

GREAT GASB!

The Flood of New Standards Continue

***Government Finance Officers Association of Texas
Fall Conference
October 28, 2016***

Effective Dates—June 30, 2016 and 2017

■ 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
- * 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
- * Statement 78—Pensions provided through certain multiple-employer defined benefit pension plans
- * Statement 80—Blending requirements for certain component units
- * Statement 82—Pension Issues—except for paragraph 7 which is based on June 2017 or later **Measurement Date**
- * Implementation Guide—2016-1

Effective Dates—June 30, 2018

- 2018
 - * Statement 75—OPEB—Employers
 - * Statement 81—Irrevocable split-interest agreements

Expected Effective Dates—June 30:

- * 2018
 - * Omnibus
 - * Debt Extinguishment
- * 2019
 - * Fiduciary activities
 - * Asset retirement obligations
- * 2020
 - * Leases

Pension Implementation Issues

Pension Issues—Technical Agenda Projects

- * Pension Issues—focused on issues raised since the release of Statements 67 and 68 that could not be addressed in an implementation guide- issued April 2016 as GASB 82
- * Statement 78—Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans
 - * Carved out of the pension issues project due to narrow applicability (primarily Taft-Hartley Plans)
 - * Does not apply to any state or local government pension plan

Pension Issues

- * Issues were raised by stakeholders
 - * Timing of the measurement of liability
 - * Disclosure of annual required contribution (ARC) as a benchmark
 - * Covered-employee payroll vs. covered payroll
 - * Application of administrative costs as a reduction of discount rate
 - * Treatment of employer-paid member contributions (aka employer pick-up)
 - * Deviations from Actuarial Standards of Practice (ASOPs)

Covered-employee Payroll

- * Change in measure slipped under the radar for many plans
- * Board recognized that the measure provides a more consistent measure for across plan comparison; however, based on feedback received from plans has tentatively concluded to propose that:
 - * Covered payroll as measured based on prior pronouncements would replace covered-employee payroll for both plans and employers

ASOPs

- * The Board will propose that no deviations (excepted as provided in GASB pronouncements) will be allowed in the application of the Statements 67, 68, and 73 (the pension standards)
- * Consistent with the conclusion reached in Statement 74 and 75

Treatment of Employer Paid Member Contributions

- * Repeal of IRC 414.h.2
- * All can agree that these contributions are related to service costs and therefore have no bearing on:
 - * Total pension liabilities
 - * Proportional shares allocated to participating employers in cost-sharing plans
- * The issue is how these contributions should be reflected in the financial statements of plans and employers
 - * Plan—employee contributions
 - * Employer—payroll not pension expenditure/expense

Fair Value Measurement and Application Statement 72

Applicability

- Investments should be measured at fair value
- Exceptions listed in paragraph 69 include:
 - * Nonparticipating interest earning investment contracts
 - * Unallocated insurance contracts
 - * Money market investments
 - * Investments held by 2a7-like pools
 - * 2a7-like pools
 - * Synthetic guaranteed investment contracts
 - * Investments in life insurance contracts
- Valuation techniques or authoritative reference are provided by paragraph 69 for each of these items

Fair Value Application—Definition of an Investment

- 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
- Unit of account—plays a major role in the application of the investment definition
 - * Stand-alone, group, or portion of an asset or liability
 - * May be specified by the standard that requires fair value measurement or is subject to professional judgment
 - * Determined at acquisition and does not change for reporting purposes even if use has changed

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

Fair Value Measurement

- **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 (no fair value option)
 - * 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

Valuation Techniques

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

Fair Value Hierarchy

- 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 different 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

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 received through a service concession arrangement

Note Disclosures

- 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 Statement 72 or another Statement specifies a type or class for an asset or a liability
 - * 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
- Table or narrative format

Disclosures

Classify Investments by Level of Inputs

		Level		
	<u>6/30/2016</u>	<u>1</u>	<u>2</u>	<u>3</u>
Debt securities				
U.S. Treasuries	\$85	\$85		
Commercial mortgage backed securities	50			\$50
Collateralized debt obligations	35			35
Residential mortgage backed securities	149		\$24	125
Corporate bonds	93	9	84	
Total	<u>\$412</u>	<u>\$94</u>	<u>\$108</u>	<u>\$210</u>

GAAP Hierarchy Statement 76

Categories of Authoritative GAAP

Category	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

External Investment Pools

Statement 79

External Investment Pools

- * **What:** The GASB has replaced the reference to 2a7-like investment pools with a definition for certain investment pools that can account for their investments at amortized cost
- * **Why:** Securities and Exchange Commission changes to Rule 2a7 would make it difficult for external investment pools to meet the criteria to continue to report as 2a7-like
- * **When:** Issued December 2015 with provision effective June 2016 or December 2016 for portfolio quality, custodial credit risk and shadow pricing

Pool Requirements

- * In order to report investments at amortized cost, an external investment pool must meet certain requirements in each of the following areas:
 - * Transacts with its participants at a stable net asset value per share (for example, at \$1.00 net)
 - * Portfolio maturity
 - * Portfolio quality
 - * Portfolio diversification
 - * Portfolio liquidity
 - * Shadow pricing

Tax Abatement Disclosures Statement 77

Definition of a Tax Abatement

- Statement 77 applies only to transactions meeting this definition:
 - * A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which:
 - One or more governments promise to forgo tax revenues to which they are otherwise entitled and
 - 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.

