

1 NEW DEVELOPMENTS

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INTRODUCTION

The 2015 Governmental GAAP Guide incorporates all of the pronouncements issued by the Governmental Accounting Standards Board (GASB) through August 2014. 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
65 <i>Items Previously Reported as Assets and Liabilities</i>	Periods beginning after December 15, 2012	Chapter 9
66 <i>Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62</i>	Periods beginning after December 15, 2012	Chapters 2 and 21
67 <i>Financial Reporting for Pensions Plans—An Amendment of GASB Statement No. 25</i>	Periods beginning after June 15, 2013	Chapter 22

68	<i>Accounting and Financial Reporting for Pensions— An Amendment of GASB Statement No. 27</i>	Periods beginning after June 15, 2014	Chapter 17
69	<i>Government Combinations and Disposals of Government Operations</i>	Periods beginning after December 15, 2013	Chapter 11
70	<i>Accounting and Financial Reporting for Nonexchange Financial Guarantees</i>	Periods beginning after June 15, 2013	Chapter 15
71	<i>Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68</i>	Periods beginning after June 15, 2014 – to be applied simultaneously with GASB 68	Chapter 17
	Concepts Statement No. 6 <i>Measurement of Elements of Financial Statements</i>	N/A –for use by GASB in setting future standards	Chapter 2

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 Draft of Proposed Statement – *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*

and

Exposure Draft of Proposed Statement – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

In May 2014 the GASB issued these two Exposure Drafts concurrently to address financial reporting for postemployment benefit other than pension (OPEB) plans and accounting and financial reporting for OPEB benefits by employers. GASB Statements resulting from these two Exposure Drafts will supercede accounting and financial reporting reports for OPEB plans and employers offering OPEB benefits contained in GASB Statement No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB 43 and GASB 45 were based upon many of the same concepts and requirements relating to then existing GASB standards for pension plan reporting and the reporting of pensions by employers. With the issuance of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB 27*, the GASB needed to update its guidance for accounting and financial reporting for OPEB benefits and OPEB plans, which is the purpose of these two Exposure Drafts.

The accounting and financial reporting requirements for OPEB plans and OPEB benefits are essentially the same as that for pension plans and pension benefits. These requirements are described in Chapters 22 and 17 of this book, respectively.

The following are some of the highlights of these two Exposure Drafts:

- OPEB plan financial statements would consist of two statements: a statement of fiduciary net position and a statement of changes in fiduciary net position.
- Extensive note disclosures and Required Supplementary Information would be required for both OPEB plan and employer financial statements.
- The entry age actuarial cost method would be required with each period's service cost determined as a level percentage of payroll.
- Projections of benefit payments would incorporate the effects of future salary changes and service credits (if the OPEB formula incorporates these) including automatic cost of living adjustments.
- The discount rate would be a single rate that reflects (1) long-term expected rate of return on OPEB plan investments to the extent sufficient to make benefit payments and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the expected return on assets are not met.
- Actuarial valuations would be required every two years. An alternative measurement method would be permitted for plans with fewer than 100 participants.
- Net OPEB liability is measured as the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to past periods of service, less the amount of the OPEB plan's fiduciary net position.
- Only assets in trusts that meet certain criteria would be considered OPEB plan assets to be netted against the total OPEB liability. Those criteria are:
 - Contributions to the trust must be irrevocable.
 - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
 - OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities and the OPEB plan administrator.
- For financial statements prepared on the economic resources measurement focus and the accrual basis of accounting:
 - Single and agent employers would be required to recognize a liability equal to the net OPEB liability.
 - Cost-sharing employers would recognize a liability for their proportionate share of the net OPEB liability of the collective OPEB liability.
 - Changes in the net OPEB liability recorded from period to period would generally be recorded as pension expense, although certain items would result in deferred inflows or outflows of resources.

Effective Date

A final statement resulting from the Exposure Draft for OPEB plan financial statements is expected to be effective for fiscal years beginning after December 15, 2015 with earlier application encouraged.

A final statement resulting from the Exposure Draft for employers providing OPEB benefits is expected to be effective for fiscal years beginning after December 15, 2016 with earlier application encouraged.

Exposure Draft of Proposed Statement – Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68

In May 2014 the GASB issued this Exposure Draft which provides guidance for pension plans and pension benefits that fall outside of the scope of GASB 67 and 68.

