GASB Update

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Presentation Overview

- Pronouncements currently being implemented
- Projects currently being deliberated by the Board

GASB News

- Jan Sylvis appointed vice chair
- 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 71—Pension Transition for Contributions Made Subsequent to the Measurement Date
- 2016
  - Statement 72—Fair Value Measurement and Application

Effective Dates—December 31

- 2015
  - Statement 68—Pension Accounting for Employer and Nonemployer Contributing Entities
  - Statement 71—Pension Transition for Contributions Made Subsequent to the Measurement Date
- 2016
  - Statement 72—Fair Value Measurement and Application

Pensions: Statement 68 and 71

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Overview

- **What**: Existing standards for pension accounting and financial reporting by employers (Statement 27) have been updated and improved; Q&A guide available free on the GASB website to assist with implementation
- **Why**: Review of the effectiveness of Statement 27 found opportunities to significantly improve the usefulness of pension information reported by employers
- **When**: Periods beginning after June 15, 2014 (FYE 6-30-15 and later)

Scope & Applicability

- Defined benefit and defined contribution pensions provided through trusts that meet the following criteria:
  - Employer/nonemployer contributions irrevocable
  - Plan assets dedicated to providing pensions
  - Plan assets legally protected from creditors
- Excludes all OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to a pension plan
  - Special funding situations
  - Other circumstances

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

NPL: Measurement—Timing

- Employer fiscal year-end
- Measurement date (of NPL)
  - As of date no earlier than end of prior fiscal year
  - Both components (TPL/plan net position) as of the same date
- Actuarial valuation date (of TPL)
  - If not measurement date, as of date no more than 30 months (+1 day) prior to FYE
  - Actuarial valuations at least every 2 years (more frequent valuations encouraged)
- Coordination with pension plan

NPL: Measurement—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
  - Fewer alternatives than in Statement 27 for methods and assumptions for GAAP reporting purposes
  - No changes required to actuarial methods and assumptions used to determine funding amounts

NPL: Measurement—Projection

- Benefit terms/agreements at measurement date
- Current active and inactive employees
- Incorporate expectations of:
  - Salary changes
  - Service credits
  - Automatic postemployment benefit changes (including COLAs)
  - Ad hoc postemployment benefit changes *if substantively automatic*

NPL: Measurement—Discounting

- Projected benefit payments are discounted using the long-term expected rate or return (LTERoR) on pension plan investments, to extent that :
  - Plan net position is projected to be sufficient to pay benefits
  - Plan assets are expected to be invested using a strategy to achieve that return
- If the conditions for using the LTeRoR are not met, projected benefit payments are discounted using a yield or index rate for 20-year, tax-exempt general obligation municipal bonds

Projecting Plan Net Position for Use of LTERoR

- Includes:
  - Employer contributions for current and former employees
  - Contributions from current employees
  - Projected investment earnings on projected plan net position
  - Projected benefit payments and administrative expenses
- Does not include:
  - Employer contributions for service costs of future employees
  - Contributions of future employees, unless expected to exceed their own service cost

NPL: Measurement—Attribution

- Single method
  - Entry age actuarial cost method
  - Level percentage of pay
- Individually applied
- Beginning = 1st period of benefit accrual
- Ending = Expected retirement
  - Deferred retirement option programs (DROPs)—entry date into DROP = retirement date
- Same benefit terms to determine service cost as to determine actuarial present value of projected benefit payments

NPL: Involvement of Nonemployer Contributing Entities—Special Funding Situation

- Statement addresses those with legal requirement to contribute *directly to* the pension plan
- Special funding situations
  - Contribution amount not dependent upon events unrelated to pensions OR nonemployer is only entity with legal obligation to contribute
  - Employer(s) and nonemployer contributing entity apply cost-sharing measurement to collective NPL, expense, and deferred outflows/deferred inflows of resources
    - Nonemployer expense classified in same manner as similar grants to other entities
  - Employer recognizes additional expense and revenue equal to nonemployer contributing entity's proportionate share of collective expense (portion related to the employer)

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

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Key Note Disclosures—Single & Agent Employers

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) – (b)**
Balances at 6/30/X8	$ 2,853,455	$ 2,052,589	$ 800,866
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	135,406	184,519	(49,113)
Balances at 6/30/X9	$ 2,988,861	$ 2,237,108	$ 751,753

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	$ 669,241	$ 762,560	$ 721,664	$ 490,452	$ 472,864
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

