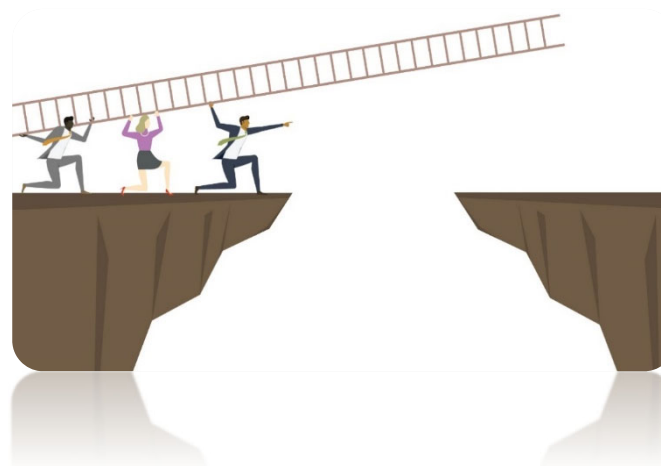


GASB Chairman Dave Vaudt

more at www.gasb.org

Beyond Pensions: *Not Just for Finance Directors*

- ✓ Leases
- ✓ Debt Disclosures
- ✓ Fiscal Stress Signals



Leases

Statement 87

Effective for years ending December 31, 2020 and later



Definition of a Lease

- 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.



Definition of a Lease (continued)

- Control requires both of the following:
 - (1) the right to obtain the present service capacity from use of the underlying asset, and
 - (2) the right to determine the nature and manner of use of the underlying asset
- Control applied to the right-to-use lease asset (a capital asset) “specified in the contract”
 - Control criteria NOT limited to contracts that convey substantially all of the present service capacity from use of the underlying asset
 - Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day

Lease Term and Short-Term Lease Exception

- For *financial reporting*, when does the lease start and end?
 - Starts with the noncancelable period, plus periods covered by lessees' and lessors' options to:
 - Extend the lease, if the option is *reasonably certain* of being exercised
 - Terminate the lease, if the option is *reasonably certain* of NOT being exercised
 - Fiscal funding/cancelation clauses ignored unless *reasonably certain* of being exercised

- Short-Term Lease Exception
 - A short-term lease is one that at the beginning of the lease has a “maximum possible term” under the contract, including any options to extend, of 12 months or less.

Lease Implementation Issues

- Debt limits
- Debt covenants
- Finance/accounting will need to:
 - Develop system to capture data related to leases
 - Establish policies



Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Statement 88

Effective for years ending June 30, 2019 and later



Definition of Debt

- The definition of debt for disclosure purposes would be “a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.”
 - For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and trade accounts payable would be excluded from the definition of debt.

Disclosures

- Information about direct borrowings and direct placements of debt would be distinguishable from information about other types of debt
- In addition to existing debt disclosures, governments would disclose the following about all types of debt:
 - 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
 - Subjective acceleration clauses.

Going Concern Disclosures: Reexamination of Statement 56

Fiscal Stress Signals



Going Concern Disclosures

What?

The GASB is reviewing existing standards related to going concern considerations, which were incorporated into GASB literature mostly as-is from the AICPA literature in Statement 56

Why?

As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; AICPA and others have asked the GASB to examine the issue

When?

The Board added the pre-agenda research in April 2015

Topics to Be Considered

Are the current going concern indicators presented in note disclosures appropriate for state and local governments, in light of the fact that, even under severe financial stress, few governments cease to operate even when encountering such indicators?

What other criteria might better achieve the objective of disclosing severe financial stress uncertainties with respect to governments?

What information do financial statement users need with respect to the disclosure of severe financial stress uncertainties?