

GASB Update: Government Financial Landscape Continues to Change

Presented by:

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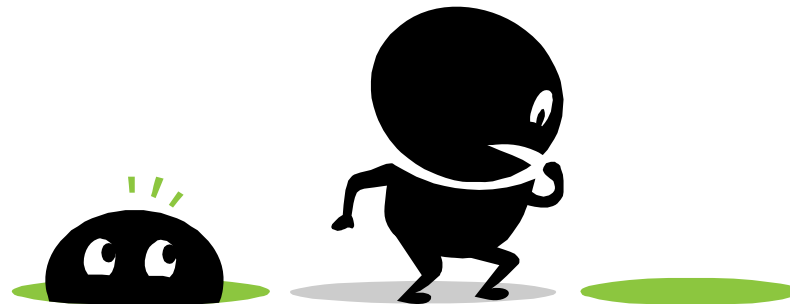


Website Resources

Meeting the needs of constituents is one of the GASB's key goals. In support of this goal, the GASB makes a variety of resources available through its website, www.gasb.org, including up-to-date information and resources addressing:

- ▶ Current projects
- ▶ Recent proposals and final pronouncements
- ▶ Free copies of proposals and final pronouncements
- ▶ A free view of the GASB Codification
- ▶ Educational resources
- ▶ Resources for users
- ▶ Webcasts of GASB Meetings

Where are they now?



Seriously?

- ▶ Statement 72 – Fair value Measurement & Application
- ▶ Statement 73 – Accounting and Financial Reporting for Pensions and Related Assets Not within the Scope of Statement 68, & Amendments to 67 & 68
- ▶ Statement 74 – Financial Reporting for OPEB Plans
- ▶ Statement 75 – Accounting & Financial Reporting for OPEB employers
- ▶ Statement 76 – GAAP Hierarchy
- ▶ Statement 77 – Tax Abatement Disclosures
- ▶ Statement 78 – Pensions Provided through Certain Multiple–Employer DB Plans
- ▶ Statement 79 – Certain External Investment Pools & Pool Participants
- ▶ Statement 80 – Blending Requirements for Certain Component Units
- ▶ Statement 81 – Irrevocable Split–Interest Agreements
- ▶ Statement 82 – Pension Issues
- ▶ Fiduciary Responsibility – exposure draft
- ▶ Asset Retirement Obligations – exposure draft
- ▶ Leases – exposure draft
- ▶ Debt extinguishment project
- ▶ Financial Reporting Model project

Well, at least they spread the effective dates out a bit

Effective Dates – June 30

- ▶ 2016
 - Statement 72—Fair value—Measurement and application
 - Statement 73—Pensions—Related assets (outside the scope of Statements 67 and 68) and Statements 67 and 68 amendments
 - Statement 76—GAAP hierarchy
 - Statement 79—External investment pools (most of it anyway)
 - Implementation Guide—2015-1
- ▶ 2017
 - Statement 73—Pensions—Employers (outside the scope of Statement 68)
 - Statement 74—Other Postemployment Benefits (OPEB) plan reporting
 - Statement 77—Tax abatements disclosures (applicable to 12-31-16 year ends also)
 - Statement 78—Pensions provided through certain multiple-employer defined benefit pension plans (applicable to 12-31-16 year ends also)
 - Statement 80—Blending requirements for certain component units
 - Statement 82 – Pension Issues
 - Implementation Guide—2016-1

Effective Dates – June 30

▶ 2018

- Statement 75—OPEB—Employers
- Statement 81—Irrevocable split-interest agreements (applicable to 12-31-17 year ends also)

▶ Expected Effective Dates

- 2019
 - Fiduciary activities
 - Asset retirement obligations
- 2020
 - Leases
- 20??
 - Financial reporting model

GASB Statement No. 72

- ▶ Objective: Improve Financial Reporting and clarify the definition of fair value.
- ▶ Definition of Fair Value :
 - 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 – Based on the principal or the government's most advantageous market
- ▶ Effective for periods beginning after June 15, 2015

Scope

- ▶ Est. general principles for measuring fair value & standards of accounting and financial reporting for assets and liabilities measured at fair value.
- ▶ Markets – fair value measurement assumes that a transaction to sell an asset or transfer a liability takes place in either a principal market or the most advantageous market.

