1 NEW DEVELOPMENTS

INTRODUCTION

The 2017 Governmental GAAP Guide incorporates all of the pronouncements issued by the Governmental Accounting Standards Board (GASB) through February 2017. This chapter is designed to keep the reader up to date on all pronouncements recently issued by the GASB and their effective dates, as well as to report on the Exposure Drafts, Preliminary Views, and Invitations to Comment for proposed new statements or interpretations that are currently outstanding. This chapter also includes relevant information on the GASB's Technical Agenda for the upcoming year to give readers information as to potential areas for future GASB requirements.

RECENTLY ISSUED GASB STATEMENTS AND THEIR EFFECTIVE DATES

	GASB Statement	*Effective Date*	*Where in This Book*
72	*Fair Value Measurement and Application*	Periods beginning after June 15, 2015	Chapter 12
73	*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*	Fiscal years beginning after June 15, 2016, for pensions not within the scope of GASB 68 Fiscal years beginning after June 15, 2015, for asset reporting and GASB 67 and 68 Amendments	Chapter 17
74	*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*	Fiscal years beginning after June 15, 2016	Chapter 22

75	*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	Fiscal years beginning after June 15, 2017	Chapter 17
76	*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*	Periods beginning after June 15, 2015	Chapter 2
77	*Tax Abatement Disclosures*	Periods beginning after December 15, 2015	Chapter 9
78	*Pensions Provided through Certain Multi-Employer Defined Benefit Plans*	Periods beginning after December 15, 2015	Chapter 17
79	*Certain External Investment Pools*	Periods beginning after June 15, 2015	Chapter 12
80	*Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*	Periods beginning after June 15, 2016	Chapter 11
81	*Irrevocable Split-Interest Agreements*	Periods beginning after December 15, 2016	Chapter 12
82	*Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*	Periods beginning after June 15, 2016	
83	*Certain Asset Retirement Obligations*	Periods beginning after June 15, 2018	Chapter 14
84	*Fiduciary Activities*	Periods beginning after December 15, 2018	Chapter 8

The GASB has a number of Exposure Drafts and Preliminary Views that it has issued, which will affect future accounting and financial reporting requirements when final standards are developed. The following provides a brief synopsis of what is being covered by each Exposure Draft and Preliminary Views document. Readers should always be aware that the GASB often modifies proposal stage literature based upon its continuing deliberations and consideration of comments that it receives on each Exposure Draft and Preliminary Views document.

EXPOSURE DRAFTS

Exposure Drafts—Implementation Guides

The GASB has two Exposure Drafts related to implementation guides.The first, which was issued in November 2016, will result in an annual update to the GASB's Comprehensive Implementation Guide. The second, which was issued in December 2016, will contain implementation guidance for GASB Statement Nos. 74 and 75 on Other Postemployment Benefits.

GASB Implementation Guides are considered authoritative GAAP for governments and consist of a series of very specific questions and answers that are designed to assist financial statement preparer and auditors implement GASB Statements. In some cases they address practice questions that arise; in other cases they address questions that the GASB chose not to specifically address in a GASB Statement itself.

Exposure Draft—*Omnibus 201X*

The GASB issued this Exposure Draft in September 2016 to address certain specific issues across a wide variety of topics. Specifically, the Exposure Draft states that its objective is to address practice issues that have been identified during implementation and application of certain GASB Statements. The Exposure Draft addresses a variety of topics including issues related to component unit presentation, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

Specifically, a Statement resulting from this Exposure Draft would address the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports a single column for financial statement presentation.
- Amounts reported as goodwill and "negative" goodwill.
- How to classify real estate held for both operations and investment purposes by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension and OPEB liabilities and related expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognition of on-behalf payments for pensions or OPEB in employer financial statements.
- Presentation of payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classification of employer-paid member contributions for OPEB.
- Simplifications related to the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Effective Date

The requirements of this proposed Statement would be effective for reporting periods beginning after June 15, 2017. Earlier application would be encouraged.

Exposure Draft—*Certain Debt Extinguishment Issues*

The GASB issued this Exposure Draft in August 2016. Its Summary highlights the following items that are addressed.

Accounting and Financial Reporting for In-Substance Defeasance of Debt Using Only Existing Resources

Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt,* requires that debt be considered defeased in substance if the debtor irrevocably places refunding debt proceeds with an escrow agent in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Exposure Draft would establish essentially the same requirements if a government places only existing resources in a trust to extinguish the debt. Any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources would be recognized as a separately identified gain or loss in the period of the defeasance in financial statements using the economic resources measurement focus.

Governments that defease debt using only existing resources would provide a general description of the transaction in the notes to the financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end would be disclosed.

Prepaid Insurance Related to Extinguished Debt

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Exposure Draft would require that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

Notes to Financial Statements for In-Substance Defeasance Transactions

One of the criteria for determining an in-substance defeasance is that the trust be limited to holding only monetary assets that are classified as being essentially risk free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk free is not prohibited, governments would disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments would disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

NOTE: One implementation question not addressed by this Exposure Draft is how could an in-substance defeasance be accomplished if monetary assets that are not essentially risk free are used to defease the debt? Having disclosure requirements related to monetary assets that are not essentially risk free results in this question.

Effective Date and Transition

The requirements of this proposed Statement would be effective for reporting periods beginning after June 15, 2017. Earlier application would be encouraged.

Exposure Draft—*Leases*

The GASB issued this Exposure Draft in January 2016. A Standard resulting from this Exposure Draft will result in significant changes in the accounting for leases. This project is similar to a project completed by the FASB, although the accounting requirements are not at all identical.