	20X9	20X8	20X7	20X6	20X5
Actuarially calculated employer contribution	$ 109,544	$ 107,028	$ 105,755	$ 103,089	$ 89,054
Actual employer contributions	(109,544)	(107,028)	(105,755)	(103,089)	(89,054)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
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

Effective Date and Transition

- Fiscal years beginning after June 15, 2014
- Beginning deferred outflows/deferred inflows of resources balances all or nothing at initial implementation (except for employer contributions subsequent to the measurement date—Statement 71)
- RSI schedules are prospective if information is not initially available

Implementation Guide to Statement 68

- Reporting by pension plans
- Approved in December 2012
- Available to download free from the GASB website; printed copies can still be purchased
- 272 questions and answers on topics including:
  - Special funding situations
  - Measurement of the liability
  - Determining a cost-sharing employer's proportionate share
  - Notes and RSI
  - Transition
- Illustrations, topical index, full text of the Standards section

Government Combinations: Statement 69

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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

Scope includes:

- Combinations in which little or no consideration is provided
  - Government mergers
  - Transfers of operations
- Combinations in which consideration is provided
  - Government acquisitions
- Disposals of government operations

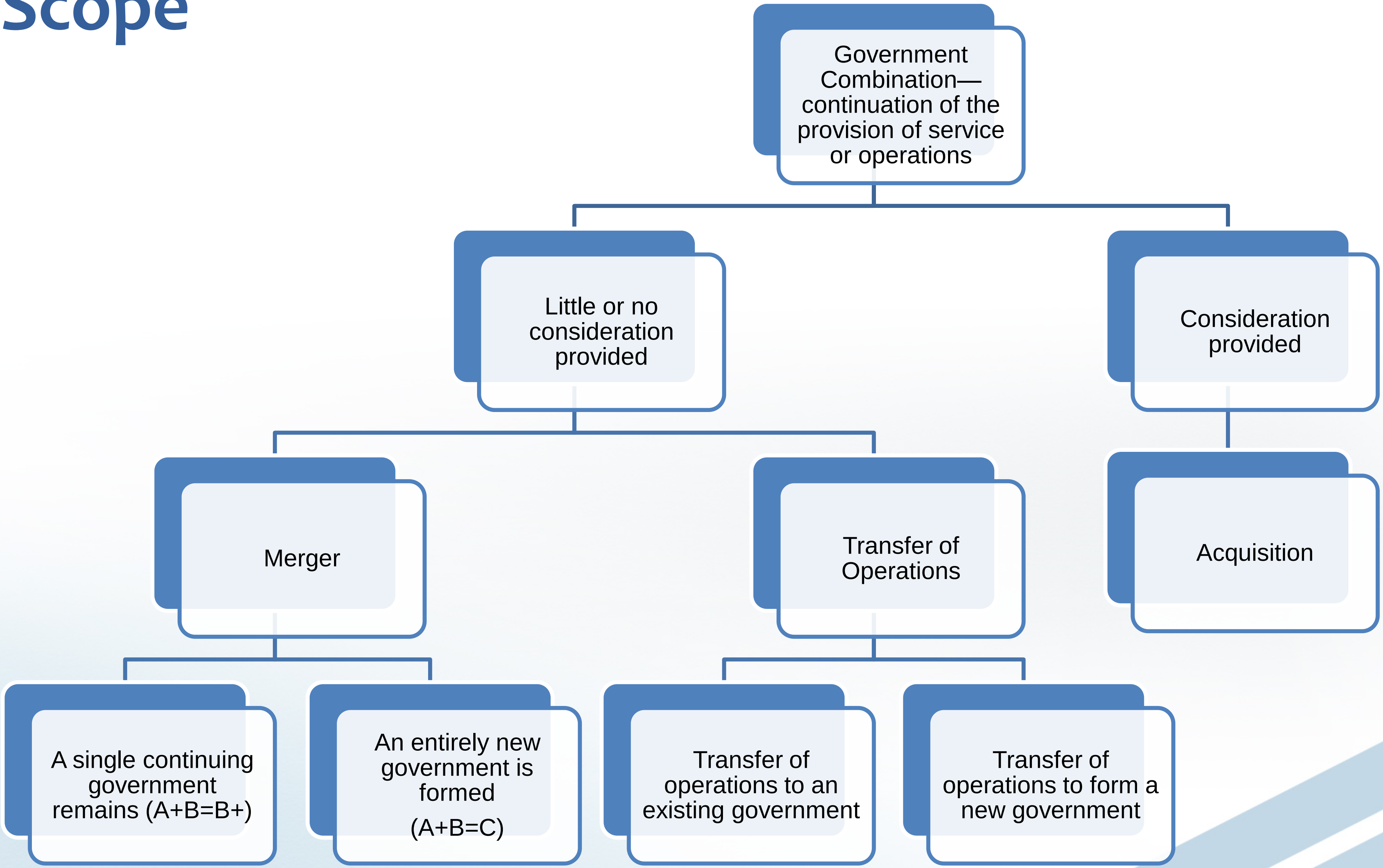
Government Combinations

- To be considered a government combination, the arrangement should result in the **continuation of a substantial portion of the services provided** by the previously separate entities **or their operations** after the transaction has occurred.
  - Terms of arrangement usually establish whether service continuation was intended
  - If not, professional judgment should be used
- Service continuation: obligation or responsibility to continue to provide the services that were provided by the previously separate governments, organizations, or operations
- This distinguishes a combination from a contribution or purchase of assets and related liabilities

Definition of “Operations”

- An integrated set of activities with associated assets and liabilities that is conducted and managed for the purpose of providing identifiable services with associated assets and liabilities

Scope


Government Combination—continuation of the provision of service or operations
Little or no consideration provided
Consideration provided
Merger
Transfer of Operations
Acquisition
A single continuing government remains (A+B=B+)
An entirely new government is formed
(A+B=C)
Transfer of operations to an existing government
Transfer of operations to form a new government

When No Consideration Is Provided

- Assets and liabilities brought in at carrying values
  - Presumption of GAAP
- Initial reporting—mergers:
  - New entity: fresh start
  - Continuing entity: restate as if a change in the reporting entity
- Initial reporting—transfers of operations:
  - New entity: fresh start
  - Continuing entity: transaction during the period
- Adjustments
  - Accounting principles, policies, and estimates (required)
  - Capital asset impairment (required)
  - Transaction eliminations (may be needed for continuing governments)

Government Acquisitions

- Measure consideration as the value of assets conveyed or liabilities incurred to the former owner at the acquisition date
