What did GASB do in 2015?

Thursday, October 29, 2015
9:45 AM
Note: This session repeats at 4:00 PM if another session looked more interesting
What’s New for 2015 CAFR’s

- 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)

- 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)

- 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

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

- 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?

- 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

- 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

- 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

- 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

- **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.)

- 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

- 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

- 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

- 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

- 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

- 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

 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

- 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

- 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

- 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

- 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

- 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

- 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?

- 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…

- 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

Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
If Pensions Make Your Head Hurt…

- 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
GAAP Hierarchy

- 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

- 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

- 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
Tax Abatement Disclosures

- AKA, the *Dodged Bullet*

- Another short Statement – 11 authoritative paragraphs

- Effective for all fiscal years ending 12/15/2016 or later
Abatements Covered

□ 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

- 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
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

- 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

- 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

- 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

- 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.
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