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GASB Update

May 17, 2019

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Agenda

- Asset Retirement Obligations
- Fiduciary Activities
- Leases
- Debt Disclosures
- Capitalized Debt
- Equity Interests
- GASB Projects
  - Revenue & Expenses
  - Recognition PV
  - Financial Reporting Model

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GASB 83, Asset Retirement Obligations

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GASB 83

- Certain Asset Retirement Obligations
  - Issued: November 2016
  - Effective: For reporting periods beginning after June 15, 2018
- Establishes criteria for determining the timing and pattern of recognition of a liability for AROs other than landfills

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Definition

- An ARO is a legally enforceable liability associated with the retirement of a **tangible capital asset**

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Recognition

- Recognition occur when the liability is both incurred and reasonably estimable
- Incurred
  - Based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event

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Recognition Cont'd

- Reasonably Estimable
  - Based on the **best estimate** of the current value of outlays expected to be incurred (probability weighting of all potential outcomes)
    - If probability weighting is not feasible at reasonable cost, the most likely amount should be used.

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Journal Entry

- Recognize a liability and a deferred outflow of resources
  - Deferred outflow of resources equals corresponding liability upon initial measurement

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Subsequent Measurement

- Liability
  - Adjust for the effects of inflation or deflation at least annually
  - Evaluate at least annually to determine whether significant changes impact the estimated asset retirement outlays
    - Remeasure when significant change occurs

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Subsequent Measurement

- Deferred Outflow
  - Expense in a systematic and rational manner over the estimated useful life of the tangible capital asset

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GASB 84, Fiduciary Activities

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GASB 84

- Fiduciary Activities
  - Issued: January 2017
  - Effective: For reporting periods beginning after December 15, 2018
- Improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes

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Fiduciary Fund Types

- Pension (and other employee benefit) trust funds
- Investment trust funds
- Private-purpose trust funds
- **Custodial** funds

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Criteria

- The focus of the criteria generally is on
  - whether a government is controlling the assets of the fiduciary activity and
  - the beneficiaries with whom a fiduciary relationship exists.
- Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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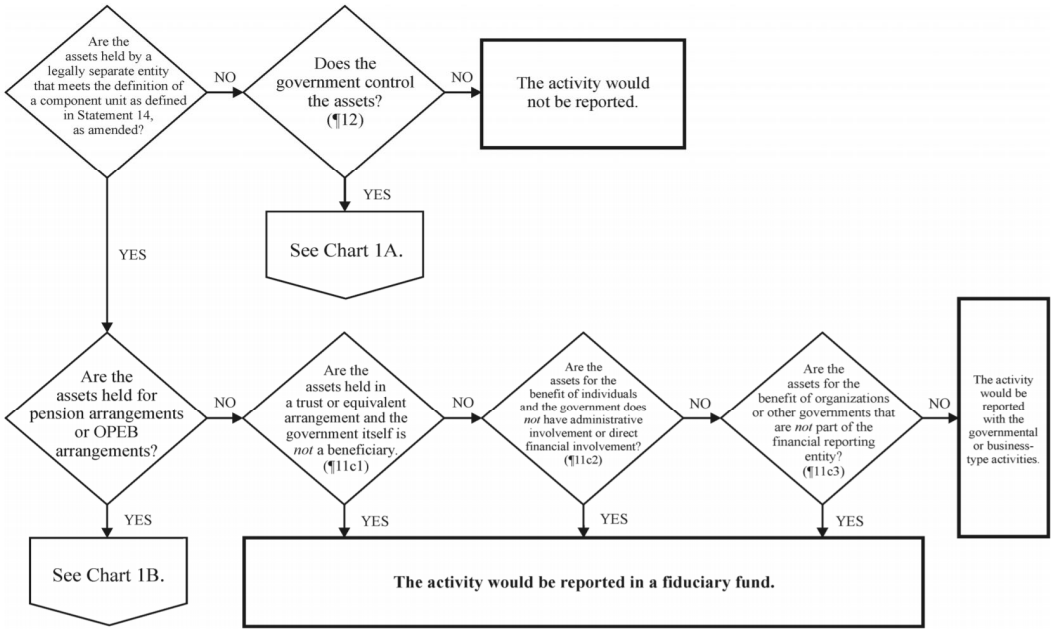
Chart 1—Flowchart for Evaluating and Reporting Potential Fiduciary Activities