- Assets, liabilities and deferrals should be measured at *acquisition value*—a market-based entry price
  - Entry price is assumed to be based on an orderly transaction entered into on the acquisition date
  - Acquisition value represents the price that would be paid for similar assets, having similar service capacity, or discharging liabilities assumed as of acquisition date

Government Acquisitions

- Exceptions to acquisition value
  - Employee benefit arrangements (Statement 47)
  - Landfill closure and postclosure care costs (Statement 18)
  - Pollution remediation obligations (Statement 49)
  - Investments required to be reported at fair value (Statement 31)
  - Deferrals related to derivatives (Statement 53)

Government Acquisitions—Consideration Given

- If exceeds the net position acquired, the difference would be treated as a deferred outflow of resources
  - Attributed to future periods in a systematic and rational manner, based on professional judgment
- If net position exceeds the consideration given
  - Considered a contribution – if the seller accepted the lower amount for the purpose of providing an economic benefit to the acquiring government
    - If not – the difference would be eliminated by reducing the acquisition values assigned to noncurrent assets (other than investments reported at fair value).
    - If the difference exceeded the acquisition value of all noncurrent assets (other than investments reported at fair value), the remainder would be treated as a special item in the flows statement.

Recognition & 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 beginning of fiscal year.
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 & 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

Disposals of Government Operations

- Includes all disposals of operations (transfers or sales)
  - Gains and losses reported as special items
- Special item should include costs directly associated with the disposal, for example:
  - Fees for professional services
  - Involuntary termination costs
  - Contract termination costs

Disclosures

- The following disclosures are required for all government combinations—brief description of the combination that:
  - Identifies the entities involved and the primary reasons for the combination
  - Mentions whether the entities combined were part of the same financial reporting entity
  - Discloses the date of the combination
- Additional disclosures for:
  - Mergers and transfers of operations
  - Acquisitions
  - Disposals of Operations

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
  - Market-based
  - Based on a government's principal or most advantageous market

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

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

Current Technical Agenda Projects

Other Postemployment Benefits

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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:** Final Statements expected in June 2015

Scope & 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 in accrual-basis financial statements
- Recognize many portions of change in net OPEB liability 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 net OPEB liability, 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

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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 Statement and Implementation Guide 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