Substance over Form

- The Statement does not include or exclude transactions based on their form or name – governments should apply the criteria contained in the definition
- Key points:
 - * A principal distinction between tax abatements and other tax expenditures is the existence of an agreement with an individual or entity
 - * The agreement generally is in writing but not necessarily
 - * The agreement may or may not be legally enforceable
 - * The agreement must precede the reduction of taxes and the recipient's fulfillment of the promise to act
 - * The tax reduction may occur before, during, or after fulfillment of the promise – as long as it occurs after the agreement has been entered into

General Disclosure Principles

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments and reduce the reporting government's taxes
- Disclose own tax abatements by major program
- Disclose those of other governments by the government and specific tax abated
- May disclose individual tax abatements above quantitative threshold established by the government
- 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

Summary of Required Disclosures

Brief Descriptive Information	Government's Own Abatements	Other Government's Abatements
Name of program	✓	
Purpose of program	✓	
Name of government		✓
Tax being abated	✓	✓
Authority to abate taxes	✓	
Eligibility criteria	✓	
Abatement mechanism	✓	
Recapture provisions	✓	
Types of recipient commitments	✓	

Summary of Required Disclosures

Other Disclosures	Government's Own Abatements	Other Government's Abatements
Dollar amount of taxes abated	✓	✓
Amounts received or receivable from other governments associated with abated taxes	✓	✓
Other commitments by the government	✓	
Quantitative threshold for individual disclosure	✓	✓
Information omitted due to legal prohibitions	✓	✓

Other Postemployment Benefits Statements 74 and 75

OPEB in Brief

- * Hope you went to the OPEB dedicated session
- * Any questions?



Fiduciary Responsibilities: Exposure Draft

When Is a Government a Fiduciary?

- * An activity is a fiduciary activity of a government if (1) the government controls the assets of the activity, (2) those assets are not derived solely from the government's own-source revenue, and (3) one of the following is met:
 - * The assets result from a pass-through grant for which the government does not have administrative or direct financial involvement in the program
 - * The assets are administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary
 - * The assets are to be used for the benefit of individuals that are not required to be residents or recipients of the government's good and services as a condition of being a beneficiary
 - * The assets are to be used for the benefit of organizations or other governments that are not part of the financial reporting entity

Pension Plans

- * An activity should be reported as fiduciary if:
 - * Government controls the assets of the activity and
 - * Activity is a pension or other postemployment benefit arrangement within the scope of Statement No. 67, *Financial Reporting for Pension Plans*, or Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, or is required to apply the provisions of paragraph 116 of 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*.

Focus on Control

- A government controls assets in a fiduciary capacity if those assets:
 - * are used by the government (or its assignee) to provide benefits to specified or intended beneficiaries AND EITHER OF THE FOLLOWING IS TRUE
 - (1) The government holds the assets
 - (2) The government has the ability to administer or direct the
 - (a) Use
 - (b) Exchange, or
 - (c) Employment of the present service capacity of the assets in any other way that provides benefits.

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.

Project Timeline

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

ED-Certain Debt Extinguishments

- * Is intended to supplement not replace existing guidance
- * Current guidance in Statements 7, 23 and 62 deemed to be working well but no guidance currently exist when the extinguishment is solely from existing resources
- * Proposes:
 - * Similar to existing requirements for considering debt to be “defeased”
 - * Clarifies treatment of unamortized bond insurance (included in carrying balance of extinguished debt for calculating the gain or loss on extinguishment)
- * Proposed effective date June 2018

ED-Omnibus

- * Addresses a variety of practice issues including:
 - * Blended Component Units –clarification when PG is a single column BTA
 - * Goodwill-clarification for acquisitions that occurred prior to effective date of GASB 69-Combinations and Disposals & prohibits negative goodwill
 - * Fair value measurement-clarifies classification of real estate used in risk financing or insurance activities under GASB 72 and allows amortized cost for money market accounts and certain interest-earning accounts

ED-Omnibus for OPEB/Pension

- * Clarifies measuring OPEB/Pension liabilities and expenditures in governmental funds
- * Provides guidance for On-behalf payments
- * Defines for both plans and employers when to use covered payroll or covered employee payroll.
- * Provides guidance for classifying employee paid member contributions
- * Provides guidance on alternative measurement option under OPEB
- * Provides multiple employer guidance

For the Future

- * Financial Reporting Re-examination of GASB 34
 - * Three possible recognition models for governmental funds-Near-Term Financial resources, Working Capital or Total Financial Resources
 - * Possible addition of cash flow statement in Gov't Funds
 - * Enhancement of “A” part of MD&A
 - * More information on Debt Service Funds
 - * Clarify guidance for Extraordinary and Special Items
 - * Consider appropriate placement for Budgetary Comparisons

For the More Distant Future

- * Revenue and Expense Recognition
- * Direct Disclosures, Including Direct Borrowings
- * Going Concern Disclosures
- * Equity Interest Ownership Activities



Questions?