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Financial Statements

- Governments with activities meeting the criteria should present
  - a statement of fiduciary net position
  - a statement of changes in fiduciary net position
- Exception: a BTA that normally expects to hold custodial assets for three months or less

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Reporting

- A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds

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GASB 87, Leases

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GASB 87

- Statement 87: Leases
  - Issued: June 2017
  - Effective: For reporting periods beginning after December 15, 2019
    - Early application is encouraged
- Background
  - FASB & IASB issued final standards regarding leases

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Definition

- A lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction
  - Substance over form
    - Includes contracts that are not identified as a lease that meet the definition of a lease

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Not in Scope

- **Service Contracts** *(unless it contains both a lease and a service component)*
- **Intangibles** *(including rights to explore natural resources)*
- **Biological Assets** *(including timber, living animals)*
- **Inventory**
- **Service Concession Arrangements** *(Stmt 60)*
- **Leases Financed with Outstanding Conduit Debt** *(unless both asset and debt are reported by lessor*
- **Supply Contracts** *(power purchase agreements)*

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Lease Term

- Noncancelable period PLUS
  - Periods covered by a lessee's option to extend if it is *reasonably certain* that lessee will exercise option
  - Periods covered by a lessee's option to termination if it is *reasonably certain* that the lessee will NOT exercise the option
  - Period covered by lessor's option to extend if it *reasonably certain* to exercise the option
  - Period covered by lessor's option to terminate if it is *reasonably certain* that the lessor will NOT exercise that option

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Short Term Leases

- A lease (at commencement) has a maximum possible term under the lease of 12 months or less INCLUDING options to extend (regardless of their probability of being exercised)
- For a rolling month-to-month lease (or year to year) the maximum possible term is the noncancelable period (including notice periods)

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Lessee Accounting

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Lessee Accounting

- At commencement recognize
  - Lease liability
  - Intangible right to use asset

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Subsequent Measurement

- Amortization of discount on lease liability
  - Interest expense
  - Payments should first be allocated to accrued interest and then lease liability

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Lease Asset

- Sum of:
  - Initial lease liability
  - Payments made to lessor at or before commencement (less any incentives)
  - Initial direct costs that are ancillary charges necessary to place the lease asset into service
    - Any initial direct costs that would be considered debt issuance costs should be expensed in period incurred

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Subsequent Measurement

- Amortized in systematic and rational manner over **shorter** of lease term **OR** useful life
- Exception
  - Purchase option reasonable certain of being exercised then use useful life

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GASB 88, Debt Disclosures

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GASB 88

- Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
  - Issued: April 2018
  - Effective: For reporting periods beginning after June 15, 2018

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Background

- Concerns about governments entering into debt arrangements that have the potential to introduce additional risks to a government's credit profile.
  - Inconsistencies in disclosures in financial statements
  - Challenges to the ability to assess those risks without additional information
  - Concerns about the absence of disclosures regarding provisions of debt agreements that expose governments to financial risk, such as accelerated repayments when certain events occur

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Background Cont'd

- Confusion as to whether certain types of long-term liabilities are regarded as debt and, therefore, subject to disclosure requirements for debt

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Definition

- For disclosure purposes - 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.

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NOT Debt

- For disclosure purposes - debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, or accounts payable.

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New Disclosures

- 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, and
  - subjective acceleration clauses

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Presentation

- In notes to financial statements, a government should separate information in debt disclosures regarding direct borrowings and direct placements of debt from other debt.

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GASB 89, Construction Period Interest

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GASB 89

- Accounting for Interest Cost Incurred before the End of a Construction Period
  - Issued June 2018
- Objective
  - Simplify the accounting for interest cost

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Background

- Previously was accounted for under Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

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Main Provisions

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred
  - Economic resources measurement focus.
- Not included in the historical cost of a capital asset reported in a business-type activity or enterprise fund

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Main Provisions

- Reiterates that in FS prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles

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Why is GASB Issuing the Standard?

- Enhances the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities

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Effective Date

- For reporting periods beginning after December 15, 2019.
  - Earlier application is encouraged.
- Applied prospectively.