GOVERNMENTAL
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STANDARDS BOARD

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:** Final Statement expected August 2015

Definition and Scope

- Does not include all transactions that reduce taxes
- Emphasis is on the substance of the transaction meeting the definition, not on its name or form
- Would apply only to transactions meeting this definition:
  - For financial reporting purposes, a tax abatement is a reduction in taxes that results from an agreement between one or more governmental entities and an individual or entity in which (a) one or more governmental entities promise to forgo tax revenues to which they otherwise are 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

- 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

Leases

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Preliminary Views on Leases

- **What:** The GASB has proposed revisions to existing standards on lease accounting and financial reporting (primarily NCGA Statement 5 & GASB Statement 13)
- **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 have been conducting a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers
- **When:** Preliminary Views issued for public comment in November 2014; comment deadline was March 6, 2015; Public Hearings were conducted in April 2015

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."
- All leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for all leases except short-term leases

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible asset (right to use leased 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, probably residual guarantees, etc.)	NA
Lessor	• Lease receivable (including same items as lessee liability) • Continue to report leased asset	NA	Equal to lease receivable plus any cash received up front

Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize over shorter of useful life or lease term	Reduce by lease payments (less amount of 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) • Amortize discount over term of the receivable	NA	Recognize revenue over the lease term on a systematic and rational basis

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
  - Disclose short-term leases expense/expenditure recognized during the reporting period
- Lessors recognize lease payments as revenue based on the terms 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 Expected	January 2016
Final Statement Expected	November 2016

Fiduciary Responsibilities

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Preliminary Views on Fiduciary Responsibilities

- **What:** The GASB has proposed 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:** Preliminary Views issued for public comment in November 2014; comment deadline was March 6, 2015; Public Hearings were conducted in April 2015

When Is a Government a Fiduciary?

- A government is a fiduciary if it **<u>controls</u>** assets in any of the following ways:
  - From a pass-through grant for which the government does *not* have administrative or direct financial involvement
  - In accordance with a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary
  - For the benefit of individuals that are *not* required to be part of the citizenry as a condition of being a beneficiary, or organizations or other governments that are *not* part of the financial reporting entity

When Is a Government Controlling Resources?

		Responsibility for Administering the Exchange of Assets			
		(1) Responsible for administering the exchange of assets	(2) Assigned and can reassign the responsibility for administering the exchange of assets	(3) No responsibility for administering the exchange of assets, but can establish parameters for those who are responsible	(4) No responsibility for administering the exchange of assets
Legal Structure	(a) Government directly holds the assets outside of a trust agreement or equivalent arrangement	Control	Control	Control	Control
Legal Structure	(b) Government is acting as trustee for a trust agreement or equivalent arrangement	Control	Control	No Control	No Control
Legal Structure	(c) Legally separate entity is responsible for holding or acting as trustee	Control	Control	No Control	No Control

What Resources Should Be Reported in Fiduciary Funds?

1. Resources (a) held for pension/OPEB arrangements in a trust or equivalent arrangement, (b) not available to government for another purpose, and (c) not covered by other GASB guidance
2. Resources from a pass-through grant if the government acts solely as a cash-conduit for the resources
3. Government is not a beneficiary and resources are held in a trust or equivalent arrangement
4. Government is not a beneficiary and the resources are not for the benefit of individuals that are required to be part of the government's citizenry as a condition of being a beneficiary, or for organizations or other governments that are part of the financial reporting entity

- Resources from the government's own source revenues generally should *not* be reported in fiduciary funds

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 Expected	October 2015
Final Statement Expected	July 2016

External Investment Pools

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

External Investment Pools

- **What:** The GASB is considering revisions to 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 report as 2a7-like
- **When:** An Exposure Draft is expected for June 2015

Background

- Current standards allow pools that are considered to be 2a7-like to report investments at amortized cost rather than fair value
  - The SEC recently made significant changes to Rule 2a7
  - Concerns were raised regarding the cost-benefit of government pools applying the revised Rule 2a7 provisions
- The project is considering criteria independent of Rule 2a7 that could be applied by external investment pools to determine when a cost-based can be applied to investments.
  - The current 2a7 provisions and other regulatory provisions are being used as starting point.

