

GASB Update – 2015 OSC Governmental Accounting and Financial Management Update

June 5, 2015

**Wesley A. Galloway
Senior Project Manager, GASB**

*The views expressed in this presentation are those of Mr. Galloway.
Official positions of the GASB on accounting matters are determined
only after extensive due process and deliberation.*

Presentation Overview

- Pronouncements currently being implemented
- Projects currently being deliberated by the Board

GASB News

- Jan Sylvis appointed vice chair
- Brian Caputo appointed to succeed Marcia Taylor
- All GASB pronouncements are available free on the website, including Statements, Concepts Statements, Interpretations, Technical Bulletins, and Implementation Guides
- Online version of GARS now available through website
 - Basic view is free

Effective Dates—June 30

- **2014**
 - Statement 65—Deferrals
 - Statement 67—Pension Plans
 - Statement 70—Nonexchange Financial Guarantees
- **2015**
 - Statement 68—Pension Accounting for Employer and Nonemployer Contributing Entities
 - Statement 69—Government Combinations and Disposals of Government Operations
 - Statement 71—Pension Transition for Contributions Made Subsequent to the Measurement Date
- **2016**
 - Statement 72—Fair Value Measurement & Application

3

Pensions: Statements 68 & 71

4

Overview

- **What:** Existing standards for pension accounting and financial reporting by employers (Statement 27) have been updated and improved
- **Why:** Review of the effectiveness of Statement 27 found opportunities to significantly improve the usefulness of pension information reported by employers
- **When:** Periods beginning after June 15, 2014 (FYE 6-30-15 and later)

5

Scope & Applicability

- Defined benefit and defined contribution pensions provided through trusts that meet the following criteria:
 - Employer/nonemployer contributions irrevocable
 - Plan assets dedicated to providing pensions
 - Plan assets legally protected from creditors
- Excludes all OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to a pension plan
 - Special funding situations
 - Other circumstances

6

Defined Benefit Pensions

- Liabilities to the pension plan (payables)
- Liabilities to employees for pensions
 - “Net pension liability” (NPL)
 - Total pension liability (TPL), net of pension plan’s fiduciary net position
 - TPL = actuarial present value of projected benefit payments attributed to past periods
 - Fiduciary net position as measured by pension plan
 - Single/agent employers recognize 100 percent of NPL
 - Cost-sharing employers recognize proportionate shares of collective NPL

7

Measuring the Net Pension Liability

8

NPL: Measurement—Timing

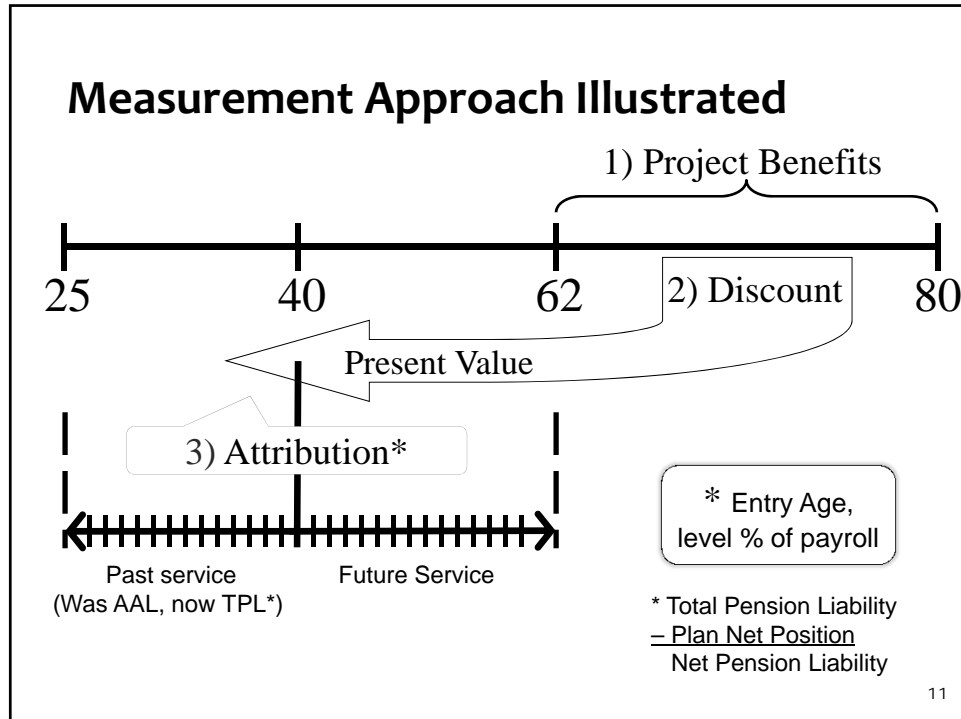
- Employer fiscal year-end
- Measurement date (of NPL)
 - As of date no earlier than end of prior fiscal year
 - Both components (TPL/plan net position) as of the same date
- Actuarial valuation date (of TPL)
 - If not measurement date, as of date no more than 30 months (+1 day) prior to FYE
 - Actuarial valuations at least every 2 years (more frequent valuations encouraged)
- Coordination with pension plan

9

NPL: Measurement—General Approach

- Three broad steps
 - Project benefit payments
 - Discount projected benefit payments to actuarial present value
 - Attribute actuarial present value to periods
- Methods and assumptions
 - Generally, assumptions in conformity with Actuarial Standards of Practice
 - Fewer alternatives than in Statement 27 for methods and assumptions for GAAP reporting purposes
 - No changes required to actuarial methods and assumptions used to determine funding amounts

