	4,715,808	16,853,522
Culture and recreation	3,581,583	335,659	1,808,065	5,725,307
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of short-term financial resources for current activities	<u>101,304,999</u>	<u>7,296,860</u>	<u>13,201,992</u>	<u>121,803,851</u>
Net flows of short-term financial resources for current activities	<u>5,455,280</u>	<u>(1,319,838)</u>	<u>6,314,185</u>	<u>10,449,627</u>
<b>NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES</b>				
Transfers in	-	-	10,651,605	10,651,605
Debt service	(2,434,544)	(366,412)	(9,198,505)	(11,999,461)
Capital outlay	(111,987)	(1,515)	(1,346,497)	(1,459,999)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Total net flows of short-term financial resources for noncurrent activities	<u>(10,227,406)</u>	<u>(374,372)</u>	<u>(2,314,297)</u>	<u>(12,916,075)</u>
Net change in short-term financial resources fund balances	<u>(4,772,126)</u>	<u>(1,694,210)</u>	<u>3,999,888</u>	<u>(2,466,448)</u>
Short-term financial resources fund balances at beginning of year	9,319,621	9,776,474	27,892,592	46,988,687
Short-term financial resources fund balances at end of year	<u>\$ 4,547,495</u>	<u>\$ 8,082,264</u>	<u>\$ 31,892,480</u>	<u>\$ 44,522,239</u>



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## Proposals: Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

### Operating

Activities other than nonoperating activities

### Nonoperating

Subsidies received and provided  
Revenues and expenses of financing  
Resources from the disposal of capital assets and inventory  
Investment income and expenses

## Proposals: Proprietary Funds (continued)

Add a new subtotal for *operating income (loss) and noncapital subsidies*

Subsidies are resources provided by another party or fund for the purpose of keeping the rates lower than otherwise would be necessary for the level of goods and services to be provided



	2016	2015
<b>Operating revenues:</b>		
Tuition and fees (net of discounts)	\$ 574,168	\$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	<u>1,146,343</u>	<u>1,091,377</u>
<b>Operating expenses:</b>		
[Natural or functional expenses]		
Total operating expenses	<u>1,681,544</u>	<u>1,596,059</u>
Income (loss) generated by operations	<u>(535,201)</u>	<u>(504,682)</u>
<b>Noncapital subsidies:</b>		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	<u>558,101</u>	<u>530,057</u>
Operating income (loss) and noncapital subsidies	<u>22,900</u>	<u>25,375</u>
<b>Financing and investing activities:</b>		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	<u>221,023</u>	<u>126,314</u>
Income before other items	<u>243,923</u>	<u>151,689</u>
<b>Other items:</b>		
Capital contributions	23,231	74,830
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	<u>\$ 3,328,265</u>	<u>\$ 3,061,111</u>



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## Proposal: Budgetary Comparisons

Would be presented as required supplementary information (no option for basic statements)

Required variances would be final-budget-to-actual and original-budget-to-final-budget



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## Other Proposals

### Major component unit presentations

- If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements

### Schedule of government-wide expenses by natural classification would be presented as supplementary information

- Governmental activities expenses by function or program
- Business-type activities expenses by different identifiable activity

## Illustration of Governmental Activities by Natural Classification

City of ABC  
Schedule of Governmental Activities Expenses by Function and Natural Classification  
for the Year Ended June 30, 20XX

Natural Classification	General Government	Public Health and Safety	Highway and Streets	Culture and Recreation	Economic Development	Interest	Total
Awards and grants	\$ XX,XXX	\$ XX,XXX	\$ XX,XXX	\$ XXX,XXX	\$ XX,XXX	\$ -	\$ XXX,XXX
Contractual services	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Other services and supplies	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Personnel and benefits	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Depreciation	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Interest	-	-	-	-	-	XX,XXX	XX,XXX
Total	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX

## Illustration of Business-Type Activities by Natural Classification

**City of ABC**  
**Schedule of Business-Type Activities Expenses by Different Identifiable Activity and Natural Classification for the Year Ended June 30, 20XX**

