GASB Update

Ohio GFOA – September 23, 2016

Dean Michael Mead, GASB Senior Research Manager

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

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Presentation Overview

- Observations about the implementation of the pension standards
- Pronouncements currently being implemented
- Proposals available for public comment
- Projects currently being deliberated by the Board

GASB News

- 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

Observations about the Implementation of Statements 67 and 68 on Pensions

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Measurement Dates

- Q: A plan provides an employer with information measured as of the plan's fiscal year-end, which is 6/30/2014. The employer has a year-end of 12/31/2015. Can the employer use the information provided by the plan?
- A: No. The measurement date of an employer's net pension liability should be no earlier than the end of the employer's prior fiscal year (12/31/2014).

Contributions after the Measurement Date

- Q: A government has a measurement date of 12/31/2014 and fiscal year-end of 9/30/2015. Should contributions accrued as of 9/30/2015 but not paid until 12/31/2015 be reported as deferred outflows of resources in accrual basis financial statements?
- A: Yes. If the contribution relates to period between 1/1/2015 and 9/30/2015, the employer should report the contribution as a deferred outflow of resources and a payable.

RSI: Actuarially Determined Contributions (single & agent)

SCHEDULE OF CITY CONTRIBUTIONS
(In thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contributions	$ 3,160,258	$ 3,114,068	$ 3,046,845	$ 3,017,004	$ 2,387,216	$ 2,197,717	$ 2,150,438	$ 1,874,242	$ 1,471,030	$ 1,024,358
Contributions in relation to the actuarially determined contributions	3,160,258	3,114,068	3,046,845	3,017,004	2,387,216	2,197,717	2,150,438	1,874,242	1,471,030	1,024,358
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	12,314,958	12,182,888	11,954,975	11,812,858	11,465,975	10,977,607	10,454,244	9,863,912	9,456,351	9,193,664
Contributions as a percentage of covered-employee payroll	25.66 %	25.56 %	25.49 %	25.54 %	20.82 %	20.02 %	20.57 %	19.00 %	15.56 %	11.14 %

Some governments are presenting all 10 years immediately, but others are presenting only the first year.

Q: Should governments present the full 10 years of contribution information in the year they implement Statement 68?

- A: Not necessarily. Statement 68 requires that, during the transition period, governments present information for as many years as are available.
- Contribution requirements and actual contributions should be available for all 10 years
- However, information on “covered-employee payroll” may not be available.

Pension Issues: Statement 82

Pension Issues

- **What:** Statement 82 addresses concerns raised by stakeholders during the implementation process of Statements 67 & 68
- **Why:** The Board addresses requests to revisit existing standards when the concerns are significant and raise new issues
- **When:** Effective for reporting periods beginning after June 15, 2016, except requirements related to the selection of assumptions in a circumstance in which an employer's NPL is measured as of a date other than the employer's most recent FYE.
  - In that circumstance, those requirements are effective for that employer in the first reporting period in which the measurement date of the NPL is on or after June 15, 2017 or later

Provisions of Statement 82

- Return to the use of *covered payroll,* defined as the payroll on which contributions to a pension plan are based, for the RSI schedules
- Clarify that a *deviation* from the guidance in Actuarial Standards of Practice, as the term is used in ASOPs, is not considered to be in conformity with the requirements of Statements 67, 68, or 73 for the selection of assumptions in determining the total pension liability
- Payments made by an employer to satisfy contribution requirements identified by plan terms as plan member contributions should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68
  - Also requires that an employer's expense/expenditures for those amounts be classified as a type of compensation expense/ expenditures but not as pension expense/expenditures

Changes in the County's Net Pension Liability and Related Ratios - Last 10 Fiscal Years

Fiscal Year		2014	2013	2012	2011	2010	2009	2008	2007	2006
			Information for FY 2013 and earlier is not available.							
Total pension liability										
Service cost	$	28,205								
Interest		67,389								
Changes of benefit terms		-								
Differences between expected and actual experience		-								
Changes of assumptions		(38,578)								
Net change in total pension liability	$	57,016								
Total pension liability - beginning		981,988								
Total pension liability - ending (a)	$	1,039,004								
Plan fiduciary net position										
Contributions - employer		30,488								
Contributions - member		11,385								
Net investment income		122,481								
Benefit payments, including refunds of member contributions		(38,578)								
Administrative expense		(651)								
Other		7								
Net change in plan fiduciary net position	$	125,132								
Plan fiduciary net position - beginning		772,912								
Plan fiduciary net position - ending (b)	$	898,044								
County's net pension liability - ending										

?

Some governments have labeled the current year in their RSI as fiscal year *2014,* although they are implementing Statement 68 in their fiscal year 2015.

Q: What year is the right one?