10



NPL: Measurement—Projection

- Benefit terms/agreements at measurement date
- Current active and inactive employees
- Incorporate expectations of:
 - Salary changes
 - Service credits
 - Automatic postemployment benefit changes (including COLAs)
 - Ad hoc postemployment benefit changes *if substantively automatic*

NPL: Measurement—Discounting

- Projected benefit payments are discounted using the long-term expected rate or return (LTERoR) on pension plan investments, to extent that :
 - Plan net position is projected to be sufficient to pay benefits
 - Plan assets are expected to be invested using a strategy to achieve that return
- If the conditions for using the LTeRoR are not met, projected benefit payments are discounted using a yield or index rate for 20-year, tax-exempt general obligation municipal bonds

13

NPL: Measurement—Attribution

- Single method
 - Entry age actuarial cost method
 - Level percentage of pay
- Individually applied
- Beginning = 1st period of benefit accrual
- Ending = Expected retirement
 - Deferred retirement option programs (DROPs)—entry date into DROP = retirement date
- Same benefit terms to determine service cost as to determine actuarial present value of projected benefit payments

14

Measuring Pension Expense

15

Changes in NPL

$$\frac{\text{NPL recognized in current reporting period}}{\text{(NPL recognized in prior reporting period)}} \\ \text{Change in NPL for current reporting period}$$

- Recognize most changes in the NPL as expense in full in the reporting period in which they occur
 - Examples: service cost, interest on TPL, benefit changes, projected earnings on pension plan investments
- Exceptions:
 - A. Differences between expected and actual experience (TPL)
 - B. Changes of assumptions (TPL)
 - C. Difference between projected and actual earnings on pension plan investments
 - D. Employer contributions

16

Changes in NPL—TPL Exceptions

- A & B: Recognize the change in NPL as expense over the average of expected remaining service lives of all employees (active and inactive, including retirees)
- C: Recognize as expense over 5-year closed period
 - Portions of A B & C not recognized in expense initially are recognized as a deferred outflow of resources or deferred inflow of resources related to pensions (C is reported net)
- D:
 - Contributions since the previous measurement date directly reduce NPL (no expense impact)
 - Contributions subsequent to the current measurement date are reported as deferred outflow of resources and directly reduce NPL in next reporting period (no expense impact)

17

Cost-Sharing Employers

18

Cost-Sharing Employers

- Recognize proportionate shares of collective NPL, pension expense, deferred outflows of resources/ deferred inflows of resources
- Proportion (%)
 - Basis required to be consistent with contributions
 - Consider separate rates related to separate portions of collective NPL
 - Use of relative long-term projected contribution effort encouraged
- Collective measure x proportion = proportionate share of collective measure

19

Changes in NPL: Cost-sharing Employers— Additional Considerations

- Potentially three items
 1. Change in proportion
 2. Difference between:
 - The employer's proportionate share of all employer contributions included in collective plan net position
 - Contributions recognized by the employer in the measurement period
 3. Employer's contributions subsequent to measurement date
- Items 1 & 2—expense in current and future periods (systematic/rational method, closed period equal to average of expected remaining service lives)
- Item 3—deferred outflow of resources, reduces collective NPL in next period

20

Special Funding Situations

21

NPL: Involvement of Nonemployer Contributing Entities

- Statement addresses those with legal requirement to contribute *directly to* the pension plan
- Special funding situations
 - Contribution amount not dependent upon events unrelated to pensions OR nonemployer is only entity with legal obligation to contribute
 - Employer(s) and nonemployer contributing entity apply cost-sharing measurement to collective NPL, expense, and deferred outflows/deferred inflows of resources
 - Nonemployer expense classified in same manner as similar grants to other entities
 - Employer recognizes additional expense and revenue equal to nonemployer contributing entity's proportionate share of collective expense (portion related to the employer)

22

Notes and RSI

23

NPL: Note Disclosures—All Employers

- Descriptive information
- Significant assumptions/other inputs in TPL
 - NPL at discount rate +/- 1%
- Measurement date, actuarial valuation date
- Changes of assumptions/other inputs and changes of benefit terms
- Changes subsequent to measurement date
- Information about pension plan's fiduciary net position or reference to plan report

24

Key Note Disclosures—All Employers

- Discount rate information, including:
 - Long-term expected rate of return and how it was determined
 - Assumed asset allocation of the pension plan's portfolio and the long-term expected real rate of return for each major asset class
 - NPL measured at a discount rate 1 percentage point higher and 1 percentage point lower:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
County's net pension liability	\$826,928	\$751,753	\$661,543

25

NPL: Note Disclosures—All Employers

- Pension expense in current reporting period
- Deferred outflows/deferred inflows of resources
 - Balances by source
 - Differences between expected and actual experience (TPL)
 - Changes of assumptions/other inputs (TPL)
 - Net difference between projected and actual earnings on pension plan investments
 - Individual items for cost-sharing and special funding situations
 - Employer's contributions subsequent to measurement date
 - Net impact on pension expense in each of the next 5 years and thereafter in the aggregate
 - Amount that will be reduction of NPL

26

NPL: Note Disclosures—Single & Agent Employers

- Schedule of changes in NPL by source for current period
 - Service cost, interest, benefit changes, contributions by source, plan investment income, etc.
 - If special funding situation:
 - Amounts in schedule for collective NPL
 - Nonemployer contributing entity's proportionate share (amount) of collective NPL
 - Employer's proportionate share of collective NPL
- Number of employees covered—inactive receiving benefits, inactive not receiving benefits, active
- Allocated insurance contracts