GASB 67 and 68 did not include pension plans that were not administered by trusts that met specific criteria. For pension provided by plans not administered by such a trust, the previous requirements of GASB 25 and 27 would apply. The GASB considered the accounting requirements for these plans concurrently with its project to review the accounting and financial reporting for OPEB benefits discussed earlier in this chapter. The GASB's basic approach contained in this Exposure Draft is that these pensions would be accounted for in essentially the same manner prescribed in GASB 67 and 68. However, these plans would not report assets, as any assets would not be in a trust that meets the criteria of GASB 67 and 68 (otherwise the plan would have already been subject to those requirements).

The requirements in this Exposure Draft would apply the approach to accounting and financial reporting established in GASB 67 and 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are *not* administered through trusts that meet the criteria specified in GASB 67 should *not* be accounted for as pension plan assets.

This Exposure Draft also proposes that information similar to that required by GASB 67 and 68, as applicable, be included in notes to financial statements and required supplementary information by all similarly situated employers, nonemployer contributing entities, and pension plans.

This Exposure Draft also would clarify the application of certain provisions of Statements 67 and 68 with regard to the following issues:

- Notes to Schedules of Required Supplementary Information

Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported would be limited to those factors over which the pension plan or participating governments have influence (for example, changes in investment policies).

Information about external, economic factors (for example, changes in market prices) should not be presented.

- Payables to Defined Benefit Pension Plans

Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions. Information to be presented in contribution-related schedules of required supplementary information, actuarially determined contributions, contractually required contributions, and statutorily required contributions would exclude amounts, if any, associated with payables to the pension plan that arose in a prior fiscal year and those associated with separately financed specific liabilities of the individual employer or nonemployer contributing entity, as applicable, to the pension plan.

A single employer that has a special funding situation would recognize additional revenue for the portion of expense recognized by the governmental nonemployer contributing entity in conformity with GASB 68, paragraph 105.

A cost-sharing employer that has a special funding situation would recognize additional revenue and pension expense for the portion of expense recognized by the governmental nonemployer contributing entity in conformity with paragraph GASB 68 paragraph 105 for the change in the total pension liability associated with a separately financed specific liability of the individual governmental nonemployer contributing entity that is associated with the employer.

Contributions made by others to a pension plan during the measurement period to separately finance specific liabilities to the pension plan would be recognized as follows:

- a. For a cost-sharing employer, the amount of the employer's proportionate share of the total of such contributions (excluding amounts associated with the employer from nonemployer contributing entities not in a special funding situation) determined using the employer's proportion of the collective net pension liability should be recognized as a reduction of the employer's pension expense.
 - b. For a governmental nonemployer contributing entity in a special funding situation, the amount of the governmental nonemployer contributing entity's proportionate share of the total of such contributions determined using the governmental nonemployer contributing entity's proportion of the collective pension liability should be recognized as a reduction of the governmental nonemployer contributing entity's expense.
 - c. For an employer in a special funding situation, the amounts required to be recognized in conformity with GASB 68 would be reduced by the employer's proportionate share of the total of the amounts recognized by nonemployer contributing entities that are associated with the employer.
- Revenue Recognition for Support of Nonemployer Contributing Entities Not in a Special Funding Situation

Employers would recognize revenue for the support of a nonemployer contributing entity that is not in a special funding situation in the reporting period in which the contribution of the nonemployer contributing entity is reported as a change in the net pension liability or collective net pension liability, as applicable.

Effective Date

The effective date of the requirements of a final standard resulting from this Exposure Draft that address accounting and financial reporting by pension plans, employers, and governmental nonemployer contributing entities that are *not* within the scope of GASB 67 or 68 would be effective for financial statements for fiscal years beginning after June 15, 2016.

The effective date of the requirements of a final standard resulting from this Exposure Draft that address accounting and financial reporting by pension plans, employers, and governmental nonemployer contributing entities that are within the scope of GASB 67 or 68 would be effective for financial statements for fiscal years beginning after June 15, 2015.

For both sets of requirements, earlier application is encouraged.

Exposure Draft of Proposed Statement - Fair Value Measurement and Application

In May 2014 the GASB issued an Exposure Draft entitled *Fair Value Measurement and Application*. A final Statement resulting from this Exposure Draft would bring many of the accounting and disclosure requirements related to fair value that are currently required by the Financial Accounting Standards Board (FASB) for the types of entities that follow its accounting standards for financial statement preparation.