Tentative Criteria Categories

- Pool should transact with participants at a stable net asset value
- Portfolio maturity limits
- Portfolio quality requirements
- Portfolio diversification requirements
- Portfolio liquidity limits

Project Timeline

Pre-Agenda Research Starts	August 2014
Added to Current Technical Agenda	December 2014
Exposure Draft Expected	June 2015
Final Statement Expected	December 2015

Other GASB Activities

- Current Technical Agenda Projects
  - Asset Retirement Obligations
  - Blending Requirements for Certain Business-Type Activities
  - Irrevocable Charitable Trusts
- Pre-Agenda Research
  - Financial Reporting Model (Reexamination of Statement 34)
  - Debt Extinguishments (Reexamination of Statements 7, 23, and 62)

Asset Retirement Obligations

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Asset Retirement Obligations

- **What:** The GASB is considering standards for reporting liabilities related to obligations to perform procedures to close 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
- **When:** An Exposure Draft is expected for December 2015

Scope

- *Asset retirement obligation*—A legal obligation associated with the retirement of a capital asset
  - *Retirement of a capital asset*—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal in some other manner)
  - Includes legal obligations associated with the retirement of a tangible capital asset, such as nuclear power plant decommissioning, storage tank removal, removal of radiologically contaminated medical equipment

Tentative Decisions

- Project approach—General guidance with specific guidance added as needed to operationalize the principles.
- Measurement attribute—Settlement amount.
- An ARO meets the criteria for potential recognition as a liability.
- Asset retirement costs do not meet the definition of an asset.
- For a capital asset that is ready for use, the debit side of the transaction (the asset retirement cost) be reported as a deferred outflow of resources.

Tentative Decisions

- Initially measure an ARO liability when it is incurred and reasonably estimable.
- Measurement technique: current cost.
- ARO expenses would be recognized in a systematic and rational manner over the useful life of the asset.
- ARO costs would start to be recognized as expenses once the deferred outflows of resources related to the ARO are recognized.

Tentative Decisions

- The ARO guidance would require both an external and an internal obligating event for initial recognition of an ARO liability.
  - External obligating event: approval of laws or regulations, the creation of a contract, or a court judgment that imposes a legal obligation on a government to retire a capital asset.
  - Internal obligating event can be: occurrence of contamination, putting the capital asset into operation, permanent abandonment of the capital asset before it is put into operation, acquisition of an asset with an ARO

Project Timeline

Pre-Agenda Research Starts	December 2013
Added to Current Technical Agenda	August 2014
Exposure Draft Expected	December 2015
Final Statement Expected	October 2016

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Blending Requirements for Certain Business-Type Activities

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Blending Requirements

- **What:** The GASB is considering revising the standards regarding how certain component units of business-type activities should be presented in the financial statements of the primary government
- **Why:** There is diversity in practice, with some component units blended for reasons not included in Statement 14
- **When:** An Exposure Draft is expected for June 2015

Blending Requirements: Issues

- Most component units should be included in the financial reporting entity by discrete presentation; blending used only under certain circumstances
- Project considering which methods of reporting component units—blended or discrete presentation—is most appropriate for the reporting entity of certain BTAs
- If types of component units in question should be blended:
  - Consider whether blending can be achieved under the existing criteria (substantively the same governing body) or whether additional criteria should be developed
  - If additional blending criteria are considered, should application be limited to "certain BTAs" or available to all governments?
  - Is disclosure of disaggregated information needed?

Tentative Board Decisions

- Develop implementation guidance clarifying that being the sole corporate member of an LLC, in which there is not a separate governing board, is equivalent to having *substantively the same board.*
- Propose an exception to existing standards:
  - A component unit that is incorporated as a *not-for-profit corporation,* in which the primary government is the sole corporate member, should be included in the reporting entity financial statements using the blended method.

Project Timeline

Pre-Agenda Research Starts	December 2013
Added to Current Technical Agenda	August 2014
Exposure Draft Expected	June 2015
Final Statement Expected	March 2016

Irrevocable Charitable Trusts

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Irrevocable Charitable Trusts

- **What:** The GASB is considering establishing standards for reporting split-interest agreements, which are particularly prevalent among public colleges and universities
- **Why:** Limited guidance exists for split-interest agreements where the government acts as trustee and as a beneficiary; no guidance exists for the recognition of *beneficial interests* in assets held and administered outside the government; users need information about these arrangements
- **When:** An Exposure Draft is expected for June 2015