27

Key Note Disclosures—Single & Agent Employers

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/X8	\$ 2,853,455	\$ 2,052,589	\$ 800,866
Changes for the year:			
Service cost	75,864		75,864
Interest	216,515		216,515
Differences between expected and actual experience	(37,539)		(37,539)
Contributions—employer		79,713	(79,713)
Contributions—employee		31,451	(31,451)
Net investment income		196,154	(196,154)
Benefit payments, including refunds of employee contributions	(119,434)	(119,434)	-
Administrative expense		(3,373)	3,373
Other changes		8	(8)
Net changes	<u>135,406</u>	<u>184,519</u>	<u>(49,113)</u>
Balances at 6/30/X9	<u>\$ 2,988,861</u>	<u>\$ 2,237,108</u>	<u>\$ 751,753</u>

28

NPL: Note Disclosures—Cost-Sharing Employers

- Employer's proportion, basis for proportion, change in proportion
- Employer's proportionate share (amount) of collective NPL
 - If special funding situation:
 - Nonemployer contributing entity's proportionate share
 - Total of employer's and nonemployer entity's proportionate shares

29

NPL: RSI—Single & Agent Employers

- 10-year schedules
 - Changes in NPL by source
 - TPL, pension plan fiduciary net position, NPL, plan net position as % of TPL, covered-employee payroll, NPL as % of covered-employee payroll
 - May be presented with changes in NPL by source
 - If actuarially determined employer contribution (ADEC)
 - ADEC, contributions in relation to the ADEC, difference, covered-employee payroll, contributions as % of covered-employee payroll
 - If no ADEC, but statutory or contractual contribution requirements, schedule similar to ADEC schedule
- Notes to RSI with methods and assumptions for ADEC and significant changes

30

New RSI: NPL Components and Ratios

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>
Total pension liability	\$ 3,182,228	\$ 3,045,893	\$ 2,888,832	\$ 2,643,090	\$ 2,443,871
Plan net position	(2,512,987)	(2,283,333)	(2,167,168)	(2,152,638)	(1,971,007)
Net pension liability	<u>\$ 669,241</u>	<u>\$ 762,560</u>	<u>\$ 721,664</u>	<u>\$ 490,452</u>	<u>\$ 472,864</u>
Ratio of plan net position to total pension liability	78.97%	74.96%	75.02%	81.44%	80.65%
Covered-employee payroll	\$ 435,373	\$ 432,256	\$ 426,939	\$ 412,280	\$ 387,055
Net pension liability as a percentage of covered-employee payroll	153.72%	176.41%	169.03%	118.96%	122.17%

Note: Only 5 years are presented here; 10 years of information will be required

31

New RSI: Contributions

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>
Actuarially calculated employer contribution	\$ 109,544	\$ 107,028	\$ 105,755	\$ 103,089	\$ 89,054
Actual employer contributions	<u>(109,544)</u>	<u>(107,028)</u>	<u>(105,755)</u>	<u>(103,089)</u>	<u>(89,054)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 435,373	\$ 432,256	\$ 426,939	\$ 412,280	\$ 387,055
Actual contributions as a percentage of covered-employee payroll	25.16%	24.76%	24.77%	25.00%	23.01%

Note: Only 5 years are presented here; 10 years of information would be required

32

NPL: RSI—Cost-Sharing Employers

- 10-year schedules
 - Employer’s proportion (%), proportionate share (amount) of collective NPL, covered-employee payroll, proportionate share as % of covered-employee payroll, pension plan’s net position as % of TPL
 - If special funding situation, also (1) nonemployer contributing entity’s proportionate share and (2) total of employer’s and nonemployer entity’s proportionate shares
 - If statutory or contractual contribution requirements
 - Required contribution, contributions in relation to required, difference, covered-employee payroll, contributions as % of covered-employee payroll
- Notes to RSI with significant changes

33

New RSI: Cost-Sharing

SCHEDULE OF THE CITY’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Municipal Pension Plan

Last 10 Fiscal Years*

	20X9	20X8	20X7	20X6	20X5
(Dollar amounts in thousands)					
City’s proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%
City’s proportionate share of the net pension liability (asset)	\$ 14,910	\$ 11,738	\$ 12,972	\$ 13,495	\$ 14,892
City’s covered-employee payroll	\$ 11,512	\$ 10,412	\$ 9,715	\$ 9,553	\$ 9,522
City’s proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.52%	112.74%	133.53%	141.26%	156.40%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%

* The amounts presented for each fiscal year were determined as of 3/31.