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GASB 90, Majority Equity Interests

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GASB 90

- Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61
  - Issued August 2018
- Background
  - Stakeholders requested that GASB clarify whether a government reporting a majority equity interest in a legally separate organization should apply the guidance for reporting component units in Statement 14, as amended, or the guidance for reporting investments in Statement 72

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Update

- Modifies previous guidance for reporting a government's majority equity interest in a legally separate organization

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Definition

- An equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government.
  - An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable

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Legally Separate

- Reporting a Majority Equity Interest in a Legally Separate Organization
  - If a government's holding of an equity interest meets the definition of an investment in GASB 72, the equity interest should be reported as an investment and measured using the equity method in accordance with GASB 62
  - Should not be reported as a component unit of the government

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Exception

- If a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund holds a majority equity interest in a legally separate organization that meets the definition of an investment, that majority equity interest should be measured at fair value under GASB 72.

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Component Unit

- If a government's holding of a majority equity interest in a legally separate organization does NOT meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and, therefore, the government should report the legally separate organization as a component unit.

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Presentation

- A majority equity interest in an organization reported as a component unit also should be reported as an asset of the government or fund that holds the equity interest, measured using the equity method in accordance GASB 62.
  - If the component unit is blended, the asset and net position associated with the equity interest held by the government or fund should be eliminated in the blending process.

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Current Financial Resource Focus

- The asset representing the government's equity interest should be limited to amounts appropriately reported under the current financial resources measurement focus.

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If a Government Acquires a 100% Equity Interest

- If a government acquires a 100% equity interest in a legally separate organization that is reported as a component unit, the component unit should measure its assets, deferred outflows of resources, liabilities, and deferred inflows of resources in accordance with GASB 69, *Government Combinations and Disposals of Government Operations*, at the date on which the government acquires the 100% equity interest.

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Reporting

- The consideration provided should include the net resources exchanged to complete the acquisition of the 100% equity interest plus the balances of any equity interest asset and deferred outflow of resources recognized prior to the completion of the acquisition.

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Presentation

- The net position acquired should be equal to the net position of the component unit after measuring assets, deferred outflows of resources, liabilities, and deferred inflows of resources using GASB 69.
- The flows statements of the component unit should include only those transactions that occurred subsequent to the acquisition of the 100% equity interest.

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Effective Date

- Effective for reporting periods beginning after December 15, 2018.
  - Earlier application is encouraged.

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GASB Projects

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Current Agenda

- Revenue & Expense Recognition
- Conceptual Framework – Recognition
- Financial Reporting Model

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GASB ITC, Revenue & Expense Recognition

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Background

- Issued: January 23, 2018
- Comments Due: April 27, 2018

- Goal:
  - Development of a comprehensive revenue & expense model for state and local governments
  - Robust, Principles Based Guidance
  - Address wide range of transactions
  - Improve comparability
  - More useful information for users

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Why

- Existing guidance for exchange transactions is limited
- Existing guidance for nonexchange transactions could be clarified and improved
- Concept Statement 4
- Other Standard Setters are considering or implementing revenue guidance

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Layout

Chapter 1 – Project Scope

- Explains components of model
- Introduces models

Chapter 2 – Exchange / NonExchange Model

Chapter 3 – Performance Obligation / No Performance Obligation Model

Chapter 4 – Alternative Model

Appendix A – Illustrative Examples

Appendix B – Background Information

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Scope

- Does not include
  - Topics established after Concept Statement 4 & 6
  - Topics related to capital assets & certain liabilities that require specialized guidance
    - Impairments, pollution remediation, ARO
  - Topics related to Financial Instruments
    - Require specialized guidance
- Will need to consider conclusions in parallel with Financial Reporting Model

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Components

- Classification – identifying type of transaction
- Recognition – determining when an item should be reported as an element
- Measurement – determining a value for an element
  - Not addressed in ITC
  - Will be addressed in future

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Exchange/Nonexchange Model

Classification	Is the transaction an exchange?	
	Yes	**No**
	Exchange Transaction	***Nonexchange Transaction***
Recognition	Recognize based on the 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 reporting period	Recognize based on Statement 33 provisions for: • Derived tax revenues • Imposed nonexchange revenues • Government-mandated nonexchange transactions • Voluntary nonexchange transactions
Measurement	*Measurement is not addressed in this Invitation to Comment but is expected to be addressed in a later due process document.*	

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Classification

- Exchange – each party receives and gives up essentially equal value
- Nonexchange – gives up or receives value without directly receiving or giving equal value in exchange

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Recognition (Exchange)

- Exchange - Earnings recognition approach
  - Recognize when an exchange is complete
  - Point in time vs over time
  - Revenue has been earned by provider or when payment is obligated

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Recognition (Nonexchange)

- No proposed modifications
- Four types:
  1. Derived tax revenues (i.e. income and sales tax)
  2. Imposed nonexchange (i.e. property tax)
  3. Government mandated nonexchange (federal grant for programs local govs are required to perform)
  4. Voluntary nonexchange (grants and entitlements)

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Performance Obligation/No Performance Obligation Model

Classification	Does the transaction contain a performance obligation in a binding arrangement?