Natural Classification	Water	Sewer	Motor Vehicle Parking	Cemetery	Total
Contractual services	\$ XX,XXX	\$ XX,XXX	XX,XXX	\$ XX,XXX	\$ XXX,XXX
Other services and supplies	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Personnel and benefits	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Depreciation and amortization	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Interest	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
<b>Total</b>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>XXX,XXX</u>	<u>\$ XXX,XXX</u>	<u>\$ XXX,XXX</u>

## Alternative Views

Modification of proposed measurement focus and criteria

Replacement of concept of *normally* with contractual maturities or estimates

Government-wide Statement of Cash Flows

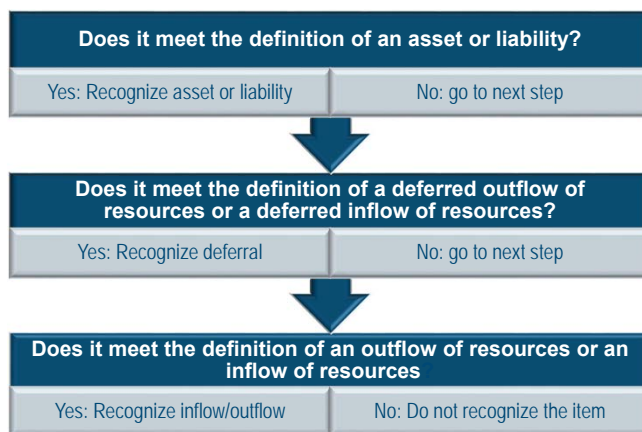
## Preliminary Views, *Recognition of Elements of Financial Statements*

The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

The related **basis of accounting** determines *when* those items should be reported.

## Proposal: Recognition Hierarchy

Follow a specific order when evaluating an item for recognition:



## Proposal: Recognition Framework

### Two Measurement Focuses

#### Economic Resources

(applied in government-wide, proprietary fund, and fiduciary fund financial statements)

#### Short-Term Financial Resources

(would replace current financial resources in the governmental funds)

## Proposal: Recognition Framework (continued)



## Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Issued	September 2018
Comment Deadline	February 15, 2019
Public Hearings	March 5, 2019 (Rosemont, IL) March 12, 2019 (Atlanta, GA) March 14, 2019 (Flushing, NY)
User Forums	March 6, 2019 (Rosemont, IL) March 14, 2019 (Flushing, NY)



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## Revenue and Expense Recognition

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## Revenue and Expense Recognition

### What:

- The Board is redeliberating stakeholder input on an Invitation to Comment as part of developing a comprehensive model for recognition of revenues and expenses

### Why:

- Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

### When:

- Invitation to Comment was issued in January 2018; redeliberations began in June

## Project Scope

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

Topics with guidance developed considering the current conceptual framework	Topics related to financial instruments	Topics related to transactions arising from recognition of capital assets or certain liabilities
For example, pensions and other post-employment benefits	For example, investments, derivatives, leases, and insurance	For example, depreciation, asset retirement obligations, and pollution remediation obligations

## Revenue and Expense Recognition Models

There are three components of a revenue and expense recognition model

**Classification** is the process of identifying the *type* of transaction (for example, is the transaction exchange or nonexchange?)

**Recognition** is the process of determining *what* element should be reported and *when* (for example, recognize revenue when earned)

**Measurement** is the process of determining the *amount* to report for the element (not addressed in the Invitation to Comment)

## Exchange/Nonexchange Model

**Classification** Is the transaction an exchange?

**YES**

**Earnings recognition approach:**

- Government controls a resource, or incurs an obligation to sacrifice a resource, **and**
- The change in net assets is not applicable to a future period

**NO**

**Provisions of Statement 33:**

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

**Recognition**

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



## Existing Guidance for Exchange Transactions

Existing authoritative guidance in GASB literature is limited:

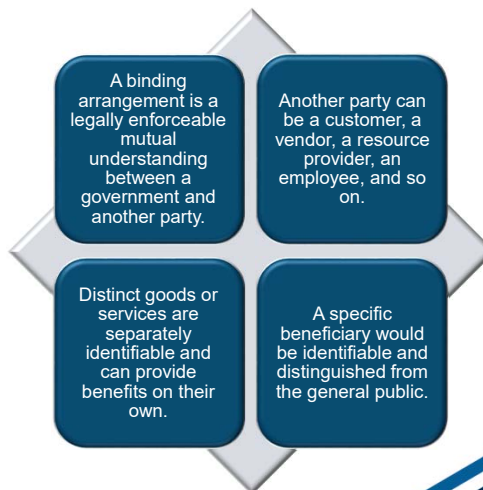
Exchange	Exchange Revenue Recognition	Exchange Expenses
Exchange transactions are those in which each party receives and gives up essentially equal value	Revenues from exchange transactions should generally be accounted for at the time a transaction is completed	Expenses resulting from exchange and exchange-like transactions should be recognized when the exchange takes place
Statement No. 33, paragraph 1	Statement No. 62, paragraph 23	Statement No. 34, paragraph 16, as amended



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## Performance Obligation Definition

A performance obligation is a promise in a *binding arrangement* between a government and *another party* to provide *distinct goods or services* to a *specific beneficiary*.



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# Performance Obligation/ No Performance Obligation Model

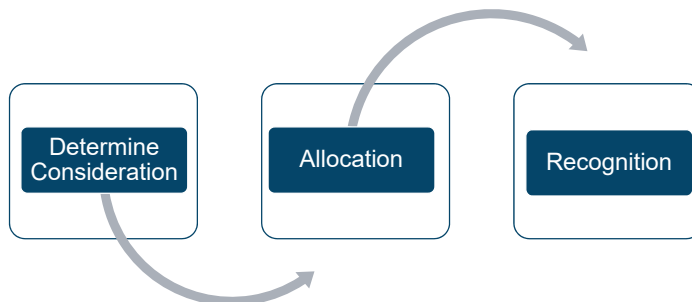
**Classification** Does the transaction contain a performance obligation?

	YES	NO
<b>Recognition</b>	<p><b>Performance recognition approach:</b></p> <ul style="list-style-type: none"> <li>• Determine consideration</li> <li>• Allocate consideration to performance obligation(s)</li> <li>• Recognize revenue or expense as each performance obligation is satisfied (at a point in time or over time) and the transaction is applicable to the reporting period(s)</li> </ul>	<p><b>Provisions of Statement 33:</b></p> <ul style="list-style-type: none"> <li>• Derived tax revenue</li> <li>• Imposed nonexchange revenue</li> <li>• Government-mandated nonexchange transaction</li> <li>• Voluntary nonexchange transaction</li> </ul>

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



# Performance Obligation Recognition



Determine the amount of consideration that a government expects to receive or pay in the binding agreement

Allocate the consideration to each performance obligation identified in the binding arrangement

Recognize revenue or expense as each performance obligation is satisfied and the transaction is applicable to the reporting period



## Project Timeline

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

## Conceptual Framework— Disclosure Framework

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## Disclosure Framework

### What:

- The Board has added a conceptual framework project to further develop the concepts that guide standards-setting decisions regarding the information that should be disclosed in financial statements

### Why:

- The GASB reexamined existing note disclosure requirements and concluded that it was necessary to elaborate on the concept of “essential” as it relates to notes to financial statements

### When:

- Deliberations began in October 2018

## Concepts Related to Disclosures

Concepts Statements guide the Board’s decisions when setting accounting and financial reporting standards

Concepts Statement 3 establishes criteria for what communication method should be used to report information – financial statements, notes to financial statements, required supplementary information, and supplementary information

Notes to financial statements are integral to financial statements and are **essential** to a user’s understanding of financial position or inflows and outflows of resources.

## Potential Topics to Consider

- Purpose of note disclosures, including user needs related to note disclosures
- Characteristics of essentiality
- Limitations of note disclosures
- Presentation and format of note disclosures, including consideration of the location of the information within the note disclosure section
- Consideration of note disclosures individually and as a whole

## Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	August 2018



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