Note: Only 5 years are presented here; 10 years of information will be required

34

New RSI: Cost-Sharing

SCHEDULE OF CITY CONTRIBUTIONS
Municipal Pension Plan
 Last 10 Fiscal Years
 (Dollar amounts in thousands)

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>
Contractually required contribution	\$ 2,095	\$ 2,057	\$ 1,969	\$ 1,649	\$ 1,176
Contributions in relation to the contractually required contribution	<u>(2,095)</u>	<u>(2,057)</u>	<u>(1,969)</u>	<u>(1,649)</u>	<u>(1,176)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 12,097	\$ 10,962	\$ 10,063	\$ 9,634	\$ 9,538
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.11%	12.33%

Note: Only 5 years are presented here; 10 years of information will be required

Effective Date & Transition (including Statement 71)

Effective Date and Transition

- Fiscal years beginning after June 15, 2014
- Beginning deferred outflows/deferred inflows of resources balances all or nothing at initial implementation (except for employer contributions subsequent to the measurement date—Statement 71)
- RSI schedules are prospective if information is not initially available

37

Implementation Guide

38

Implementation Guide to Statement 68

- Reporting by pension plans
- Approved in December 2012
- Available to download free from the GASB website; printed copies can still be purchased
- 272 questions and answers on topics including:
 - Special funding situations
 - Measurement of the liability
 - Determining a cost-sharing employer's proportionate share
 - Notes and RSI
 - Transition
- Illustrations, topical index, full text of the Standards section

39

Government Combinations: Statement 69

40

Overview

- **What:** New standards for mergers, acquisitions, and transfers and disposals of operations
- **Why:** These transactions are becoming more common, but no government-specific guidance was available
- **When:** Periods beginning after December 15, 2013 (FYE 12-31-14 and later)

41

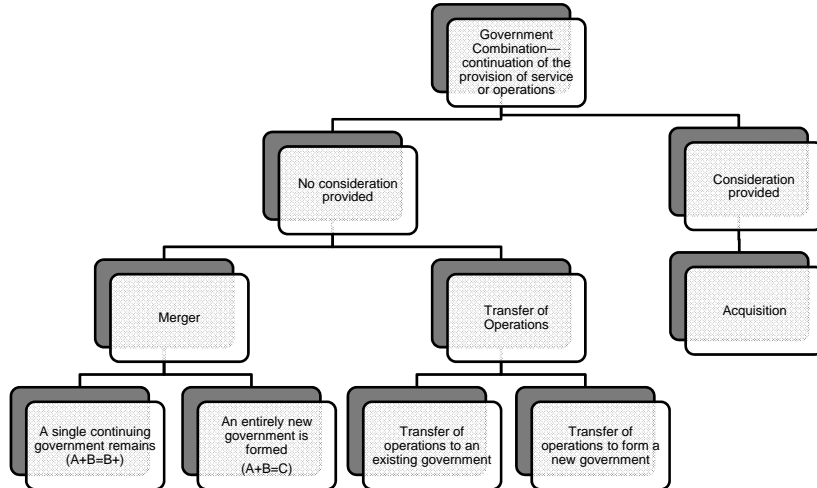
Scope

Scope includes:

- Combinations in which little or no consideration is provided
 - Government mergers
 - Transfers of operations
- Combinations in which consideration is provided
 - Government acquisitions
- Disposals of government operations

42

Overall Approach



43

Definition of “Operations”

- An integrated set of activities with associated assets and liabilities that is conducted and managed for the purpose of providing identifiable services with associated assets and liabilities

44

Mergers and Transfers of Operations

45

When No Consideration Is Provided

- Assets and liabilities brought in at carrying values
 - Presumption of GAAP
- Initial reporting—mergers:
 - New entity: fresh start
 - Continuing entity: restate as if a change in the reporting entity
- Initial reporting—transfers of operations:
 - New entity: fresh start
 - Continuing entity: transaction during the period
- Adjustments
 - Accounting principles, policies, and estimates (required)
 - Capital asset impairment (required)
 - Transaction eliminations (may be needed for continuing governments)

8

Acquisitions

47

Government Acquisitions

- Measure consideration as the value of assets conveyed or liabilities incurred to the former owner at the acquisition date
- Assets, liabilities and deferrals should be measured at *acquisition value*—a market-based entry price
 - Entry price is assumed to be based on an orderly transaction entered into on the acquisition date
 - Acquisition value represents the price that would be paid for similar assets, having similar service capacity, or discharging liabilities assumed as of acquisition date

13

Government Acquisitions

- Exceptions to acquisition value
 - Employee benefit arrangements (Statement 47)
 - Landfill closure and postclosure care costs (Statement 18)
 - Pollution remediation obligations (Statement 49)
 - Investments required to be reported at fair value (Statement 31)
 - Deferrals related to derivatives (Statement 53)

13

Consideration Given

- If exceeds the net position acquired, the difference would be treated as a deferred outflow of resources
 - Attributed to future periods in a systematic and rational manner, based on professional judgment
- If net position exceeds the consideration given
 - Considered a contribution – if the seller accepted the lower amount for the purpose of providing an economic benefit to the acquiring government
 - If not – the difference would be eliminated by reducing the acquisition values assigned to noncurrent assets (other than investments reported at fair value).
 - If the difference exceeded the acquisition value of all noncurrent assets (other than investments reported at fair value), the remainder would be treated as a special item in the flows statement.

