

*What did GASB do in 2015?*

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Thursday, October 29, 2015

9:45 AM

*Note: This session repeats at  
4:00 PM if another session looked  
more interesting*

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# What's New for 2015 CAFR's

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- GASB 68 – Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27
  
- GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68
  - *You may have heard about these at a previous GFOAT conference...*

## What's New... (continued)

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- GASB 69 – Government Combinations and Disposals of Government Operations
  - Review if your agency has merged, acquired, or transferred an operation
  - Likely impacts are for privatized operations
  - *Wasn't that long ago we were lamenting Statement No. 34*

## What's New... (continued)

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- GASB 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees
  - Review if you have extended a financial guarantee for the obligations of another government, a not-for-profit entity, or a private entity
  - Agency commits to indemnify the holder of the obligation if payment requirements are not fulfilled
  - Also applies if you receive a guarantee

# Standards Issued in 2015

<b>Statement</b>	<b>Description</b>	<b>Effective Date</b>
<b>72</b>	<b>Fair Value and Measurement</b>	<b>6/16/2016</b>
<b>73</b>	<b>Pensions Not Covered Under 68</b>	<b>6/16/201x(6,7)</b>
<b>74</b>	<b>OPEB Plans</b>	<b>6/16/2017</b>
<b>75</b>	<b>OPEB Benefits</b>	<b>6/16/2018</b>
<b>76</b>	<b>Hierarchy of GAAP</b>	<b>6/16/2016</b>
<b>77</b>	<b>Tax Abatements</b>	<b>12/15/2016</b>

*Statement No. 72 – Fair Value  
Measurement and Application*

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# No. 72 – Fair Value

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- Fair Value Measurement and Application
  - Effective for all fiscal years ending 6/16/2016 or later
  - 85 authoritative paragraphs plus glossary
  - Companion to Concepts Statement No. 6 – Measurement of Elements of Financial Statements



# What is Fair Value?

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- 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
  - Orderly – not under duress
  - Market Participants – those who normally buy or sell the asset/liability
  - Measurement Date – date FV is determined

# Markets

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- Measurement should assume the transaction takes place in the principal market
- If no principal market exists, use the most advantageous market
  - Take into account transaction costs and transportation costs
- If principal market exists, use that price even if better pricing is available in a more advantageous market



# Transactional Costs

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- Price should not be adjusted for transaction costs even if the costs are separable
- Transaction costs do not include transportation costs
- If location is an asset characteristic, should adjust price for transportation costs
  - Example – commodities with point of delivery

# Valuation Techniques

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- Intent – maximize the use of relevant observable inputs and minimize the use of unobservable inputs
- Consistent with market, cost, or income approaches
- Can change if new markets develop, techniques improve, or new information develops
  - Account for as a change in accounting estimate (note disclosure)

# Valuation Approaches

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## □ Market

- Prices and other relevant data from market transactions involving identical or similar assets
- Matrix pricing to benchmarks
- Market multiples using ratios derived from similar assets (P/E ratio)

## □ Cost

- Amount currently required to replace the present service capacity
- Cost to acquire a substitute asset of comparable utility, adjusted for any obsolescence

# Valuation Approaches (cont.)

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- Income
  - Converts future cash flows to a single current amount (discounted present value)
  - Techniques would include option pricing formulas such as Black-Scholes or real estate cap rates
  
- If some of this sounds foreign, remember that the standard applies to PFIA-limited governments as well as complex pension funds and investment pools

# Valuation Inputs

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## □ Level 1 Inputs

- Quoted prices for identical assets in active markets
- Should only be adjusted in limited circumstance
  - Example – stock announcements after market close that impact value before the measurement date
  - Example – own a basket of debt securities that are similar and quotes are available for some, but not all securities



# Valuation Inputs

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- Level 2 Inputs
  - Quoted prices for similar assets in active markets
  - Quoted prices for identical/similar assets in non-active markets
  - Observable inputs such as interest rates/yield curves, credit spreads
  - Market-corroborated inputs





# Valuation Inputs

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## □ Level 3 Inputs

- Inputs using best available data under the circumstances, including the government's own data
- Adjustments for information that other market participants would use
- Adjustments for items particular to the government that is not available to other participants

# Valuation Hierarchy

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- Valuation should be classified based on the lowest input utilized
  - Example – a stock trades higher in after-market trading due to surprise earnings
  - The closing quote for the stock is a Level 1 input – the after-market trades and earnings announcement would be considered Level 2 inputs
  - Valuation would be considered a Level 2 input

# Third Party Quotation Services

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- Quoted prices provided by third party pricing services or brokers are allowed if the government determines the prices are developed in accordance with the standards
  - Ask – do the prices reflect a firm commitment to buy, or are based on actual trades of the same security? (Level 1)
  - Ask – are the prices estimated through a matrix based on pricing of similar securities? (Level 2)



