

California Society of Municipal Finance Officers

GASB Update—What You Need to Know Now

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

GASB News

- Jan Sylvis is the new Vice Chair of the GASB
- Brand new project portal launched on the GASB website, www.gasb.org
- 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

■ 2015

- Statement 68—Pension Accounting for Employer and Nonemployer Contributing Entities
- Statement 69—Government Combinations and Disposals of Government Operations
- Statement 70—Nonexchange Financial Guarantees
- Statement 71—Pension Transition for Contributions Made Subsequent to the Measurement Date

■ 2016

- Statement 72—Fair Value—Measurement and Application

Pensions: Statements 68 and 71



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Key Information in the Financial Statements

- 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
 - Cost-sharing employers recognize proportionate shares of collective NPL
- Changes in NPL
 - Recognized as expense immediately: service cost, interest on the TPL, changes in benefit terms, projected investment earnings
 - Recognized as expense over time: changes in assumptions, difference between assumed and actual demographic and economic factors, and difference between projected and actual investment earnings

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

Key Note Disclosures—Single and Agent Employers

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/X8	<u>\$ 2,853,455</u>	<u>\$ 2,052,589</u>	<u>\$ 800,866</u>
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><u>\$ 2,988,861</u></u>	<u><u>\$ 2,237,108</u></u>	<u><u>\$ 751,753</u></u>