Labeling RSI

- A: 2015.
- There may be some confusion regarding the measurement date. Even if the measurement date is the end of the prior fiscal year (the earliest allowed), the resulting measurement of the NPL is nevertheless the amount *for the current year.*
- Thus, a government implementing Statement 68 for FYE December 31, 2015 and using a measurement date of December 31, 2014 should be presenting RSI schedules that end in the current fiscal year—2015

Pronouncements Currently Being Implemented

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates—December 31

- 2016
  - Statement 72—fair value
  - Statement 73—amendments to Statements 67 & 68
  - Statement 76—GAAP hierarchy
  - Statement 77—tax abatement disclosures
  - Statement 78—certain multiple-employer pension plans
  - Statement 79—certain external investment pools
  - Implementation Guide 2015-1
- 2017
  - Statement 73—pensions not within the scope of 67/68
  - Statement 74—OPEB (plans)
  - Statement 80—blending requirements
  - Statement 81—irrevocable split-interest agreements
  - Implementation Guide 2016-1
  - Statement 82—pension issues^{+}
- 2018—Statement 75—OPEB (employers)

Effective Dates—June 30

- 2016
  - Statement 72—fair value
  - Statement 73—amendments to Statements 67 and 68
  - Statement 76—GAAP hierarchy
  - Statement 79—certain investment pools and participants*
  - Implementation Guide 2015-1
- 2017
  - Statement 73—pensions not within the scope of 67/68
  - Statement 74—OPEB (plans)
  - Statement 77—tax abatement disclosures
  - Statement 78—certain multiple-employer pension plans
  - Statement 79—certain investment pools and participants*
  - Statement 80—blending requirements
  - Statement 82—pension issues+
  - Implementation Guide 2016-1

Effective Dates—June 30

- 2018
  - Statement 75—OPEB (employers)
  - Statement 81—irrevocable split-interest agreements

Fair Value Measurement and Application: Statement 72

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Overview

- **What:** The Board issued Statement 72 to update 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:** Effective for fiscal years beginning after June 15, 2015

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
  - Unit of account
  - Market-based
- Fair value is not an option

Valuation Techniques & 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

Investments and Fair Value

- Assets that meet the definition of an investment generally should be measured at fair value
  - Existing exceptions to fair value 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
  - Held primarily for income or profit—acquired first and foremost for future income and profit
  - Service capacity refers to a government's mission to provide services

Disclosures

- For each class or type of assets and/or liabilities measured at fair value, including recurring and nonrecurring measurements:
  - The fair value measurement at the end of the reporting period
  - The level of the fair value hierarchy (Level 1, 2, or 3)
  - The valuation technique(s) and any changes in technique(s)
- For nonrecurring fair value measurements: the reason for the measurement

Fair Value Note Disclosure

		Fair Value Measurements Using:		
Investment Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasuries	112,316	—	112,316	—
GNMA	23,614	—	23,614	—
ABC Corp. commercial paper	50,697	—	50,697	—
Corporate bonds	35,493	—	35,493	—
Residential mortgage-backed	22,548	—	—	22,548
Mutual bond fund	75,420	75,420	—	—
Total	$320,088	$75,420	$222,120	$22,548

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Postemployment Benefits: Statements 74 & 75

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Overview

- **What:** The Board issued Statements 74 (plans) and 75 (employers), making OPEB accounting and financial reporting consistent with the pension standards in Statements 67 and 68
- **Why:** Pension and OPEB standards were updated subsequent to a review of the effectiveness of the standards – objective was 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:** Effective for periods beginning after June 15, 2016 (plans) and June 15, 2017 (employers)

Plan and Asset Reporting

- Scope includes defined benefit and defined contribution OPEB plans administered through trusts that meet specified criteria
- Also addresses assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are *not* administered through trusts that meet the criteria
  - Assets reported as assets in employer's governmental/ proprietary funds
  - Assets held for other government reported in an agency fund
- Few changes from Statement 43 for financial statement recognition
- Notes/RSI changes primarily to reflect changes in measurement of defined benefit liabilities of employers

Employer Scope & Applicability

- Applies same definition of OPEB as used in Statement 45
  - All postemployment healthcare benefits
  - Other forms of 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

Liability to Employees for OPEB

- Based on total OPEB liability—the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service
- Is OPEB administered through a trust that meets the specified criteria?
  - Yes—recognize net OPEB liability (total OPEB liability, net of OPEB plan fiduciary net position)
  - No—recognize total OPEB liability
- Employer's liability to employees for OPEB measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the employer's current fiscal year
  - Based on an actuarial valuation obtained at least biennially no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end

Measurement of the Total OPEB Liability—General Approach

- Three broad steps
  - Project benefit payments
  - Discount projected benefit payments to actuarial present value
  - Attribute actuarial present value to periods
- Methods and assumptions
  - Generally, assumptions in conformity with Actuarial Standards of Practice
  - Single attribution method—entry age, level percentage of pay