The Exposure Draft favors the adoption of an exit price method for determining fair value. The fair value of an asset or liability would be defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value would be described as an exit price and would not be adjusted for transaction costs.

Fair Value Measurements

In determining an appropriate fair value measurement, the characteristics of the asset or liability would be taken into account, such as the condition and location of an asset and restrictions, if any, on the sale and use of the asset that are characteristics of the asset and not characteristics of a specific government's ownership.

The Exposure Draft notes that a particular asset or liability might either be stand-alone or a part of a group of assets or liabilities. Recognition or disclosure of an asset or liability depends on its unit of account. The unit of account refers to the level at which an asset or liability is aggregated or disaggregated for recognition purposes as provided by the accounting standards. Once accounting standards establish the unit of account, relevant measurement attributes and disclosures can be applied.

Markets also would be considered. Fair value measurements would assume a transaction takes place in the government's principal market, or most advantageous market in the absence of a principal market. The fair value also would be measured assuming that general market participants would act in their economic best interest. Fair value would be described as an *exit price* and would not be adjusted for *transaction costs*.

The Exposure Draft would require a government to use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following widely used approaches: *the market approach*, *the cost approach*, or *the income approach*.

- The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.
- The cost approach reflects the amount that would be required currently to replace the service capacity of an asset.
- The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques would maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The Exposure Draft would establish a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy would have three levels:

- *Level 1* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date. (For example, a stock traded daily on an active stock exchange).
- *Level 2* inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. (For example, a bond that doesn't trade regularly, but there are quoted prices for bonds of the same maturity, coupon rate of interest, quality rating, etc.)
- *Level 3* being unobservable inputs. (For example, an investment in a hedge fund or an investment in real estate.)

A fair value measurement would take into account the *highest and best use* for a nonfinancial asset. A fair value measurement of a liability would assume that the liability would be transferred to the market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and when another party holds an identical item as an asset, the government would be able to use the fair value of that asset to measure the fair value of the liability.

The Exposure Draft would require additional analysis of fair value when the volume or level of activity for an asset or liability has significantly decreased. It also would require

identification of transactions that are not orderly. Quoted prices provided by third parties would be permitted, as long as the government determines that those quoted prices were developed in accordance with the provisions of the Exposure Draft.

The Exposure Draft would generally require investments to be measured at fair value. An *investment* would be defined as a security or other asset (a) that a government holds primarily for the purpose of income or profit and (b) with a present service capacity that is based solely on its ability to generate cash or to be sold to generate cash.

A capital asset held for sale is not an investment asset. In addition, debt securities reported as assets should be measured at fair value regardless of whether they meet the definition of an investment or they were acquired or originated by the government.

The Exposure Draft provides specific guidance to assist in determining whether a specific asset should be considered investments. This guidance is as follows:

- Present Service Capacity

Investments indirectly enable a government to provide services. Assets are resources with present service capacity that a government presently controls. Present service capacity refers to a government's mission to provide services. While capital assets provide services directly, investments do not. Rather, investments are valuable to a government because investments can be used to pay for goods or services that in turn are used to provide services directly to its citizens. For example, when converted to cash, an investment may allow a government to acquire a capital asset, such as the construction of a bridge. The bridge provides services to a government's constituency.

- Held Primarily for Income or Profit

A government acquires an investment with the expectation of future income or profit. Evidence that a government holds an asset for income or profit also may be found in the fund that reports the asset. For example, income-producing real property in a pension plan suggests that the asset is held primarily for income or profit.

- Present Service Capacity Based Solely on an Asset's Ability to Generate Cash or to Be Sold to Generate Cash

Certain financial instruments may generate cash to finance the provision of services. However, the fact that a financial instrument generates cash does not, in itself, mean that it is an investment. For example, mortgage loans are not investments when the loans arise from a government's program that extends financing to first-time homebuyers.

- Purpose Determined by a Government's Usage

The determination of whether an asset is held primarily for the purpose of income or profit or whether an asset's present service capacity is based solely on its ability to generate cash or to be sold to generate cash is based on actions by a government's management (that

is, how the asset is used). How an asset is used may be determined in several ways, including investment policies, investment account separation (long-term strategy in one account versus short-term strategy in another), and historical practices. Accordingly, different governments holding similar asset types may arrive at different determinations based on the usage of the asset.