Scope

- **Split-interest agreements** for which the government or its component unit "holds and administers" the assets
  - Donor gives resources to government or 3rd party, which "holds and administers" as trustee
  - Income Benefit: payments during the life of the trust, generally to non-governmental beneficiary (donor or donor's relative)
  - Remainder Benefit: assets remaining at termination of trust, generally goes to government
- **Beneficial interests** in resources held and administered by 3rd parties that are outside the reporting entity, including split-interest agreements and perpetual trusts
  - Beneficial interest refers to the right to receive resources in a future reporting period, as opposed legal title to the donated resources

Tentative Decisions: Split-Interest Agreements with Resources Held by Government

Measurement	Asset	Liability	Deferred Inflow
Initial	Resources measured at fair value	For benefit of *nongovernmental* beneficiary: • Income benefit—measure directly at settlement amount	For *government's benefit* in resources: • Remainder benefit—residual amount (trust assets less income benefit)
Subsequent	Investments remeasured at fair value; changes are investment income	Distributions to income beneficiaries reduce income benefit	

Reporting Beneficial Interests in Resources Held by Others

Donation agreement needs to meet all criteria for recognition

a. Legal document specifies government by name as beneficiary
b. Government has a vested beneficial interest
c. Donation agreement is irrevocable
d. Donor has not granted variance power
e. Intermediary is not under the control of the donor
f. Assigning beneficial interests is not subject to approval of the trustee or prohibited by law
g. Attempt to assign beneficial interests does not terminate the agreement

Tentative Decisions: Split-Interest Agreements with Resources Held by Others

Measurement	Asset	Deferred Inflow
Initial	Resources initially measured at fair value	For government's benefit in resources: • Initially measured at fair value
Subsequent	Changes in fair value of resources are investment income	

Project Timeline

Pre-Agenda Research Starts	December 2013
Added to the Current Technical Agenda	April 2014
Exposure Draft Expected	June 2015
Final Statement Expected	January 2016

Pre-Agenda Research Activities

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Financial Reporting Model—Reexamination of Statement 34

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Financial Reporting Model Research

- **What:** In August 2013, the Board decided to begin pre-agenda research examining 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:** The research is expected to conclude in mid-2015

Research Activities

- During 2013 the following activities were conducted:
  - 11 research roundtables in 8 cities, focusing on either general purpose or special-purpose governments, consisting of a mix of financial statement preparers, auditors, and users
  - Primary purpose was to identify any major, overarching issues that have arisen since Statement 34 was implemented
- During 2014 the following activities were conducted:
  - Broad surveys of financial statement preparers, auditors, and users, as well as an additional survey of preparers using the modified approach for reporting infrastructure
  - Archival research with annual financial reports
  - Literature review
  - Primary purpose was to identify how Statement 34 has been implemented in practice and to explore further the issues raised in the roundtables

Timeline

- 150 interviews were conducted in January–March, 2015, to seek input on how to address the issues raised in the roundtables and surveys
- Research is expected to last until the middle of 2015
- At that time, *if* the Board believes that significant improvements can be made to the standards, it will begin to deliberate over potential changes to propose for public review and comment
- Although this review will not take 15 years, like the project that resulted in the issuance of Statement 34, it is reasonable to expect that Board deliberations and the public review and input process will last at least several years

Debt Extinguishments

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Debt Extinguishments (including refundings)

- **What:** A review of existing standards for debt extinguishments (Statement 62), including debt refundings (Statements 7 and 23)
- **Why:** The debt extinguishment standards were incorporated from FASB literature "as is" and not reviewed to consider their appropriateness for governments; the debt refundings standards have been in effect for many years, and the GASB is committed to ensuring that standards continue to be effective
- **When:** The Board will consider adding a project to the current technical agenda in May 2015

Topics to Be Considered

- What constitutes an extinguishment of debt?
- What information should be reported or disclosed when debt is extinguished?
- Should the standards for specific types of debt extinguishments, such as refundings, be consistent with the general standards for debt extinguishment?
- Does the governmental environment operate in a manner such that the Board's perspective of substitution of debt still prevails?

Topics to Be Considered

- How decision-useful isinformation about refundings?
- What are the distinguishing indicators of a refunding versus a change in a bond's? Does restructured debt qualify as an advanced refunding?
- If the new debt issued is more than the amount needed to refund the old debt, how should the disclosure requirements of paragraph 11 of Statement 7 apply, and how should the cash flow difference in economic gain or loss be calculated?
- For purposes of the recognition period, how do call options affect what is considered the remaining life of the refunded bonds?

Questions?

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