Measurement of the Total OPEB Liability: Projections of OPEB Payments

- Consider established pattern of practice with regard to sharing of benefit-related costs with inactive employees
- Based on claims costs or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice
- Includes taxes or other assessments expected to be imposed on benefit payments
- Consider legal or contractual benefit caps if determined to be effective

Measurement of the Total OPEB Liability: Alternative Measurement Method

- Alternative measurement method may be applied if fewer than 100 employees (active and inactive) are provided benefits through plan as of the beginning of the measurement period
  - Generally, same simplifications to assumptions can be used as were permitted by Statement 45

Changes in Liability

- Recognize most changes in liability for the current reporting period as OPEB expense immediately, except:
  - Changes in total OPEB liability:
    - Differences between expected and actual experience with regard to economic and demographic factors in the measurement of the total OPEB liability
    - Changes of assumptions in the measurement of the total OPEB liability
  - For OPEB administered through trust in which specified criteria are met:
    - Difference between projected and actual earnings on OPEB plan investments
    - Employer contributions

Cost-Sharing Employers

- Relevant only for OPEB administered through trust in which specified criteria are met
- Recognize proportionate shares of collective net OPEB liability, OPEB expense, and deferred outflows of resources/deferred inflows of resources related to OPEB
- Proportion (%)
  - Basis required to be consistent with contributions
  - Use of relative long-term projected contribution effort encouraged
- Collective measure × proportion = proportionate share of collective measure

Notes and RSI

- Similar to those required for pensions
- Disclosure of effect on net/total OPEB liability of a discount rate +/- 1 percent
- Disclosure of effect on net/total OPEB liability of a healthcare cost trend rate +/- 1 percent
- Single and agent employers: 10-year RSI schedules for changes in the net OPEB liability, ratios, and actuarially determined contributions (statutorily or contractually determined contributions, if no actuarially determined contribution is calculated)
- Cost-sharing employers: 10-year RSI schedules for proportionate share/ratios, and statutorily or contractually determined contributions

GAAP Hierarchy: Statement 76

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

The GAAP Hierarchy

- **What:** In June 2015, the Board issued Statement 76 and cleared a revised compilation of implementation guidance
- **Why:** The GAAP hierarchy was incorporated (by Statement 55) from the auditing literature essentially “as is”—this Statement simplifies the hierarchy and explains how to identify the relevant literature within the hierarchy
- **When:** Effective for periods beginning after June 15, 2015

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, AND 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, AND exposed for a period of public comment

Implementation Guidance

- Now classified as Category B authoritative GAAP
- Revised due process
  - Public exposure of new Q&A guidance going forward
  - Will continue to issue Guides to individual pronouncements (such as Statements 74 and 75 on OPEB) and annual updates with new Q&As on various pronouncements
  - Board clearance of the final Implementation Guides

Tax Abatement Disclosures: Statement 77

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tax Abatement Disclosures

- **What:** The Board issued Statement 77, which requires 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:** Effective for periods beginning after December 15, 2015

Definition and Scope

- Does not include all transactions that reduce tax revenues
- Emphasis is on the substance of the arrangement meeting the definition, not on its name or form
- Would apply only to arrangements 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 (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) 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 governments or the citizens of those governments.

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

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	✓	

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	✓	✓

Pensions Provided through Certain Multiple-Employer Pension Plans: Statement 78

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Pensions Provided through Certain Multiple-Employer Pension Plans

- **What:** The Board issued Statement 78 to address stakeholder concerns about application of Statement 68 to defined benefit pensions provided through federally sponsored or private multiple-employer pension plans (such as Taft-Hartley plans)
- **Why:** The Board addresses requests to revisit existing standards when the concerns are significant and raise new issues
- **When:** Effective for periods beginning after December 15, 2015

Statement 78: Exception to Statement 68

- The Statement should be applied only to pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that has all of the following characteristics:
  - It is not a state or local governmental pension plan
  - It is used to provide defined benefit pensions both to employees of state or local governments and to employees of employers that are not state or local governmental employers
  - It has no predominant state or local governmental employer
- Statement 78 provides an exception to the general requirements of Statement 68, to be replaced with recognition of required contributions, descriptive note disclosures, and an RSI schedule of required contributions for the past 10 years

Certain External Investment Pools and Pool Participants: Statement 79

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Certain External Investment Pools and Pool Participants

- **What:** The GASB has revised the accounting and financial reporting standards for 2a7-like investment pools
- **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:** Effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23−26, and 40, which are effective for reporting periods beginning after December 15, 2015