NOTE: This is an important aspect of the Exposure Draft that might be easy to overlook, as the title of the Exposure Draft refers to "Application" of fair value measurement, but not to a revised definition of investments that would be reported at fair value. It is likely more investments will be required to be reported at fair value. For example, current guidance in GASB Statement No. 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools requires a typical government to measure equity securities with readily determinable fair values at fair value (other rules apply for pension plans, external investment pools, etc.). Under the Exposure Draft, all equity securities, other than any exception provided below, would be reported at fair value. In addition, some "hard assets" such as rental properties, timber lands, etc. may now have to be reported at fair value using the guidance provided above.

Specific guidance is provided in the Exposure Draft for investments that should not be measured at fair value, as follows:

- a. Investments in nonparticipating interest-earning investment contracts should be measured using a cost-based measure as provided in GASB Statement No. 31.
- b. Investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of GASB 31 and GASB 59 *Financial Instruments Omnibus*.
- c. Money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less and are held by governments other than external investment pools should be measured at amortized cost as provided in GASB 31.
- d. Investments in 2a7-like pools should be measured at the net asset value per share determined by the pool as provided in GASB 31 and 59.
- e. Synthetic guaranteed investment contracts that are fully benefit-responsive should be measured at contract value as provided in GASB 53 *Accounting and Financial Reporting for Derivative Instruments*.
- f. Investments in common stock should be measured at fair value, unless they meet the criteria for the equity method. The cost method should not be applied to ownership in common stock that meets the definition of an investment; however, it should be applied when ownership in common stock does not meet the definition of an investment. The equity method of accounting should be applied to any investment that meets the criteria of GASB 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and is not specifically excluded by the Exposure Draft.

The Exposure Draft would also require measurement at acquisition value for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. A government would be permitted in certain circumstances to determine the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

The Exposure Draft would require disclosures to be made about fair value measurements, valuation techniques, and inputs. Governments will need to disclose assets and liabilities that are reported at fair value in each of the three input hierarchy levels described above. It also would require additional disclosure information regarding investments in certain entities that calculate net asset value per share (or its equivalent).

- Effective Date

The requirements of a final standard resulting from the Exposure Draft would be effective for financial statements for periods beginning after June 15, 2015. Earlier application would be encouraged.

Exposure Draft of a Proposed Statement – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

And

Exposure Draft – *Implementation Guide No. 20XX-1*

In December 2014 the GASB issued two Exposure Drafts related to the amendment of the GAAP hierarchy for governments. Under the first Exposure Draft, the GAAP hierarchy would be as follow:

The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements.
- b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the American Institute of Certified Public Accountants (AICPA) if specifically cleared by the GASB.

Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards*.

Under the Exposure Draft, if the accounting treatment for a transaction or other event is not specified by a pronouncement in category (a), a governmental entity should consider whether the accounting treatment is specified by a source in category (b). If both categories contain accounting treatments for a transaction or other event, a governmental entity would follow the accounting treatment specified by the pronouncement in category (a).

If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described above, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP and then may consider nonauthoritative accounting literature from other sources that does not conflict with or contradict authoritative GAAP. A governmental entity should not follow the accounting treatment specified in authoritative GAAP 3 for similar transactions or other events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or other event or indicate that the accounting treatment should not be applied by analogy.

In addition, sources of nonauthoritative accounting literature include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, International Accounting Standards Board, and AICPA (other than AICPA literature cleared by the GASB); practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

In evaluating the appropriateness of nonauthoritative accounting literature, the Exposure Draft provides that a governmental entity consider the consistency of the literature with the GASB Concepts Statements, the relevance of the literature to particular circumstances, the specificity of the literature, and the general recognition of the issuer or author as an authority.

NOTE: The main changes in the GAAP hierarchy are that GASB Interpretations have been eliminated from the hierarchy and GASB Implementation Guides have been elevated to Level b in the hierarchy. This latter point is important as previously, Implementation Guides were not subject to the GASB's due process procedures for exposing them for public comment. Accordingly, the GASB is simultaneously exposing for public comment in the second Exposure Draft mentioned above the cumulative Implementation Guides that were issued in the past. As part of the process, the GASB culled through the questions and answers in the Implementation Guides and made appropriate edits to eliminate questions no longer needed, clarify inconsistencies, etc.

Effective Date

The requirements of the Statement resulting from the first Exposure Draft and the revised Implementation Guide are expected to be effective for periods beginning after June 15, 2015, with earlier application encouraged.