The Summary of the Exposure Draft provides the following information.

Definition of a Lease

A lease would be defined as a contract that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition would be accounted for under the proposed leases guidance, unless specifically excluded.

Lease Term

The lease term would be defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable, covered by a lessee's option to:

a. Extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option.
b. Terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option.

A fiscal funding or cancellation clause would be considered in determining the lease term only when it is reasonably certain that the clause will be exercised.

Lessees and lessors would reassess the lease term only if the lessee does either of the following:

a. Elects to exercise an option even though the lessor or lessee had previously determined that it was reasonably certain that the lessee would not exercise that option.
b. Elects to not exercise an option even though the lessor or lessee had previously determined that it was reasonably certain that the lessee would exercise that option.

Lessee Accounting

A lessee would recognize a lease liability and a lease asset at the beginning of a lease, unless the lease is a short-term lease or transfers ownership of the underlying asset. The lease liability would be measured at the present value of payments expected to be made for the lease term. The lease asset would be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the beginning of the lease and certain indirect costs.

A lessee would reduce the lease liability as payments are made and recognize an outflow of resources for interest on the liability. The lessee would amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to the financial statements would include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

Lessor Accounting

A lessor would recognize a lease receivable and a deferred inflow of resources at the beginning of a lease, with certain exceptions (including a short-term lease or a lease that transfers ownership of the underlying asset). A lessor would not derecognize the asset underlying the lease. The lease receivable would be measured at the present value of lease payments expected to be received for the lease term. The deferred inflow of resources would be measured at the value of the lease receivable plus any payments received at or prior to the beginning of the lease that relate to future periods.

A lessor would recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflow of resources in a systematic and rational manner over the term of the lease. The notes to the financial statements would include a description of leasing arrangements and the total amount of revenue recognized from leases.

NOTE: This is a significant departure from the FASB standard, which does not significantly change lessor accounting for what are currently referred to as operating leases.

Contracts with Multiple Components and Contract Combinations

Generally, a government would account for the lease and nonlease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors generally would account for each underlying asset as a separate lease contract. To allocate consideration required under the contract to different components, lessees and lessors would use contract prices for individual components if reasonable based on observable stand-alone prices. Under certain circumstances, multiple components in a lease contract would be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and meet certain criteria would be considered part of the same lease contract and would be evaluated in accordance with the guidance on contracts with multiple components.

NOTE: Nonlease component might involve maintenance contracts that are part of a rental payment.

Short-Term Leases

A short-term lease would be defined as a lease that, at the beginning of the lease, has a maximum possible term under the contract of 12 months or less, including any options to extend, regardless of its probability of being exercised. Lessees and lessors would recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the contract.

NOTE: Provisions in the Exposure Draft will discourage constant rollover of short-term leases, particularly between related entities, to avoid the accounting requirement summarized herein.

Lease Terminations and Modifications

An amendment to a lease contract would be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial termination. A lease termination would be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflow of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification generally would be accounted for by remeasuring the lease liability and adjusting the related lease asset by a lessee, or remeasuring the lease receivable and adjusting the related deferred inflow of resources by a lessor.

Subleases and Leaseback Transactions

Subleases would be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease would account for the original lease and the sublease as separate transactions as a lessee and lessor, respectively.

A transaction would qualify for sale-leaseback accounting only if it includes a qualifying sale. Otherwise, it is a borrowing. The sale and leaseback portions of a transaction would be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale would be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the leaseback.

A lease-leaseback transaction would be accounted for as a net transaction. The gross amounts of each portion of the transaction would be disclosed.

Effective Date and Transition

The requirements of this proposed Statement would be effective for reporting periods beginning after December 15, 2018. Earlier application is permitted. Leases would be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors would not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases would become the carrying values of the underlying assets.

INVITATION TO COMMENT

Financial Reporting Model Improvements—Governmental Funds

In December the GASB issued this ITC to address the accounting used by governmental funds, currently the modified accrual basis of accounting and the current financial resources measurement focus. This ITC requests commentary on three different replacement models for the current model. These are the near-term financial resource model (near-term meaning 60–90 days), the short-term resources model (short-term meaning one year) and the long-term financial resources model (similar accounting to what is used in the government-wide statements, except that capital assets would not be recorded.)

The ITC also requests comments on alternative presentations for the resource flows statement, the requirement for presenting a cash flows statement, and a proposed simplification between the government-wide and governmental fund financial statements.

While this is a very preliminary phase of this project, it seems almost certain that there will be changes made to the basis of accounting and measurement focus used by governmental funds.

GASB PROJECT PLAN

The GASB has a number of additional important projects on its agenda that will likely affect governmental accounting and financial reporting in the future. Some of the more significant projects are as follows.

Financial reporting model. The ITC discussed earlier in this chapter is part of this project, which is taking a fresh look at the basic financial reporting model required by GASBS 34, as amended, to determine if it is working effectively and whether any changes to the model need to be made.

Revenue and expense recognition. This project is somewhat in response to a recent FASB standard on revenue recognition. The GASB is examining whether a similar standard should be adopted for governments. The GASB has also added expense recognition to this project.

SUMMARY

The GASB, as always, maintains an active agenda, and the accounting and financial reporting standards for governments are consistently evolving. Financial statement preparers need to keep an eye on emerging new GASB pronouncements to ensure that they have adequate time to plan for their implementation, as well as to inform financial statement users about their potential impacts.