Fair Value Hierarchy

- ▶ Consist of three levels:
 - Level 1: quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
 - Level 2: Inputs, other than quoted prices included in Level 1, that are observable for an asset or liability (either directly or indirectly)
 - – Market quotes for similar assets
 - – Yield curves that are observable at commonly quoted intervals
 - Level 3: Unobservable inputs for an asset or liability – Midmarket consensus price for a swap that uses data that are not directly observable and cannot be corroborated by the observable market data (nice, huh)

GASB Statement No. 73

- ▶ Primarily to establish requirements for defined benefit not within scope of statement 68.
- ▶ Those not meeting the trust criteria:
 - Employer/nonemployer contributions irrevocable
 - Plan assets dedicated to providing pensions
 - Plan assets legally protected from creditors
- ▶ Applies approach of statements 67/68 with modifications

Statement 74 & 75 – OPEB

- ▶ Addresses both OPEB Plans Administered through trust & not administered through trust
 - Same trust criteria as pensions
- ▶ Requires reporting of liability in the F.S.
 - Trust: Total OPEB Liability – FNP = NPL
 - Not trust: Total OPEB liability = Liability
- ▶ Effective Date:
 - 74 – fiscal years beginning after June 15, 2016
 - 75 – fiscal years beginning after June 15, 2017

Statement 74 & 75 – OPEB

- ▶ OPEB
 - Other postemployment benefits – all postemployment benefits promised to employees other than pensions
 - Medical, dental, vision separately or through a pension plan.
 - Principally, retiree health insurance – but also life insurance, disability, legal services, and other benefits
 - Provided separately from a pension plan.
- ▶ Includes:
 - Payments made to insurance companies on behalf of retirees,
 - Payments directly to retirees, and
 - Subsidizing retiree premiums by allowing them to be insured in the same group as active employees

GASB 76 – “The GAAP Hierarchy”

- ▶ Effective for periods beginning after June 15, 2015
- ▶ Current GAAP hierarchy was incorporated from auditing literature “as is” this standard identifies/explains how to identify the relevant literature within the hierarchy
- ▶ The Comprehensive Implementation Guide now included for public comment. (That means it’s now **AUTHORITATIVE!!!**)

GASB 77 – Tax Abatement

- ▶ Effective for periods beginning after December 15, 2015
- ▶ Issued to increase 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
- ▶ Disclosure only, but WILL apply to any agreements where a government “uh-bates” taxes or “re-bates” taxes others

GASB 78 – Pensions through Certain Multi-Employer DB Plans

- ▶ Effective for periods beginning after December 15, 2015
- ▶ GASB 68 applied to all State & Local Govt employers (if provided through a trust) but what if the plan include non-government entities or had no predominate state or local government.

Scope & Application

- ▶ Establish accounting and financial reporting for db pension provided to state or local govt employers through cost-sharing pension plans that:
 - Meet criteria of par. 4 of Statement 68
 - Is not a state or local governmental pension plan
 - Is used to provide db pension to both state/local employees & non-state/local employees
 - Has no predominate state or local governmental employer
 - Collectively or individually
 - E.g. plans with benefits provided through federally sponsored or private multiple-employer pension plans (such as Taft-Hartley plans)

GASB 79 – Certain External Investment Pools & Participants

- ▶ Effective 06/15/2016 (portions deferred to 12/15/2016)
- ▶ Brings the guidance for 2a7-like investment pools within the GASB literature
 - SEC rule 2a7 was amended in 2014
 - No substantive change to current practice for governments

GASB 79 – Certain External Investment Pools & Participants

- ▶ In general, investments should be carried at fair value
 - Exception made for short-term money market funds (2a7-like) carried at amortized cost, which is expected to approximate market
 - Use of fair value is always permitted
 - Once fair value is elected, you cannot later change back to amortized cost

GASB 80 – Blending Requirements for Certain C.U.

- ▶ Effective for periods beginning after June 15, 2016
- ▶ Amends GASB Statement No. 14, paragraph 53. related to blending requirements.
- ▶ Does not affect those component units included based on the provisions of GASB Statement No. 39
 - “Determining Whether Certain Organizations are Component Units”

Scope & Application

- ▶ Applies to C.U.'s that are organized as not-for-profits corporations in which the primary government is the sole corporate member.
- ▶ A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provisions in paragraphs 21–37 of Statement 14, as amended

GASB 81: Irrevocable Split Interest Agreements

- ▶ The GASB standard for reporting split-interest agreements.
- ▶ Currently limited guidance for such agreements when the govt. acts as the trustee and is also a beneficiary
- ▶ No guidance for situation in which a 3rd party is the trustee and the govt is one of the beneficiaries

Scope

- ▶ Irrevocable split-interest agreements for which the government is the intermediary (trustee or agent) and a beneficiary
 - Donor gives resources to government that also is a beneficiary in the agreement
 - Lead interest: payments during the life of the agreement, generally to non-governmental beneficiary (donor or donor's relative)
 - Remainder interest: assets remaining at termination of the agreement; generally goes to government
- ▶ Beneficial interests in resources held and administered by 3rd parties – Refers to the right to receive resources in a future reporting period, from resources administered by a 3rd party