Criteria for Pools to Use Amortized Cost

- An external investment pool needs to meet all of the following in order to report investments at amortized cost:
  - Transact with participants at stable net asset value per share – $1.00 per share
  - Meet certain portfolio maturity requirements
  - Meet certain portfolio quality requirements
  - Meet certain portfolio diversification requirements
  - Meet certain pool liquidity requirements
  - Meet shadow price requirements

Disclosures for Pools and Participants

- Pools that report at amortized cost should disclose the fair value measurements as required by paragraphs 80–82 of Statement 72
- Pools and pool participants that report at amortized cost should disclose the presence of any limitations or restrictions on participant withdrawals, such as redemption notice periods, maximum transaction amounts, and the pools' authority to impose liquidity fees or redemption gates

Blending Requirements for Certain Component Units: Statement 80

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Blending Requirements

- **What:** Statement 80 revises the standards regarding how certain component units should be presented in the financial statements of the primary government
- **Why:** There is diversity in practice, with some component units
- **When:** Effective for reporting periods beginning after June 15, 2016

Reporting Entity Standards

- Most component units should be included in the financial reporting entity by discrete presentation. Before Statement 80, the blending presentation was required only when:
  - Primary government and component unit have substantively the same governing body AND
    - A financial benefit/burden relationship exists, OR
    - Management (below the elected official level) of the primary government has “operational responsibility” for the activities of the component unit
  - Services of the component unit exclusively benefit the primary government
  - Debt of the component unit is expected to be repaid entirely or almost entirely with resources of the primary government

Additional Blending Criterion

- A component unit should be included in the reporting entity financial statements using the blended 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.

* The sole corporate member requirement should not be analogized to any other situations that may be considered similar to those in which the primary government is the sole corporate member, such as situations in which the primary government is the residual equity interest owner.

Irrevocable Split-Interest Agreements: Statement 81

Irrevocable Split-Interest Agreements

- **What:** Statement 81 addresses irrevocable split-interest agreements, which are particularly prevalent among public colleges and universities and public healthcare entities
- **Why:** Limited guidance exists for irrevocable split-interest agreements in which the government acts as trustee (and is one of the beneficiaries); no guidance exists for situations in which a third party is the trustee and the government is one of the beneficiaries; users need information about these arrangements
- **When:** Effective for periods beginning after December 15, 2016

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

Irrevocable Split-Interest Agreements with Resources Held by Government

Measurement	Asset	Liability	Deferred Inflow
Initial	Resources measured at fair value	For benefit of *nongovernmental* beneficiary: • Lead interest—measure directly at settlement amount	For *government's benefit* in resources: • Remainder interest—residual amount (assets less liability)
Subsequent	Investments remeasured at fair value; changes in assets will be reflected in deferred inflow	Distributions to lead interest beneficiaries reduce the liability	

Irrevocable Split-Interest Agreements with Resources Held by Third Party

Measurement	Asset	Deferred Inflow
Initial	Resources initially measured at fair value	Same as the asset
Subsequent	Changes in fair value of resources reflected in the deferred inflow	

Implementation Guidance Updates

Implementation Guidance Updates

- **What:** GASB updated its Q&A implementation guidance by approving Implementation Guide 2015-1 in June 2015 and Implementation Guide 2016-1 in March 2016
- **Why:** New guidance is added as new pronouncements are issued and new issues arise; existing guidance is revised to reflect the effects of new pronouncements
- **When:** 2015-1 is effective for periods beginning after June 15, 2015; 2016-1 is effective for periods beginning after June 15, 2016

Implementation Guides 2015-1 and 2016-1

- IG 2015-1 is the result of a complete review of all previously issued Q&A guidance, in conjunction with the development of Statement 76
- IG 2016-1 updates 2015-1:
  - Adds new questions on recent standards regarding fair value and tax abatement disclosures
  - Reinstates certain previously superseded Q&As that have been updated for the effects of recent standards on pensions, other postemployment benefits, and fair value

Proposals Available for Public Comment

Exposure Draft, *Certain Debt Extinguishment Issues*

Certain Debt Extinguishment Issues

- **What:** The Board has proposed guidance for certain issues related to debt extinguishments
- **Why:** Research found that Statements 7 and 23 on debt refundings and Statement 62 on debt extinguishments are working effectively, but that certain issues need to be addressed
- **When:** Exposure Draft approved August 2016; comment deadline is August 28, 2016

Proposals

- Placement of only existing resources in a trust
  - Would be accounted for as in-substance defeasance as long as all criteria in the existing standards are met
  - Would recognize the difference between the net carrying value of the debt and the reacquisition price as a gain or loss in the period of defeasance
  - Notes to the financial statements:
    - Would describe the transaction in the period it occurs
    - Would disclose the remaining outstanding balance in each period as long as the debt remains outstanding
- Prepaid insurance
  - At the time debt is extinguished, any related prepaid insurance that remains would be included in the net carrying amount of the debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount

Proposals

- If substitution of the essentially risk-free monetary assets in escrow with monetary assets that are not essentially risk-free is *not* prohibited, a government would disclose in the notes to the financial statements:
  - In the period of the defeasance: the fact that substitution is not prohibited
  - In subsequent periods: the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists
- Effective date would be periods beginning after June 15, 2017

Project Timeline

Pre-Agenda Research Started	August 2014
Added to Current Technical Agenda	September 2015
Exposure Draft Approved	August 2016
Final Statement Expected	May 2017

Current Technical Agenda Projects

Omnibus

(Exposure Draft expected September 2016)

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Omnibus

- **What:** In September 2016, the Board is expected to propose amendments to certain existing literature
- **Why:** The Board periodically reviews the need for amendments to existing literature based on stakeholder feedback and technical inquiries. Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project.
- **When:** The Board will review and vote on issuance of an Exposure Draft at its September meeting

Topics to Be Considered

- Component unit presentation
  - Requirements for blending component units for single-column business-type activities
- Government combinations
  - Amounts reported as goodwill and “negative” goodwill
- Fair value measurement and application
  - How to classify real estate held for both operations and investment purposes by insurance entities
  - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost

Topics to Be Considered

- Pensions and other postemployment benefits (OPEB)
  - Timing of the measurement of pension and OPEB liabilities and related expenditures in financial statements prepared using the current financial resources measurement focus
  - Recognition of on-behalf payments for pensions or OPEB in employer financial statements

Topics to Be Considered

- OPEB
  - Presentation of payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
  - Requirements for employer-paid member contributions for OPEB
  - Simplifications related to the alternative measurement method
  - Applicability of Statement 75 for employers whose employees are provided with OPEB through multiple-employer defined benefit OPEB plans that have characteristics similar to those identified in Statement 78

Project Timeline

Added to Current Technical Agenda	April 2016
Exposure Draft Expected	September 2016
Final Statement Expected	March 2017

Certain Asset Retirement Obligations

Certain Asset Retirement Obligations

- **What:** In December 2015, the GASB issued an Exposure Draft proposing accounting and financial reporting standards for legal obligations to retire certain capital assets, such as nuclear power plants
- **Why:** Existing standards (Statement 18) address only municipal landfills but governments have retirement obligations for other types of capital assets. There is diversity in practice for these other types.
- **When:** Comment deadline was March 31, 2016; field test completed April 2016; a final Statement is expected November 2016

Exposure Draft: Definition & Scope

- *Asset retirement obligation*—A legally enforceable liability associated with the retirement of a tangible capital asset
  - *Retirement of a tangible capital asset*—The permanent removal of a capital asset from service
- Would include:
  - Retirement of tangible capital assets, for example:
    - Nuclear power plant and nuclear reactor decommissioning
    - Contractually required land restoration, such as removal of wind turbines
    - Legally required disposal of x-ray machines
  - Disposal of a replaced part that is a component of a large capital asset
  - Environmental remediation associated with asset retirement activities resulting from normal operations

Exposure Draft: Recognition & Measurement

Initial Recognition	ARO liability when incurred and reasonably estimable—measured based on the best estimate of the current value of outlays expected to be incurred	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	• At least annually adjust the current value for the effects of inflation or deflation • At least annually evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant	Recognize a reduction as an outflow of resources (for example, expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset

Project Timeline

Pre-Agenda Research Started	December 2013
Added to Current Technical Agenda	August 2014
Exposure Draft Issued	December 2015
Final Statement Expected	November 2016

Debt Disclosures, including Direct Borrowing

Debt Disclosures

- **What:** The Board added a project to consider improvements to existing standards for disclosure of debt, in particular related to short-term debt and direct borrowing
- **Why:** A review of existing standards related to disclosures of debt found that debt disclosures provide useful information, but that certain improvements could be made
- **When:** The Board added the project to the current technical agenda in August 2016

Topics to Be Considered

- What transactions constitute "debt" for financial reporting purposes and, therefore, should be subject to debt-related disclosures?
- Current requirements for short-term debt include (1) providing a schedule of changes in short-term debt outstanding and (2) disclosing the purpose for which the short-term debt was issued. What additional disclosures, if any, should be required?
- Current requirements do not specifically address direct borrowings. Should specific disclosures related to direct borrowings be required?

Project Timeline

Pre-Agenda Research Started	April 2015
Added to Current Technical Agenda	August 2016
Exposure Draft Expected	June 2017
Final Statement Expected	March 2018

Fiduciary Activities

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Fiduciary Activities

- **What:** In December 2015, the GASB issued an Exposure Draft proposing standards that clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements
- **Why:** Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; business-type activities are uncertain about how to report fiduciary activities
- **When:** Comment deadline ended March 31, 2016; final Statement expected December 2016

Exposure Draft: When Is a Government a Fiduciary?