New RSI: NPL Components and Ratios

	20X9	20X8	20X7	20X6	20X5
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

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

Government Combinations: Statement 69

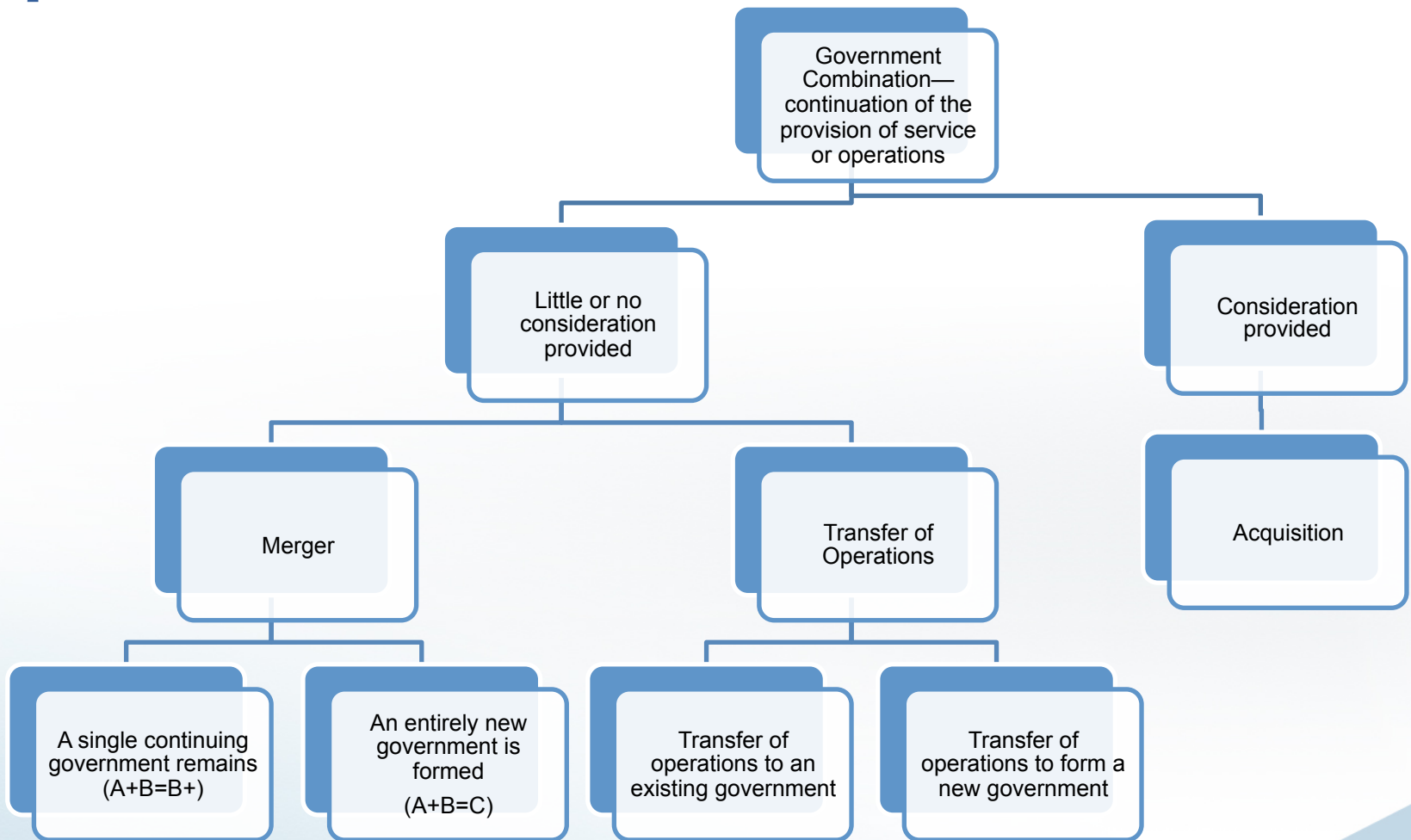


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Overview

- **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)

Scope



Recognition and Measurement

Type	When to Recognize	How to Measure
Merger—new government is formed	Date the combination becomes effective	All elements at carrying value as of the merger date.
Merger—single continuing government	Beginning of the reporting period in which the combination occurs	All elements at carrying value as of the merger date.
Acquisition	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)	Assets and liabilities at acquisition value as of the acquisition date. Deferred inflows and outflows of resources at carrying value.

Recognition and Measurement

Type	When to Recognize	How to Measure
Transfer of operations—to form a new government	Date the transferee government obtains control of the acquired operation's assets or becomes obligated for its liabilities	All elements at carrying value as of the effective transfer date
Transfer of operations—to an existing government	Date the transferee government obtains control of the acquired operation's assets or becomes obligated for its liabilities	All elements at carrying value as of the effective transfer date

Nonexchange Financial Guarantees: Statement 70



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Overview

- **What:** New standards to ensure that nonexchange financial guarantees extended or received by governments are reflected in the financial statements and notes
- **Why:** These transactions generally are not recorded at present
- **When:** Fiscal years beginning after June 15, 2013 (FYE 6-30-14 and later)

Definition and Scope

Nonexchange Financial Guarantee is

“... a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions.”

Guarantees involve three parties

1. Holder—the holder of the obligation being guaranteed
2. Issuer—the entity/individual issuing the obligation being guaranteed
3. Guarantor—the entity extending the guarantee

Recognition

- Guarantor (government extending guarantee) should recognize liability and expense when it is more likely than not (more than 50%) that the guarantor will be required to make a guarantee payment
- Consider qualitative factors in assessing likelihood, such as
 - Initiation of process of entering into bankruptcy or financial reorganization
 - Breach of a debt contract for guaranteed obligation
 - Indicators of significant financial difficulty
- For a group of similar guarantees, consider applicable qualitative factors and relevant historical data, if any, of the group

Measurement

Record best estimate of future expected outflows

- A cost accumulation approach, not fair value

Discounted to present value

- Discount rate not specified
 - Use professional judgment

If there is no best estimate but a range of estimated future outflows can be established—

- Discounted present value of the ***minimum*** amount within the range

Government with Guaranteed Obligation

If a government is required to repay a guarantor for guarantee payments made

- Reclassify that portion of the guaranteed obligation as a liability to the guarantor

Continue to report remaining guaranteed obligation until the liability is legally released