# Fair Value Application

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- Investments should be measured at Fair Value:
  - Security or asset that a government holds primarily for the purpose of income or profit
  - Has a present service capacity based solely on its ability to generate cash, or be sold to generate cash



# Fair Value Exceptions

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- ❑ Nonparticipating interest-earning investment contracts
- ❑ Unallocated insurance contracts
- ❑ Money market investments that have a remaining maturity of one year or less at time of purchase
- ❑ Investments in, or investments held by 2a7-like pools
- ❑ Life insurance contracts
- ❑ Synthetic guaranteed investment contracts

# Other Uses/Exceptions

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- Investments in life settlement contracts – fair value
  
- Loans acquired by or originated by the government that have been securitized – fair value
  - Consideration for housing authorities
  
- Donated capital assets/works of art/assets received as part of service concession arrangements – use acquisition value

# Disclosures

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- For each type of asset or liability measured at fair value:
  - Fair value measurement at end of the reporting period
  - Level of fair value hierarchy which the measurements are categorized (1,2,3)
  - Description of the valuation techniques utilized
  - Changes in valuation techniques that have a significant impact and the reason for making it
  - For nonrecurring measurements, the reason for the measurement (permitted by some Standards)

# Other Considerations

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- Additional disclosures for investments in entities that do not have a readily determinable fair value but calculate a net asset value per share
- Many older standards may refer to use of fair value in limited circumstances
- Changes to comply with statement should be treated as an adjustment to prior periods
  - May not be necessary for PFIA governments



*Statement No. 73 – Accounting and  
Financial Reporting for Pensions and  
Related Assets That Are Not within the  
Scope of GASB Statement 68, and  
Amendments to Certain Provisions of  
GASB Statements 67 and 68*

## 73 – Pensions Not Covered by 68

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- ❑ Establishes standards for pensions that do not fall under the scope of Statement 68
- ❑ 127 authoritative paragraphs plus glossary
- ❑ Paragraphs relating to pensions not covered by 68 are effective for fiscal years ending 6/16/2017 or later
- ❑ Paragraphs amending 67/68 or assets of impacted pensions are effective for fiscal years ending 6/16/2016 or later

# All Other Pensions

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- Statement 68 covers pension plans administered through trusts where:
  - Contributions from employers and non-employer contributors are irrevocable
  - Assets are dedicated to providing pensions to plan members in accordance with benefit terms
  - Plan assets legally protected from creditors of the employer, non-employer contributors and plan administrator

# What Is Covered?

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- Retirement income:
  - Richardson pays a fixed monthly benefit to volunteer firemen who served prior to the formation of the sworn fire department
  
- Postemployment benefits provided through a pension plan other than health care or termination benefits
  - Supplemental death benefits, life insurance, disability benefits

# Since Pensions Make My Head Hurt...

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- Review the Standard if you believe you may have a material retirement benefit that isn't covered by Statement 68
  
- Note – Amendment to Statement 67 and 68
  - Notes to RSI about investment related factors that impact trends in amounts reported should be limited to factors over which the pension plan or participating governments have control
  - Information about external, economic factors shouldn't be presented

*Statement No. 74 – Financial  
Reporting for Postemployment Benefit  
Plans Other Than Pension Plans*

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*Statement No. 75 – Accounting and  
Financial Reporting for  
Postemployment Benefits Other Than  
Pensions*

# If Pensions Make Your Head Hurt...

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- Accounting for plan is effective for fiscal years ending 6/16/2017 or later
  - 62 authoritative paragraphs plus a glossary
  
- Accounting of benefits is effective for fiscal years ending 6/16/2018 or later
  - 245 authoritative paragraphs plus a glossary
  
- Requirements are very similar to 67/68 pensions, but would take up a full session
  - Or more...

*Statement No. 76 – Hierarchy of  
Generally Accepted Accounting  
Principles for State and Local  
Governments*

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# GAAP Hierarchy

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- After pensions and OPEB, a refreshing 9 authoritative paragraphs
  
- Tweaks GAAP Hierarchy from Statement 55 (2009) if this topic seems familiar
  - Statement 62 (pre-1989 FASB) and due process of Implementation Guides impetus for change
  
- Effective for fiscal years ending 6/16/2016 or later

# Authoritative Hierarchy

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- Authoritative GAAP:
  - Category A – GASB Statements & Interpretations
    - Actual GASB source material
  - Category B – Technical Bulletins, Implementation Guides, and AICPA literature cleared by the GASB
    - Considered to clarify, explain or elaborate on the source material
  - Material incorporated into the Comprehensive Implementation Guide or Codification retains its authoritative status

# Non-authoritative Sources

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- If an accounting treatment is not specified by Category A or Category B, may use non-authoritative sources that do not conflict with or contradict authoritative GAAP
  
- Non-authoritative sources:
  - GASB Concepts Statements
  - Pronouncements from other accounting bodies (FASB, IASB, etc.)
  - Prevalent practices in state and local governments
  - Literature from professional organizations and accounting textbooks, etc.