	Yes	**No**
	Performance Obligation	***No Performance Obligation***
Recognition	Recognize based on performance obligation recognition approach: • Determine consideration • Allocate consideration to performance obligation(s) • Recognize revenue or expense as each performance obligation is satisfied (at a point in time or over time) and the transaction is applicable to the reporting period(s)	Recognize based on Statement 33 provisions for: • Derived tax revenues • Imposed nonexchange revenues • Government-mandated nonexchange transactions • Voluntary nonexchange transactions

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

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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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Classification

- If a government is unable to identify a promise in a binding arrangement with rights and obligations that articulate in equivalent terms, a specific beneficiary, or distinct goods and services, the transaction would be classified as not containing a performance obligation.
  - New, additional guidance may be needed to operationalize the classification process

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Recognition

- For transactions identified as containing a performance obligation - revenue and expense would be recognized following the performance obligation recognition approach
- For transactions identified as not containing a performance obligation - revenue and expense would be recognized following Statement 33, as amended

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Performance Obligation Approach

- Revenue in a transaction when there is a transfer of goods or services to a specific beneficiary for consideration that the government expects to receive
- Expense in a transaction when there is a receipt of goods or services from another party in return for consideration that the government has committed to pay

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Three Step Process

1. Determine the amount of consideration that a government expects to receive or commits to pay pursuant to the binding arrangement
2. Allocate the consideration to each performance obligation identified in the binding arrangement.
3. Recognize revenue or expense as the performance obligations are satisfied at a point in time or over time; and the transaction is applicable to the reporting period(s).

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An Alternative Model

Classification	Is the transaction an exchange?	
	Yes	**No**
	Exchange Transaction	***Nonexchange Transaction***
Recognition	Recognize based on performance obligation recognition approach: • Identify a performance obligation in a binding arrangement • Determine consideration • Allocate consideration to performance obligation(s) • Recognize revenue or expense as each performance obligation is satisfied (at a point in time or over time) and the transaction is applicable to the reporting period(s)	Recognize based on Statement 33 provisions for: • Derived tax revenues • Imposed nonexchange revenues • Government-mandated nonexchange transactions • Voluntary nonexchange transactions
Measurement	*Measurement is not addressed in this Invitation to Comment but is expected to be addressed in a later due process document.*	

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Preliminary Views - Recognition

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Background

- Recognition of Elements of Financial Statements – Preliminary Views
  - Project No. 3-20
  - Issued: September 2018
  - Comments Due: February 15, 2019

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Background

- Concepts Statements are intended to provide a framework of interrelated objectives and fundamental concepts that can be used as a basis for establishing consistent accounting and financial reporting standards

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Existing Components

- Concepts Statement No. 1, Objectives of Financial Reporting
- Concepts Statement No. 2, Service Efforts and Accomplishments Reporting
- Concepts Statement No. 3, Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements
- Concepts Statement No. 4, Elements of Financial Statements
- Concepts Statement No. 5, Service Efforts and Accomplishments Reporting (an amendment of Concepts Statement 2)
- Concepts Statement No. 6, Measurement of Elements of Financial Statements.

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Recognition Concepts

- 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.

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Recognition Hierarchy

- First – definition of assets and liabilities
- Second – definition of deferred outflows and inflows of resources
- Last – definition of outflows and inflows of resources

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Recognition Frameworks

- Short-term financial resources measurement focus
  - Replaces current financial resources measurement focus
- Economic resources measurement focus

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Short-Term FRMF

- Reflects the amount of fund balance at period-end that is available for spending in the next period
- Recognized when an item meets the definition of an element and the measurement of the item sufficiently reflects the qualitative characteristics of information in financial reports

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Short-Term FRMF

- Balances, outflows of resources, and inflows of resources from **short-term** transactions and other events would be recognized as the underlying transaction or other event **occurs**.
- Balances, outflows of resources, and inflows of resources from **long-term** transactions and other events would be recognized when payments are **due**.