50

Overview

Type of Government Combination	Consideration Provided	Merger/ Acquisition/ Transfer Date	Initial Reporting Period	Recognition and Measurement
Merger—new government is formed	No	Date the combination becomes effective	Begins on the merger date	All elements at carrying value as of the merger date.
Merger—single continuing government	No	Beginning of the reporting period in which the combination occurs	Transaction reported in the period in which it occurs	All elements at carrying value as of the merger date.
Acquisition	Yes	Date the acquiring government obtains control of the acquired entity's assets or becomes obligated for its liabilities or operations (typically when consideration is paid)	Transaction reported in the period in which it occurs	Assets and liabilities at acquisition value as of the acquisition date. Deferred inflows and outflows of resources at carrying value.
Transfer of operations—to form a new government	No	Date the transferee government obtains control of the acquired operation's assets or becomes obligated for its liabilities	Begins on the effective transfer date	All elements at carrying value as of the effective transfer date
Transfer of operations—to an existing government	No	Date the transferee government obtains control of the acquired operation's assets or becomes obligated for its liabilities	Transaction reported in the reporting period in which it occurs	All elements at carrying value as of the effective transfer date

Fair Value Measurement and Application: Statement 72

Overview

- **What:** The Board is developing a new Statement updating the existing standards on fair value (primarily Statement 31)
- **Why:** Review of existing standards found opportunities to improve the measurement of resources available to governments, and to increase comparability and accountability
- **When:** Periods beginning after June 15, 2015 (FYE 6-30-16 and later)

53

Objectives and Scope

- Objectives of the Statement
 - Increased comparability between governments, greater accountability, and a better measure of the resources available to governments
 - Provides further guidance on fair value measurements
 - Basis is FASB Statement No. 157, *Fair Value Measurements* (and updates)
- Scope is not limited to investments—for measurement guidance
 - Certain assets and liabilities measured at fair value
 - Includes derivatives

54

Fair Value Measurement

55

Fair Value Definition

- 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.
 - An exit price
- Other characteristics of fair value
 - Market-based
 - Based on a government's principal or most advantageous market
- No fair value option

56

Key Terms

- Unit of Account
 - Stand-alone asset or liability or a group of assets or liabilities
 - Determined by the particular standards that require fair value measurement
- Market participants
 - Fair value measurement determined using the assumptions market participants would use in pricing the asset or liability
- Price
 - Not adjusted for transaction costs
- When market information is not available
 - Estimate the price at which an orderly transaction would take place between market participants at that date (for example, a valuation technique)

57

Concepts

- Nonfinancial assets at fair value
 - Value at the asset's highest and best use
 - A government's current use is presumed to be the highest and best use, unless otherwise suggested
 - May be in combination with other assets and liabilities or on a stand-alone basis
- Liabilities at fair value
 - For example: derivative liabilities
 - Take government's credit standing into account
 - If there is no active market:
 - Consider liabilities held by other parties as assets
 - If the above is unavailable, use a relevant valuation technique

58

Valuation Techniques

- Apply valuation technique(s) that best represents fair value in the circumstances
 - **Market approach** – Using prices and other relevant information generated by market transactions involving identical or similar assets or liabilities
 - **Cost approach** – Amount that would be required currently to replace the service capacity of an asset
 - **Income approach** – Converts expected future amounts (for example, cash flows) to a single current amount (that is, discounted)
- Revisions due to a change in valuation technique(s) are considered a change in accounting estimate

59

Inputs

- Maximize use of relevant observable inputs and minimize use of unobservable inputs
- Inputs should be consistent with the characteristics of the asset or liability
 - Sometimes includes an adjustment, a premium or discount
 - Do not include premium or discount that is inconsistent with the unit of account established for the asset / liability
 - Do not include premiums and discounts that reflect size as a characteristic of a government's holdings
- Based on bid and ask prices
 - Choose price within the bid-ask spread that is most representative of fair value, if relevant

60

Hierarchy of Inputs

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities, most reliable
- **Level 2:** quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are observable
- **Level 3:** unobservable inputs, least reliable
- Inputs categorized within multiple levels of the hierarchy
 - Fair value measurement is categorized in its entirety in the same level as the lowest (in terms of reliability) level input that is significant to the entire measurement

61

Adjustments

- Observable inputs
 - If the adjustment of observable inputs uses unobservable inputs and results in a significantly higher or lower fair value, the resulting measurement is level 3
- Other examples that result in categorization to a lower level of the fair value hierarchy
 - Alternative pricing methods (matrix pricing)
 - Adjustments for new information after close of market but before measurement date
 - Adjustments for factors specific to the asset or liability

62

Volume Adjustments

- Measuring fair value when volume or level of activity for an asset or a liability has significantly decreased
- If it is determined that a transaction or a quoted price does not represent fair value, an adjustment would be necessary
- Risk adjustments
 - Includes a risk premium reflecting amount that market participants would demand as compensation for uncertainty
 - Reflects an orderly transaction between market participants at the measurement date under current market conditions
- Change in valuation technique(s) may be appropriate

63

Transactions Not Considered Orderly

- More difficult to tell when there is significant decrease in the volume or level of activity for the asset or liability
- Assessment should be performed taking into account:
 - Market exposure and marketing period
 - Whether the sale was distressed or forced
 - The transaction price compared to other recent similar transactions
- If the transaction is considered to be not orderly, little value should be placed on the transaction price
- Quoted prices provided by third parties may be used if developed in accordance with this standard

64

Measurement—Net Asset Value Per Share (NAV)

- Measuring fair value of investments in certain entities that calculate net asset value (NAV) per share or its equivalent
- NAV per share may be used as a practical expedient to estimate fair value
 - Adjustment to NAV per share amount may be necessary to be consistent with measurement principles
 - May be applied on an investment-by-investment basis but must be applied consistently to fair value measurement of the government's entire position in a particular investment
- If sale of a portion of an investment at an amount different from net asset value per share is probable, the practical expedient may not be applied

65

Fair Value Application

66

Investment Definition

- A security or other asset that a government holds primarily for the purpose of income or profit and with a present service capacity that is based solely on its ability to generate cash or to be sold to generate cash
 - Service capacity refers to a government's mission to provide services
 - Held primarily for income or profit—acquired first and foremost for future income and profit