- Such as when a plan of adjustment is confirmed by court

When legally released as an obligor from the obligation and from any liability to the guarantor—

- Recognize a revenue to the extent of the reduction of guaranteed liabilities

Guarantor's Disclosures

All guarantors disclose, by type of guarantee:

- Description of the nonexchange financial guarantee
- Total amount of all guarantees extended that are still outstanding

Governments that recognize a guarantee liability or make guarantee payments during the period should disclose:

- Brief description of timing of recognition and measurement of liabilities
- Information about changes in recognized guarantee liabilities
- Cumulative amounts of guarantee payments made on guarantees that are still outstanding
- Amount of guarantee payments expected to be recovered

Beginning of Year	Increases	Decreases	End of Year
\$ 18,500,000	\$ 4,875,000	\$ 5,000,000	\$ 18,375,000

Obligation Issuer's Disclosures

Disclose the following information about guarantees—by type of guarantee:

- Name of the entity providing the guarantee
 - The amount of the guarantee
 - Length of time of the guarantee
- } For outstanding guaranteed obligations at FYE
- Amount paid, if any, by the entity extending the guarantee on obligations of the government during the current reporting period
 - The cumulative amount paid by the entity extending the guarantee on outstanding obligations of the government
 - Description of requirements to repay the entity extending the guarantee
 - The outstanding amounts, if any, required to be repaid to guarantor

Current Technical Agenda Projects



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Fair Value Measurement and Application: Statement 72



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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:** Statement is expected to be approved next week

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

Valuation Techniques and Inputs

- Apply valuation technique(s) that best represents fair value in the circumstances—market approach, cost approach, and income approach
- 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
- Maximize use of relevant observable inputs and minimize use of unobservable inputs

Investment and Fair Value

- Assets that meet the definition of an investment generally should be measured at fair value
 - Existing exceptions to fair value (such as money market investments and investments in 2a7-like pools) would remain
- 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
 - 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

Disclosures

- 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)
- 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

Project Timeline

Pre-Agenda Research Started	April 2008
Added to Current Technical Agenda	August 2011
Preliminary Views Approved	June 2013
Exposure Draft Approved	June 2014
Final Statement Expected	February 2015

Other Postemployment Benefits



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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:** Proposed implementation dates would be periods beginning after December 15, 2015 (plans) and December 15, 2016 (employers)

Scope and 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

Highlights

- Identical in most respects to pension standards in Statements 67 and 68
- Recognize net OPEB liability (NOL) in accrual-basis financial statements
- Recognize many portions of change in NOL 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 NOL, OPEB expense, and OPEB-related deferrals
- Enhanced notes and RSI

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

GAAP Hierarchy



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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 Statements are expected in June 2015

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

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

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

Tax Abatement Disclosures



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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:** Exposure Draft issued for public comment in October 2014; comment deadline is January 30, 2015; would be effective for periods beginning after December 15, 2015

Definition and Scope

- Does not include all transactions that reduce taxes
- Would apply only to transactions meeting this definition:
 - For financial reporting purposes, a tax abatement results from an agreement between one or more governmental entities and a taxpayer in which (a) one or more governmental entities promise to forgo revenues from taxes for which the taxpayer otherwise would have been obligated and (b) the taxpayer 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.