PRELIMINARY VIEWS

Elements of Financial Statements – Recognition and Measurement Approaches

In June 2011 the GASB issued a Preliminary Views document entitled *Recognition of Elements of Financial Statements and Measurement Approaches*. This PV document would result

in the issuance of a GASB Concepts Statements related to recognition of elements of financial statements and measurement approaches.

NOTE: Before the reader decides that this is only a Preliminary Views document and that it will “only” lead to a Concepts Statement and takes the potential impact lightly, be advised that the concepts being addressed are the basis of accounting and the measurement focus as they are applied to financial statements, which could ultimately have a profound impact on both fund and government-wide financial reporting, particularly for governmental funds, where the modified accrual basis and current financial resources measurement focus are under particular scrutiny. The GASB has actually split this project into (at least) two components. The measurement of elements of financial statements aspect resulted in a Concepts Statement listed above and described in Chapter 2. The second component as to recognition will likely result in an additional Concepts Statement where the anticipated impact on the modified accrual basis of accounting is likely to be included.

The PV document presents the Board’s preliminary views on recognition of elements of financial statements and measurement approaches. The PV document states that recognition concepts encompass two aspects of state and local government 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. A measurement approach is a broad concept focusing on whether an asset or liability presented in a financial statement should be reported at an amount that reflects the value when the asset was acquired or the liability incurred or whether the asset or liability should be remeasured and reported at an amount that reflects the value at the date of the financial statements.

Recognition of Elements of Financial Statements

The PV document proposes a recognition framework for both the economic resources measurement focus and the near-term financial resources measurement focus. One component of this framework is that an item, on a conceptual basis, should be recognized, and therefore reported as an element of financial statements prepared using the economic resources measurement focus, if the item both meets the definition of an element and is measurable with a sufficient degree of reliability.

Because of various inconsistencies in the current financial resources measurement focus model, the framework being proposed would include a component that, on a conceptual basis, would replace that model with the near-term financial resources measurement focus, which recognizes balances from a near-term perspective and flows of financial resources for the reporting period. Near term refers to the period subsequent to the end of the reporting period during which financial resources at period-end can be converted to cash to satisfy obligations for spending for the reporting period. Consistent with the objective of developing a conceptually sound model, the near-term financial resources measurement focus is based on a symmetrical concept: assets include resources that are normally *receivable at period end and*

due to convert to cash within the near term (as well as cash and financial resources that are available to be converted to cash within the near term) and liabilities include those normally *payable at period-end and due* within the near term.

Consistent with the concept of interperiod equity, another component of this proposed framework would include proposed concepts related to the recognition of deferred outflows of resources or deferred inflows of resources in financial statements prepared using the economic resources measurement focus when the following types of transactions occur:

- Outflows of resources that do not meet the definition of an asset and are inherently related to services that the government will provide in future periods.
- Inflows of resources that do not meet the definition of a liability and can only be used in the future.
- Inflows of resources related to items that were not previously recognized as assets in the financial statements (future resources).
- Outflows of resources and inflows of resources related to changes in the fair value of recognized assets and liabilities when the item is related to an outflow of resources or inflow of resources that will occur in the future.

The PV's proposed framework includes a component that, on a conceptual basis, would include recognizing deferred outflows of resources or deferred inflows of resources in financial statements prepared using the near-term financial resources measurement focus when the following transactions occur:

- Outflows of resources that do not meet the definition of an asset and are inherently related to future spending.
- Inflows of resources that do not meet the definition of a liability and can only be used for spending in the future.

Measurement Approaches

The PV document also proposed a framework for when each of two primary measurement approaches, on a conceptual basis, should be used. These views are discussed in the Exposure Draft of a Concepts Statement described earlier in this chapter.

NOTE: As mentioned above, the impacts of a Concepts Statement that could result from this PV in its present form would conceivably affect many future GASB statements that would have to incorporate the concepts included in a Concepts Statement that might ultimately result from this PV. Given the broad range of areas—replacing the current financial resources measurement focus with the near-term financial resources measurement focus to examining what balance sheet items are better reported at cost or fair value, this is a project that preparers, users, and auditors of governmental financial statements need to carefully monitor.

In March 2012 the GASB issued a Preliminary Views Document titled *Economic Condition Reporting: Financial Projects*.