67

Fair Value Application

- Assets that meet the definition of an investment generally should be measured at fair value
- Examples, if they meet the definition of an investment
 - Intangible assets
 - Land and land rights
 - Real estate
 - Lending assets
 - Natural resource assets

68

Fair Value Application—Additional Examples

- Investments that are already measured at fair value (including securitized mortgages)
- Alternative investments
- Equity securities (including unit investment trusts and closed-end mutual funds), stock warrants, and stock rights that do not have readily determinable fair values
 - Provided such investment-types are not reported according to the equity method
- Commingled investment pools that are not government sponsored
- Invested securities lending collateral

69

Investments Not Reported at Fair Value

- Money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less, reported by governments other than external investment pools
- Investments in 2a7-like pools
- Investments in life insurance. Investments in life settlement contracts, however, should be at fair value
- Investments in common stock that meet the criteria for applying the equity method
 - Investments in common stock held by endowments as well as investments in certain entities that calculate net asset value per share are ineligible for the equity method.
- Non-participating interest earning investment contracts
- Unallocated insurance contracts
- Synthetic guaranteed investment contracts that are fully benefit responsive

70

Application of Acquisition Value

- Acquisition value (an entry price) replaces fair value for the following:
 - Donated capital assets
 - Donated works of art, historical treasures, and similar assets
 - Capital assets acquired through a nonexchange transaction
 - Capital assets received through a service concession arrangement

71

Note Disclosures

72

Organizing Principles

- Organized by type or class of asset or liability based on considerations including the following:
 - The nature, characteristics, and risks of the asset or liability
 - The level of the fair value hierarchy within which the fair value measurement is categorized
 - Whether this Statement or another Statement specifies a type or class for an asset or a liability
 - The objective or the mission of the government
 - The make up of the government
 - The relative significance of assets and liabilities measured at fair value compared to total assets and liabilities
 - Whether separately issued financial statements are available
 - Line items presented in the statement of net position
- May be presented in a table or narrative format

73

Recurring and Non-Recurring Measurement Disclosures

- **Recurring**—Required or permitted in the statement of net position at the end of each reporting period
- **Non-recurring**—Required or permitted in the statement of net position in particular circumstances
- The following information for each class or type of assets and/or liabilities measured at fair value should be disclosed:
 - The fair value measurement at the end of the reporting period and for nonrecurring fair value measurements, the reasons for the measurement
 - The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)
 - A description of the valuation technique(s)

74

Level 3 and NAV

- For fair value measurements categorized within Level 3 of the fair value hierarchy
 - The effect of those investments on investment income for the reporting period dnmm1
- Disclosures for investments in certain entities that calculate net asset value (NAV) per share (or its equivalent)
 - Information that helps users of its financial statements to understand the nature and risks of the investments
 - Information on whether the investments are probable of being sold at amounts different from net asset value per share (or its equivalent)

75

NAV Disclosures (continued)

- Additional disclosures are required for investments in certain entities that calculate NAV per share (or its equivalent), including:
 - Fair value measurement of the investments in the class and a description of the significant investment strategies of the investee(s) in the class
 - If distributions are received through liquidation of the underlying assets of investees, an estimate of the period of time over which underlying assets are expected to be liquidated
 - Amount of unfunded commitments related to investments in the class
 - General description of the terms and conditions upon which the government may redeem investments in the class

76

Slide 75

dmm1 are we talking about the gain or loss related to level 3 measurements? The bullet is unclear to me as written.

dmmead, 12/9/2014

Current Technical Agenda Projects

77

Other Postemployment Benefits

78

The OPEB Exposure Drafts

- **What:** The GASB has proposed revisions to Statements 43 and 45 that would make OPEB accounting and financial reporting consistent with the pension standards in Statements 67 and 68
- **Why:** Pension and OPEB standards are being updated subsequent to a review of the effectiveness of the standards – objective is to establish a consistent set of standards for all postemployment benefits, providing more transparent reporting of the liability and more useful information about the liability and costs of benefits
- **When:** Final Statements expected in June 2015

79

Scope & Applicability

- Applies same definition of OPEB as used in Statement 45
 - All postemployment healthcare benefits
 - Postemployment benefits not provided through a pension plan
- Addresses both defined benefit OPEB and defined contribution OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as those payments come due
 - Special funding situations
 - Other circumstances

80

Highlights

- Identical in most respects to pension standards in Statements 67 and 68
- Recognize net OPEB liability in accrual-basis financial statements
- Recognize many portions of change in net OPEB liability as OPEB expense immediately; others deferred and recognized as OPEB expense over shorter periods than previously
- Cost-sharing governments and nonemployer contributing entities report their proportionate shares of collective net OPEB liability, OPEB expense, and OPEB-related deferrals
- Enhanced notes and RSI

81

Project Timeline

Pre-Project Timeline	
Pre-Agenda Research Started	April 2011
Added to Current Technical Agenda	April 2012
Exposure Drafts Approved	May 2014
Final Statement Expected	June 2015

82

GAAP Hierarchy

83

The GAAP Hierarchy

- **What:** The GASB has proposed a revised hierarchy of generally accepted accounting principles and has exposed the entire Comprehensive Implementation Guide for public comment
- **Why:** The GAAP hierarchy was incorporated (by Statement 55) from the auditing literature essentially “as is”—this project simplifies the hierarchy and explains how to identify the relevant literature within the hierarchy
- **When:** Final Statement and Implementation Guide are expected in June 2015