- An activity is a fiduciary activity of a government if (1) the government **<u>controls</u>** 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 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 *neither* part of the financial reporting entity no recipients of the government's goods or services
  - The assets result from a pass-through grant for which the government does *not* have administrative or direct financial involvement in the program

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Exposure Draft: When Is a Government Controlling Resources?

- A government controls the assets of an activity if:
  - The government *holds* the assets.
  - The government has the ability to *administer* the use, exchange, or employment of the present service capacity of the assets.
  - The government has the ability to *direct* the use, exchange, or employment of the present service capacity of the assets.

Exposure Draft : Fund Types and Stand-Alone BTAs

- 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.
  - Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

Exposure Draft: Other Proposals

- Present additions disaggregated by source and, if applicable, separately display investment income and investment costs
- Present deductions disaggregated by type and, if applicable, separately display administrative costs
- Applies to statement of changes in fiduciary net position for all fiduciary funds *except* custodial funds held for three months or less
  - For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

Project Timeline

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

Financial Reporting Model—Reexamination of Statement 34

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Financial Reporting Model Research

- **What:** In September 2015, the Board decided to add a project to examine the effectiveness of the financial reporting model – Statements 34, 35, 37, 41, and 46, and Interpretation 6
- **Why:** The GASB is committed not only to establishing standards but also to ensuring that they continue to be effective; most of the requirements of Statement 34 became effective between 2002 and 2004; the provisions related to reporting existing general infrastructure assets were fully effective in 2006 and 2007
- **When:** Initial due process document expected at the end of 2016

Current Developments

- Project plan anticipates three rounds of public comment on proposals, beginning with an Invitation to Comment (ITC) at end of 2016
- ITC tentatively would address these topics (and possibly others):
  - Measurement focus and basis of accounting for governmental fund financial statements
  - Format of governmental fund resource flows statement
  - Governmental funds cash flows statement
  - Format of the government-wide statement of activities

Governmental Funds

- Tentatively developing three possible recognition approaches to replace current financial resources/modified accrual:
  - Near-term financial resources
  - Working capital
  - Total financial resources

Near-Term Financial Resources

- Previously described in 2011 Preliminary Views
- Assets include resources that are normally receivable at period-end and due to convert to cash within the near term (as well as cash and other financial resources that are available to be converted to cash within the near term)
- Liabilities include those normally payable at period-end and due within the near term
- Outflows recognized as spending occurs, including payments made during the reporting period and shortly after period-end, and principal payments on matured debt and other-than-near-term obligations
- Inflows recognized for newly acquired financial resources that do not result in corresponding liabilities and are available for spending for that reporting period

Working Capital

- Focused on a government’s one-year operating cycle
- Information related to current (defined as one year) financial and other noncapital assets and liabilities
- Assets include cash, other financial resources that are normally receivable at period-end and due to convert to cash within the subsequent operating cycle, and prepaid outflows and inventories that will be consumed in the subsequent next operating cycle
- Liabilities include those normally payable at period-end and due within the upcoming operating cycle (a current liability)
- Inflows and outflows recognized as the underlying transaction occurs rather than when the cash is disbursed or received (accrual)

Working Capital—Postemployment Benefits

- For pay-as-you-go, liability is the amount expected to be paid in the subsequent operating cycle
- For benefits paid through a plan, liability is the cumulative excess of the Actuarially Determined Contribution, including interest, over amount contributed to the plan

Total Financial Resources

- Similar to, but not the same as the concept previously described in Statement 11
- Financial resources are cash, claims to cash, claims to goods or services, consumable goods, and equity securities of another entity obtained or controlled as a result of past transactions or events
- Recognize all noncapital assets and liabilities on the accrual basis of accounting; would not be limited to those collectible or payable in either the near-term or current operating cycle
- Does not report assets for capital assets or liabilities for debt related to capital assets

Other Tentative Issues in the ITC

- Format of governmental funds resource flows statement
  - Existing format
  - Current and long-term activities format
- Governmental funds cash flows statement
  - Could be needed for working capital or total financial resources approaches, which both use accrual
- Format of the government-wide statement of activities
  - Existing format
  - Traditional format with expenses by function or program
  - Functional or programmatic expenses by natural classification

Topics to Be Addressed at the PV Stage

- **Proprietary Fund and Business-Type Activity (BTA) Financial Statements**—explore operating performance measure alternatives in conjunction with evaluating the guidance for the separate presentation of operating and nonoperating revenues and expenses.
- **Budgetary Comparisons**
  - Determine method of communication (either as basic financial statements or required supplementary information)
  - Which budget variances, if any, should be required to be presented