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

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

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

Other Current Technical Agenda Projects

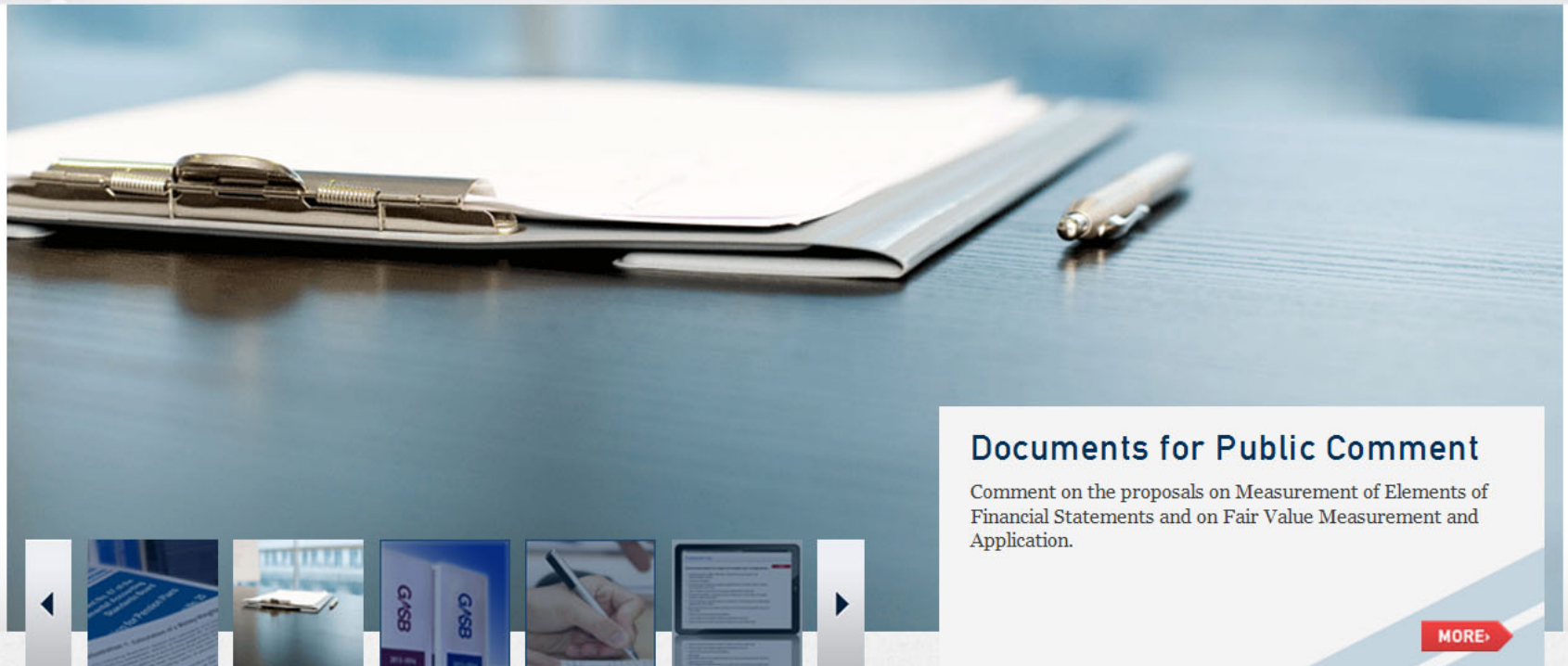
- Leases
- Fiduciary Responsibilities
- External Investment Pools
- Asset Retirement Obligations
- Blending Requirements for Certain Business-Type Activities
- Irrevocable Charitable Trusts
- Conceptual Framework—Recognition

Pre-Agenda Research

- Financial Reporting Model Reexamination
- Debt Extinguishments

Questions?






Visit www.gasb.org



Documents for Public Comment

Comment on the proposals on Measurement of Elements of Financial Statements and on Fair Value Measurement and Application.

[MORE](#)



Website Resources

- Free download of Statements, Interpretations, Concepts Statements and other pronouncements
- Free access to the basic view of the Codification
- Free copies of proposals
- Up-to-date information on current projects
- Articles and Fact Sheets about proposed and final pronouncements
- Form for submitting technical questions
- Educational materials, including podcasts
- Electronic newsletter and other resources for users

Plain-Language Materials

- The GASB is committed to communicating in plain language with constituents about its standards and standards-setting activities.
- Plain-language articles accompany major proposals and final pronouncements
- Fact Sheets are prepared for complex projects to answer commonly raised questions
 - Series of 8 fact sheets on Statements 67 & 68 on pensions