GASB 82: Pension Issues

- ▶ A statement that clarify's existing guidance found in Statement's 67, 68 and 73
- ▶ Mostly clarifying language on employer "pick-up" payments, when employers pay for th employee's contributions
- ▶ Also clarifies what "covered payroll" is defined as for pension purposes

Leases – Exposure draft

▶ In a nutshell

- In the future, there will only be two types of leases
 - Leases with a term of 12 months or less
 - Leases with a term of more than 12 months
 - For leases with a term of 12 months or less, governments will simply record the monthly payment as expense
 - For leases with a term of more than 12 months, an asset and a liability will be reported by the lessee, and the monthly payments will then reduce the asset and liability, with appropriate expense for an interest component recognized
- ▶ It does raise some interesting questions though...

Fiduciary Responsibilities – ED

- ▶ Scope: any activity for which a government acts as a fiduciary (agent)
- ▶ Government has F.R when it control assets:
 - From a pass-through grant for which the govt does not have administrative or direct involvement
 - Trust agreement or equivalent arrangement in which the govt itself is not a beneficiary
 - For the benefit of individuals that are not part of the citizenry

Essentially, it ends up being a revision to how we define and account for money that we hold for others

Asset Retirement Obligations – ED

- ▶ Currently only addressed in GASB Statement 18
 - “Accounting for Municipal Solid Waste Landfill Closure & Post Closure Care Costs”
- ▶ However governments have many other obligations for the retirement of assets (think decommissioned nuclear power plant...you all have lots of those)

Debt Extinguishment Project

- ▶ Project scope to include guidance on debt refunding that use a government's current resources
- ▶ Current refunding guidance exist in Statements 7 & 23 on debt refundings and statement 62 on debt extinguishments.
- ▶ Research by the GASB staff has found guidance may be needed to address the use of current resources

Financial Reporting Model Project

- ▶ Reexamination of Statements **34,35**,
37, 41, 46 and Interpretation 6, or in other words,
revise or redo
 - 1) state and local reporting model (34 and 35),
 - 2) the bug fix to stmts 34 and 35 (37)
 - 3) the budgetary comparison schedule (41)
 - 4) net position restricted by enabling leg. (46)
 - 5) interpretation 6, which is all about how to understand modified accrual accounting, as if it wasn't already weird enough...
- ▶ Evaluate current model and issues with object of improving/enhancing effectiveness of the overall financial reporting model

Research Topics/Accounting Issues Identified for Reporting Model Project

- ▶ **Management's Discussion and Analysis (MD&A)**—Explore options for enhancing the financial statement analysis component, consider the elimination of requirements that are boilerplate and no longer necessary for understanding the financial reporting model, and clarify guidance for presenting currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.
- ▶ **Government-Wide Financial Statements**—Explore alternatives for the format of the statement of activities and consider whether a government-wide statement of cash flows should be required, and if so, how those cash flows should be presented.
- ▶ **Major Funds**—Explore options for providing additional information about debt service funds, either individual or in aggregate.

Research Topics/Accounting Issues Identified for Reporting Model Project

- ▶ **Governmental Fund Financial Statements**—Explore a conceptually consistent measurement focus and basis of accounting and develop a presentation format for governmental fund financial statements consistent with the measurement focus and basis of accounting. In conjunction with this project, the conceptual framework project on recognition of element of financial statements would be recommenced.
- ▶ **Proprietary Fund and Business-Type Activity Financial Statements**—Evaluate operating indicator alternatives in conjunction with evaluating the guidance for the separate presentation of operating and nonoperating revenues and expenses.
- ▶ **Fiduciary Fund Financial Statements**—Explore where the fiduciary fund financial statements should be presented in the basic financial statements.

Research Topics/Accounting Issues Identified for Reporting Model Project

- ▶ **Budgetary Comparisons**—Explore the appropriate method of communication (either as basic financial statements or required supplementary information) for budgetary comparison information and consider whether and, if so, which budget variances should be required to be presented.
- ▶ **Other Issues**—As appropriate and in conjunction with other topics, explore options that would permit more timely financial reporting or that would reduce complexity overall.

Tentative Board Decisions To Date

- ▶ The near-term financial resources approach, working capital approach with past-due compensation liabilities approach, and a total financial resources approach will be further developed.
- ▶ The following two presentation alternatives for resources flows will be further developed: statement of revenues, expenditures, and changes in fund balances (current format) and short-term (or current) activities separated from long-term activities.
- ▶ The following alternatives will continue to be explored for the presentation of the government-wide statement of activities: the current format and a traditional format with expenses presented by function or program. Methods of communicating information about the natural classification of functional expenses will be explored.
- ▶ A governmental funds statement of cash flows that could be presented as part of the working capital approach or the total financial resources approach will be further explored.





Questions?

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