Topics to Be Addressed at the ED stage

- **Extraordinary and Special Items**—explore options for clarifying the guidance for more consistent reporting
- **Management's Discussion and Analysis** (MD&A)
  - Enhance the financial statement analysis component
  - Eliminate boilerplate
  - Clarify guidance for presenting currently known facts, decisions, or conditions
- **Debt Service Funds**—explore options for providing additional information, either individually or in aggregate in the financial statements or the notes

Project Timeline

Pre-Agenda Research Started	August 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Expected	December 2016

Leases

Leases

- **What:** In January 2016, the GASB issued an Exposure Draft proposing revisions to existing standards on lease accounting and financial reporting (primarily Statement 62) based on public comments received on the November 2014 Preliminary Views
- **Why:** The existing standards have been in effect for decades without review to determine if they remain appropriate and continue to result in useful information; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers
- **When:** Comment period ended May 31, 2016; final Statement expected May 2017

Exposure Draft: Scope and Approach

- Applied to any contract that meets the definition of a lease: "A lease is a contract that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction."
- Leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for leases with some exceptions, such as short-term leases

Exposure Draft: Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	• Lease receivable (generally including same items as lessee liability) • Continue to report leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

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Exposure Draft: Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less payment needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

Exposure Draft: Short-Term Leases

- At beginning of lease, maximum possible term under the contract is 12 months or less
- Lessees recognize expenses/expenditures based on the terms of the contract
  - Do not recognize assets or liabilities associated with the right to use the underlying asset for short-term leases
- Lessors recognize lease payments as revenue based on the payment provisions of the contract
  - Do not recognize receivables or deferred inflows associated with the lease

Project Timeline

Pre-Agenda Research Started	April 2011
Added to Current Technical Agenda	April 2013
Preliminary Views Approved	November 2014
Exposure Draft Issued	January 2016
Final Statement Expected	May 2017

Revenue and Expense Recognition

Revenue and Expense Recognition

- **What:** Development of a comprehensive application model for recognition of revenues and expenses from nonexchange, exchange, and exchange-like transactions
- **Why:** Stakeholders have raised questions about how to account for revenues from transactions that are neither fully exchange or nonexchange; the revenue recognition standards incorporated in Statement 62 have not been revised for governments in nearly 50 years; current literature does not provide guidance for exchange and exchange-like expenses
- **When:** The Board added the project in April 2016

Topics to Be Considered

- Should revenue recognized at the time of sale or when (or as) the obligation is fulfilled?
- Should a performance obligation approach be used for transactions of a government? If so, for which transactions?
- Should guidance for nonexchange transactions be revised in light of the GASB Concepts Statements?
- Should guidance be developed for exchange expenses that are not in the scope of existing guidance?
- Should additional information be disclosed regarding revenue and expense transactions?

Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Expected	January 2018

Questions?

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Pre-Agenda Research Activities

Equity Interest Ownership Issues

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Equity Interest Ownership Issues

- **What:** An evaluation of how governments are currently reporting equity interest ownership in legally separate entities and consideration of whether accounting and financial reporting guidance for equity interest ownership in legally separate entities should be clarified
- **Why:** Stakeholders have raised concerns about potential inconsistency in reporting equity interest ownership in legally separate entities.
- **When:** The Board added the pre-agenda research in April 2016

Topics to Be Considered

- When a government holds an equity interest ownership in a legally separate entity and is both financially accountable for the entity and is holding the equity interest ownership primarily for the purpose of income or profit, does the intent of the ownership override the component unit determination?
- Should the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of a legally separate component unit for which the primary government recognizes an undivided equity interest be measured in the same manner as those elements would be in a government acquisition under Statement 69?

Going Concern Disclosures: Reexamination of Statement 56

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Going Concern Disclosures

- **What:** A review of existing standards related to going concern considerations, which were incorporated into GASB literature mostly as-is from the AICPA literature in Statement 56
- **Why:** As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; AICPA and others have asked the GASB to examine the issue
- **When:** The Board added the pre-agenda research in April 2015

Topics to Be Considered

- Are the current going concern indicators presented in note disclosures appropriate for state and local governments, in light of the fact that, even under severe financial stress, few governments cease to operate even when encountering such indicators?
- What other criteria might better achieve the objective of disclosing severe financial stress uncertainties with respect to governments?
- What information do financial statement users need with respect to the disclosure of severe financial stress uncertainties?