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Short-Term FRMF

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

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Alternative Views

- Revising the definition of short-term financial resources described in Chapter 2
- Replacing the concept of normally described in Chapter 2

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Preliminary Views – Financial Reporting Model

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Background

- Financial Reporting Model Improvements – Preliminary Views
  - Project No. 3-25
  - Issued: September 2018
  - Comments Due: February 15, 2019

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Purpose

- Targeted at addressing several concerns with the existing reporting of governmental fund information

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Current Status

- Under the current financial resources measurement focus, revenue is recognized when the underlying transaction or other event occurs and it is both measurable and available.
  - Governments are allowed to adopt another accounting policy that reflects a different period of availability for other revenue sources

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Proposal – Governmental Funds

- Creates the short-term financial resources measurement focus
  - Report elements of financial statements from a short-term perspective that would be consistent among governments.
  - Reflect the amount of fund balance at period-end that is available for spending in the next period

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Proposal – Governmental Funds

- The recognition concepts for this measurement focus would be based on whether items arise from short-term or long-term transactions and other events.
  - Balances, outflows of resources, and inflows of resources from short-term transactions and other events would be recognized as the underlying transaction or other event occurs.
  - Balances, outflows of resources, and inflows of resources from long-term transactions and other events would be recognized when payments are due.

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Proposal – Governmental Funds

- Items that arise from short-term transactions and other events would be those that normally are due to convert to or generate cash (or other financial assets) or require the use of cash (or other financial assets) entirely within one year from the inception of the transaction or other event

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Examples of Assets That Would Be Recognized

Cash and investments	Accounts receivable	Property taxes receivable
Prepaid items	Inventory	Notes and other long-term receivables that have become due

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Examples of liabilities that would be recognized

- Accounts payable and accrued payroll
- Accrued interest payable
- Tax and revenue anticipation notes
- Any unpaid balances due on general obligation and other long-term debt that became due during the period

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Proposal – Governmental Funds

- The resource flows statement would be presented using the current and noncurrent activity format.

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Examples of Outflows Recognized

- Salaries and wages earned during the period
- Use of goods (including inventories) and services
- Long-term lending activities
- Interest accruing during the period on borrowings
- Principal payments on long-term borrowings that mature in the period
- Payments related to other long-term transactions and other events, such as postemployment benefits and compensated absences, that mature in the period
- Capital outlays

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Examples of Inflows Recognized

- Property taxes levied for the period
- Sales, income, and other taxes relating to the period
- Grants relating to the period
- Repayments from lending activities that matured during the period
- Proceeds from long-term borrowings
- Proceeds from sales of capital assets

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Updated Titles

- The balance sheet would be titled the "Short-Term Financial Resources Balance Sheet"
- The resource flows statement would be titled the "Statement of Short-Term Financial Resource Flows"

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Element Titles

- short-term assets
- short-term liabilities
- deferred outflows of short-term financial resources
- deferred inflows of short-term financial resources
- short-term financial resources fund balances
- inflows of short-term financial resources for current activities
- outflows of short-term financial resources for current activities
- net flows of short-term financial resources for noncurrent activities

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Presentation

- "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."
  - Explanation would be included at the top of the governmental fund FS

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Proprietary Fund Financial Statements

- Continue to distinguish between operating and nonoperating revenues and expenses.
- Operating revenues and expenses would be defined as revenues and expenses other than nonoperating revenues and expenses.

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Proprietary Fund Financial Statements

- Nonoperating revenues and expenses include
  - subsidies received and provided
  - revenues and expenses related to financing
  - resources from the disposal of capital assets and inventory
  - investment income and expenses

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Presentation

- New subtotals
  - operating income (loss)
  - Noncapital subsidies
- Defines subsidies
- Noncapital subsidies would be presented before reporting other nonoperating revenues and expenses.

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Budgetary Comparison

- Required Supplementary Information
- Required to present specific budget variances between
  - final budget and actual amounts
  - original and final budget amounts

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Major Component Unit Information

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

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Expenses by Natural Classification

- Schedule of natural classification of government-wide expenses by function or program for governmental activities and by different identifiable activity for business-type activities
  - Only if entity presents a CAFR
  - Supplementary information

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Future Topics to Be Addressed

- Management's discussion and analysis (MD&A).
- Debt service fund presentations
- Extraordinary and special items

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What Questions Do You Have?

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