*Statement No. 77 – Tax Abatement  
Disclosures*

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# Tax Abatement Disclosures

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- AKA, the *Dodged Bullet*
- Another short Statement – 11 authoritative paragraphs
- Effective for all fiscal years ending 12/15/2016 or later

# Abatements Covered

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## □ Definition:

- A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which:
  - The government(s) promise to forgo tax revenues in which they are otherwise entitled and
  - 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 government(s) or their citizens
- *Substance, not form or title, is key factor*
- Covers agreements entered into by someone else that reduces your revenue

# Disclosure Principles

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- Segregate between your agreements and other agencies' agreements that impact you
  - For others, organize by the government that entered the agreement and by tax being abated
- Disclosure can be provided individually or aggregated
- Organize by type of major program
- Start disclosing in year agreement is entered into and continue until expiration

## Disclosure Principles (cont.)

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- If you choose to disclose individual agreements, present individually only agreements meeting or surpassing a quantitative threshold selected by your agency
  - Aggregate any agreements falling under the threshold
  - Don't pick and choose which to show individually and which to aggregate
  - Include in notes the threshold used to determine individual disclosure



# Required Note Disclosures

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- Brief descriptive information:
  - Names and purpose of tax abatement programs
  - Specific taxes being abated
  - Authority under which tax abatements are entered into
  - Criteria for making recipients eligible
  - Mechanism through which the taxes are abated
    - How amounts are determined (\$ or %) and how taxes are abated (reduction or rebate)
  - Recapture provisions
  - Types of commitments made by recipients

# More Note Disclosures

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- Gross dollar amount, on an accrual basis, by which tax revenues were reduced during the reporting period
- If amounts are received or due from other agencies in association with abatements, names, amounts, and authority for those amounts being receivable
- Any other types of commitments made by governments as part of abatements and the most significant individual commitments

# Exemptions

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- If you are required to omit certain information because of a legal prohibition, disclose:
  - The general nature of the tax abatement information
  - The specific source of the legal prohibition
  
- This was not in the Exposure Draft and GFOAT included this as feedback, so every once in a while, GASB does listen

# Final Considerations

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- Similar but condensed disclosures are required for abatements of other governments that impact your revenue
- If you have a discretely presented component unit that offers abatements of your revenue, disclosures are required
  - If information essential for fair presentation, use detailed note disclosures as if the abatements were yours
  - If information not essential, use condensed disclosures as if the abatements were offered by another agency

# Coming Soon

<b>Topic</b>	<b>Next Step</b>	<b>Estimated Date</b>
<b>Conceptual Framework – Recognition</b>	<b>Preliminary Views</b>	<b>2Q 2018</b>
<b>Asset Retirement Obligations</b>	<b>Exposure Draft</b>	<b>4Q 2015</b>
<b>Fiduciary Responsibilities</b>	<b>Exposure Draft</b>	<b>4Q 2015</b>
<b>Financial Reporting Model (34 Reexamination)</b>	<b>Preliminary Views</b>	<b>4Q 2016 / 2Q 2018</b>
<b>Leases</b>	<b>Exposure Draft</b>	<b>1Q 2016</b>

# More Coming Soon

<b>Topic</b>	<b>Next Step</b>	<b>Estimated Date</b>
<b>Blending Requirements for Certain Component Units</b>	<b>Standard</b>	<b>1Q 2016</b>
<b>Debt Refunding with Existing Resources</b>	<b>Exposure Draft</b>	<b>3Q 2016</b>
<b>External Investment Pools</b>	<b>Standard</b>	<b>4Q 2015</b>
<b>Implementation Guide – OPEB Plans</b>	<b>Exposure Draft</b>	<b>1Q 2016</b>

# Even More Coming Soon

<b>Topic</b>	<b>Next Step</b>	<b>Estimated Date</b>
<b>Implementation Guide – OPEB Benefits</b>	<b>Exposure Draft</b>	<b>3Q 2016</b>
<b>Implementation Guide Update</b>	<b>Exposure Draft</b>	<b>3Q 2015</b>
<b>Irrevocable Split-Interest Agreements</b>	<b>Standard</b>	<b>1Q 2016</b>
<b>Pension Benefit Issues</b>	<b>Exposure Draft</b>	<b>4Q 2015</b>
<b>User Guide Updates</b>	<b>Updated Guides</b>	<b>3Q 2016</b>



# Pre-Agenda Research

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## **Topic**

**Debt Disclosures, including Direct Borrowing**

**Going Concern Disclosures Reexamination**

**Revenue Recognition for Exchange and Exchange-Like  
Transactions**



*Questions?*

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