Note Disclosures Reexamination

Note Disclosures

- **What:** A review of existing standards related to note disclosures except for those (1) required by pronouncements that have not been effective for at least three years, (2) related to leases, and (3) related to debt (which are the subjects of separate projects)
- **Why:** A comprehensive review of note disclosures has not been conducted since 1997
- **When:** The Board added the pre-agenda research in April 2016

Topics to Be Considered

- Does Concepts Statement 3 provide a sufficient framework for establishing disclosure requirements or should additional framework criteria be developed for all disclosures? What approach, if any, would help to reduce repetition within disclosures and the overall length of the notes section?
- Do the required note disclosures meet their intended objectives and continue to provide information that is useful for making decisions and assessing accountability?
- What unmet user needs exist that might require new note disclosures? Alternatively, what existing disclosure requirements do not provide useful information to users of governmental financial reports?

Topics to Be Considered (continued)

- What is the nature and extent of disclosures that governments currently include in their financial reports that are not specifically required by existing financial reporting standards?
- Is there sufficient guidance for determining what information about component units should be included in a primary government's notes? If not, how can the existing guidance be improved?

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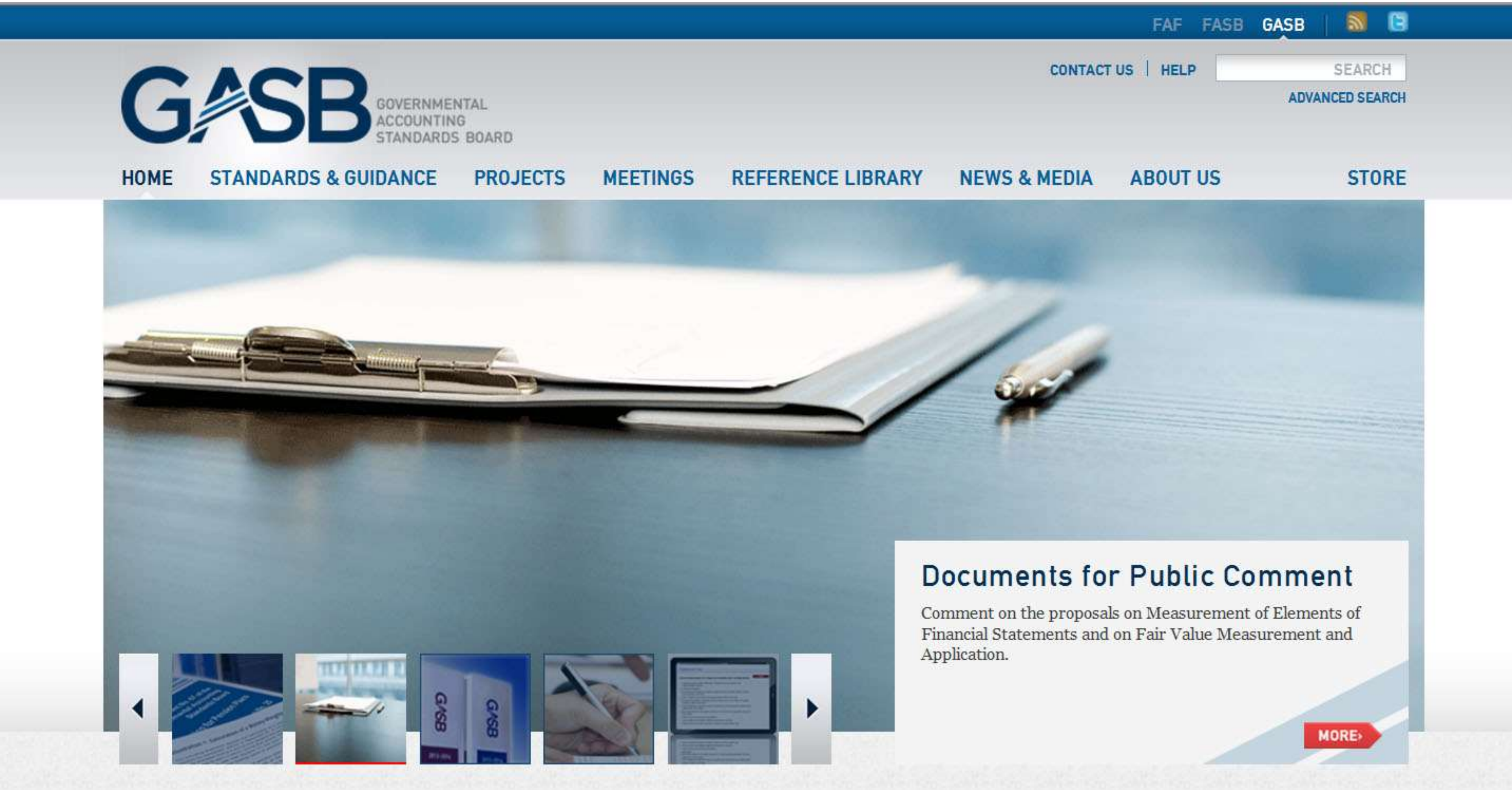

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Website Resources

- 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