84

Levels of Authoritative GAAP

Level	Sources	Due Process
a	GASB Statements	Formally approved by the Board for the purpose of creating, amending, superseding, or interpreting standards, <u>AND</u> exposed for a period of public comment
b	GASB Technical Bulletins and Implementation Guides; AICPA literature specifically cleared by GASB	Cleared by the Board, specifically made applicable to state and local governmental entities, <u>AND</u> exposed for a period of public comment

85

Comprehensive Implementation Guide (CIG)

- Tentatively classified as category (b) authoritative
- Revised due process
 - Public exposure of guidance in the existing CIG and updates to the CIG going forward
 - Board clearance of the final document
- Evaluation of individual Q&As prior to exposure
 - Remove or improve Q&As that only restate guidance directly from related statements
 - Move illustrations to the nonauthoritative appendixes

86

Project Timeline

Pre-Agenda Research Started	April 2011
Added to Current Technical Agenda	April 2012
Exposure Drafts Approved	December 2013
Final Statement Expected	June 2015

87

Tax Abatement Disclosures

88

Exposure Draft on Tax Abatement Disclosures

- **What:** The GASB has proposed standards requiring disclosures about a government's tax abatement agreements
- **Why:** Information about revenues that governments forgo is essential to understanding financial position and economic condition, interperiod equity, sources and uses of financial resources, and compliance with finance related legal or contractual requirements
- **When:** Final Statement expected August 2015

89

Definition and Scope

- Does not include all transactions that reduce taxes
- Emphasis is on the substance of the transaction meeting the definition, not on its name or form
- Would apply only to transactions meeting this definition:
 - For financial reporting purposes, a tax abatement is a reduction in taxes that results from an agreement between one or more governmental entities and an individual or entity in which (a) one or more governmental entities promise to forgo tax revenues to which they otherwise are entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

90

General Disclosure Principles

- Disclosure information for similar tax abatements may be provided either individually or in the aggregate
- For all tax abatements, a reporting government would disclose separately (a) its own tax abatements and (b) tax abatements of other governments that reduce the reporting government's taxes
- The reporting government would disclose its own tax abatements by major program and those of other governments aggregated in total
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

91

Proposed Disclosures

- General descriptive information:
 - Name and purpose of the program and the taxes being abated
 - The authority under which taxes are abated
 - The criteria, if any, that make a recipient eligible
 - The mechanism for abating taxes (form and calculation)
 - Provisions for recapturing abated taxes
 - The types of commitments made by recipients of tax abatements
- The number of abatements granted during the reporting period and the number in effect as of the date of the financial statements
- Amount of tax abated in the current year
- The types of commitments made by governments in tax abatement agreements (other than to reduce taxes) and the most significant individual commitments

92

Project Timeline

Pre-Agenda Research Starts	August 2013
Added to Current Technical Agenda	December 2013
Exposure Draft Approved	October 2014
Final Statement Expected	August 2015

93

Leases

94

Preliminary Views on Leases

- **What:** The GASB has proposed revisions to existing standards on lease accounting and financial reporting (primarily NCGA Statement 5 & GASB Statement 13)
- **Why:** The existing standards have been in effect for decades without review to determine if they remain appropriate and continue to result in useful information; FASB and IASB have been conducting a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers
- **When:** Preliminary Views issued for public comment in November 2014; comment deadline was March 6, 2015

95

Scope and Approach

- Applied to any contract that meets the definition of a lease: “A lease is 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.”
- All leases are financings of the right to use an underlying asset
 - Therefore, single approach applied to accounting for all leases except short-term leases

96

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible asset (right to use leased asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, probably residual guarantees, etc.)	NA
Lessor	<ul style="list-style-type: none"> Lease receivable (including same items as lessee liability) Continue to report leased asset 	NA	Equal to lease receivable plus any cash received up front

97

Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize over shorter of useful life or lease term	Reduce by lease payments (less amount of interest expense)	NA
Lessor	<ul style="list-style-type: none"> Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) Reduce receivable by lease payments (less payment needed to cover accrued interest) Amortize discount over term of the receivable 	NA	Recognize revenue over the lease term on a systematic and rational basis

98

Short-Term Leases

- At beginning of lease, maximum possible term under the contract is 12 months or less
- Lessees recognize expenses/expenditures based on the terms of the contract
 - Do not recognize assets or liabilities associated with the right to use the underlying asset for short-term leases
 - Disclose short-term leases expense/expenditure recognized during the reporting period
- Lessors recognize lease payments as revenue based on the terms of the contract
 - Do not recognize receivables or deferred inflows associated with the lease

99

Leases with Multiple Components

Separately account for lease and service components

Separately account for individual lease components when

- Lease terms differ
- Underlying assets are in different classes for disclosure

Practicality exception provided for difficult situations

- See flowchart for allocation guidance

100

Project Timeline

Pre-Agenda Research Started	April 2011
Added to Current Technical Agenda	April 2013
Preliminary Views Approved	November 2014
Exposure Draft Expected	January 2016
Final Statement Expected	November 2016

101

Fiduciary Responsibilities

102

Preliminary Views on Fiduciary Responsibilities

- **What:** The GASB has proposed standards that clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements
- **Why:** Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; business-type activities are uncertain about how to report fiduciary activities
- **When:** Preliminary Views issued for public comment in November 2014; comment deadline was March 6, 2015

103

When Is a Government a Fiduciary?