The GASB believes that decision makers need information with which to assess a government's *economic condition*—its financial position, fiscal capacity, and service capacity. Fiscal sustainability is the forward-looking aspect of economic condition. Fiscal sustainability is defined as a government's ability and willingness to generate inflows of resources necessary to honor current service commitments and to meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits.

The Preliminary Views document lists five components of information that are necessary to assist users in assessing a governmental entity's fiscal sustainability:

- Projections of the total cash inflows and major individual cash inflows, in dollars and as a percentage of total cash inflows, with explanations of the known causes of fluctuations in cash inflows.
- Projections of the total cash outflows and major individual cash outflows, in dollars and as a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows.
- Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts, with explanations of the known causes of fluctuations in financial obligations.
- Projections of annual debt service payments (principal and interest).
- Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies.

The Preliminary Views document provides that financial projections would be (1) based on current policy, (2) informed by historical information, and (3) adjusted for known events and conditions that affect the projection periods. Current policy includes policy changes that have been formally adopted by the end of the reporting period but that will not be effective until future periods. Inflows and outflows would be projected on a cash basis of accounting, and financial obligations would be projected on an accrual basis of accounting.

The assumptions employed in making projections would be based on relevant historical information, as well as events and conditions that have occurred and affect the projection periods. The assumptions would be (1) consistent with each other (where appropriate) and with the information used as the basis for the assumptions and (2) comprehensive by considering significant trends, events, and conditions. Disclosure of assumptions would be required. Further, annual financial projections would be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting.

The Preliminary Views document provides that all of the components of fiscal sustainability information are believed to be essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context and therefore would be required and communicated as required supplementary information (RSI). All

governmental entities would be required to report the components of fiscal sustainability information.

The components of fiscal sustainability information would be reported for the primary government, including both governmental activities and business-type activities with net subtotals (inflows less outflows) for the general fund, other governmental activities, total governmental activities, total business-type activities, and a net total for the entire primary government. Notes to RSI would be necessary in instances when one or more activities may significantly affect (positively or negatively) the fiscal sustainability of the primary government.

In addition, an individual cash inflow, cash outflow, and financial obligation of a governmental or business-type activity would be separately projected if it is considered major, meaning it represents at least 10% of total cash inflows, total cash outflows, or total financial obligations, respectively, for all activities of that type in any of the projection periods reported. All cash outlays for capital and capital-related cash inflows from bond proceeds, capital grants, or other sources restricted or committed to capital outlays would be considered major and reported separately. Any other cash inflow, cash outflow, or financial obligation may be reported as major if the government believes that information is particularly important to users when making an assessment of the primary government's economic condition, including fiscal sustainability. Determining which intergovernmental service interdependencies are major is a matter of professional judgment.

The Preliminary Views document notes that projections based on current policy do not represent a forecast or a prediction of the most likely outcome. Financial projections may be based upon assumptions regarding changes in social, economic, and demographic events and conditions that are inherently subject to uncertainties. Therefore, a cautionary notice would precede the displayed financial projections and related narrative discussions advising readers that actual results may vary from the financial projections reported.

OBSERVATION: This Preliminary Views document has received quite a bit of push-back from government financial statement preparers. The main objection is that the requirements for preparing the projections cannot assume that the government will make changes that will impact its future cash receipts or disbursements. This is in contrast to how governments actually budget, which takes such changes into consideration.

GASB PROJECT PLAN

The GASB has a number of 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.

Asset Retirement Obligations This project would develop requirements on recognition and measurement for asset retirement obligations, other than landfills. The definition

of what constitutes an *asset retirement obligation* and what the term *retirement* encompasses are expected to be addressed.

Fiduciary Responsibilities. This is a project to assess whether additional guidance should be developed regarding the application of the fiduciary responsibility criterion in deciding whether and how governments should report fiduciary activities in their financial reports.

Lease Accounting. This project would reexamine issues associated with lease accounting, considering improvements to existing guidance. The research project would provide a basis for the GASB to consider whether operating leases meet the definitions of assets or liabilities.

Tax Abatement Disclosures. This research project would address the potential need for additional disclosures for governments that have granted tax abatements and subsidies.

Financial Reporting Model. This research project would take 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.

Blending Requirements for Certain Business-Type Activities This project would address issues related to inconsistent presentation of component units in financial reporting of governments engaged only in business-type activities.

Irrevocable Charitable Trusts This project would determine what accounting and financial reporting guidance, if any, should be established for irrevocable charitable trusts held for the benefit of governments.

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.