- A government is a fiduciary if it **controls** assets in any of the following ways:
 - From a pass-through grant for which the government does *not* have administrative or direct financial involvement
 - In accordance with a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary
 - For the benefit of individuals that are *not* required to be part of the citizenry as a condition of being a beneficiary, or organizations or other governments that are *not* part of the financial reporting entity

104

When Is a Government Controlling Resources?

		Responsibility for Administering the Exchange of Assets			
		(1) Responsible for administering the exchange of assets	(2) Assigned and can reassign the responsibility for administering the exchange of assets	(3) No responsibility for administering the exchange of assets, but can establish parameters for those who are responsible	(4) No responsibility for administering the exchange of assets
Legal Structure	(a) Government directly holds the assets outside of a trust agreement or equivalent arrangement	Control	Control	Control	Control
	(b) Government is acting as trustee for a trust agreement or equivalent arrangement	Control	Control	No Control	No Control
	(c) Legally separate entity is responsible for holding or acting as trustee	Control	Control	No Control	No Control

105

What Resources Should Be Reported in Fiduciary Funds?

1. Resources (a) held for pension/OPEB arrangements in a trust or equivalent arrangement, (b) not available to government for another purpose, and (c) not covered by other GASB guidance
 2. Resources from a pass-through grant if the government acts solely as a cash-conduit for the resources
 3. Government is not a beneficiary and resources are held in a trust or equivalent arrangement
 4. Government is not a beneficiary and the resources are not for the benefit of individuals that are required to be part of the government's citizenry as a condition of being a beneficiary, or for organizations or other governments that are part of the financial reporting entity
- Resources from the government's own source revenues generally should *not* be reported in fiduciary funds

Other Proposals

- Fiduciary fund types:
 - New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
 - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
 - *Custodial funds* would report fiduciary activities for which there is no trust agreement or equivalent arrangement.
- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Governments engaged in fiduciary activities should be required to present additions disaggregated by source and deductions disaggregated by type in a statement of changes in fiduciary net position for *all fiduciary funds*.

107

Project Timeline

Pre-Agenda Research Starts	April 2010
Added to Current Technical Agenda	August 2013
Preliminary Views Approved	November 2014
Exposure Draft Expected	October 2015
Final Statement Expected	July 2016

108

External Investment Pools

109

External Investment Pools

- **What:** The GASB is considering revisions to the accounting and financial reporting standards for 2a7-like investment pools
- **Why:** Securities and Exchange Commission changes to Rule 2a7 would make it difficult for external investment pools to meet the criteria to report as 2a7-like
- **When:** An Exposure Draft is expected for June 2015

110

Background

- Current standards allow pools that are considered to be 2a7-like to report investments at amortized cost rather than fair value
 - The SEC recently made significant changes to Rule 2a7
 - Concerns were raised regarding the cost-benefit of government pools applying the revised Rule 2a7 provisions
- The project is considering criteria independent of Rule 2a7 that could be applied by external investment pools to determine when a cost-based can be applied to investments.
 - The current 2a7 provisions and other regulatory provisions are being used as starting point.

111

Tentative Criteria Categories

- Pool should transact with participants at a stable net asset value
- Portfolio maturity limits
- Portfolio quality requirements
- Portfolio diversification requirements
- Portfolio liquidity limits

112

Project Timeline

Pre-Agenda Research Starts	August 2014
Added to Current Technical Agenda	December 2014
Exposure Draft Expected	June 2015
Final Statement Expected	December 2015

113

Other GASB Activities

- Current Technical Agenda Projects
 - Asset Retirement Obligations
 - Blending Requirements for Certain Business-Type Activities
 - Irrevocable Charitable Trusts
- Pre-Agenda Research
 - Financial Reporting Model (Reexamination of Statement 34)
 - Debt Extinguishments (Reexamination of Statements 7, 23, and 62)

114

Blending Requirements for Certain Business-Type Activities

115

Blending Requirements

- **What:** The GASB is considering revising the standards regarding how certain component units of business-type activities should be presented in the financial statements of the primary government
- **Why:** There is diversity in practice, with some component units blended for reasons not included in Statement 14
- **When:** An Exposure Draft is expected for June 2015

116

Existing Guidance—Statement 14, as amended

- Most component units should be included in the financial reporting entity by discrete presentation.
- Blending required if any of the following is true:
 - Primary government and component unit have substantively the same governing body AND
 - A financial benefit/burden relationship exists, OR
 - Management (below the elected official level) of the primary government has “operational responsibility” for the activities of the component unit
 - Services of the component unit exclusively benefit the primary government
 - Debt of the component unit is expected to be repaid entirely or almost entirely with resources of the primary government

117

Project Scope

- Consider which methods of reporting component units—blended or discrete presentation—is most appropriate for the reporting entity of certain BTAs
- If types of component units in question should be blended:
 - Consider whether blending can be achieved under the existing criteria (substantively the same governing body) or whether additional criteria should be developed
 - If additional blending criteria are considered, should application be limited to “certain BTAs” or available to all governments?
 - Is disclosure of disaggregated information needed?

118

Tentative Board Decisions

- Clarify the “substantively the same governing body” criterion:
 - Being the sole corporate member of an LLC, in which there is not a separate governing board, is equivalent to having *substantively the same board*.

119

Project Timeline

Pre-Agenda Research Starts	December 2013
Added to Current Technical Agenda	August 2014
Exposure Draft Expected	June 2015
Final Statement Expected	March 2016

120

Questions?

Visit www.gasb.org