

Illinois Community College Chief Financial Officers Spring 2016 Conference GASB Update

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What has the Governmental Accounting Standards Board (GASB) been up to?

GASB UPDATE

- GASB has been very active over the last twelve months
 - › 10 Statements
 - › Two Implementation Guides
 - › Six Exposure Drafts
 - › Various other due process documents

GASB S-72, Fair Value Measurement and Application

- Issued in February 2015, effective for reporting periods beginning after June 15, 2015
 - › Fiscal years ending June 30, 2016 and thereafter
- Addresses accounting and financial reporting issues related to fair value measurements
 - › Fair value guidance first introduced in GASB S-25 (Pension statement)
 - › Also, GASB S-31, 34, 40, and 53 have all dealt with fair value measurement
- Financial Accounting Standards Board (FASB) and Illinois Association of School Boards (IASB) have issued related standards

Specific Application of Fair Value Principle

- S-72 applies to investments. This statement will impact any entity that holds investments as defined as:
 - › Definition of investment: A security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has present service capacity based solely on its ability to generate cash or to be sold to generate cash
 - › Most capital assets are used to provide services. Their present service capacity is based on their ability to provide direct services not their ability to generate cash. This is why capital assets are not accounted for using the fair value measurement principle.
- Purpose is determined at acquisition and does not change, even if the usage of the asset changes
 - › E.g., asset that is initially reported as a capital asset that is later held for sale is not reclassified as an investment

Potential Investments Affected by S-72

- Alternative investments reported by endowments or pension funds
- Equity securities (including unit investment trusts and closed-end mutual funds), stock warrants and stock rights that do not have readily determinable fair values
- Land and land rights, including oil and gas properties, classified as investments
- Commingled investment pools that are not government sponsored
- Invested securities lending collateral
- Real estate meeting the definition of an investment asset
- Life settlement contracts (when there is no insurable interest, the purpose of the instrument is solely to generate cash and should be measured at fair value)
- Debt securities reported as assets (regardless of whether they meet the definition of an investment or they were acquired or originated by the government)

Investments Exempt from S-72

- Investments in nonparticipating interest-earning investment contracts
 - › Cost-based measure
- Money market investments and participating interest-earning investment contracts that have remaining maturity at time of purchase of one year or less and are held by governments other than external investment pools (amortized cost)
- Investments held by 2a-7 external investment pools (amortized cost)
- Investments in 2a7-like pools (Net Asset Value (NAV) \$1 per share)
- Synthetic guaranteed investment contracts that are fully benefit responsive (contract value)
- Investments in life insurance contracts that do not meet the definition of a life settlement contract (cash surrender value)

Fair Value Defined

- Supersedes the definition of fair value in S-31
- Defines “Fair Value” as “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”
 - › Fair value is a market-based measurement
 - › Fair value is not entity-specific
 - › Fair value is an **exit price** at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability

Valuation

- Three approaches to measuring fair value:
 - › Market approach
 - › Cost approach
 - › Income approach
- In most cases a single valuation approach is sufficient
- Approach should be consistent from period to period
- Revisions to the valuation technique should be treated as a change in accounting estimate

The Fair Value Hierarchy

- Level 1 inputs – quoted market prices for identical assets or liabilities that a government can access at the measurement date
- Level 2 inputs – inputs that are observable for an asset or liability, either directly or indirectly
- Level 3 inputs – unobservable inputs
- If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement

Disclosures

- The fair value measurement at the end of the reporting period
- The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, Level 2 or Level 3), excluding any investments measured at NAV
- A description of the valuation techniques used in the fair value measurement
- If there has been a change in valuation technique that has a significant impact on the result, that change and the reason(s) for making it

GASB Statement 73

Accounting and Financial for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68

- Issued June 2015
- Addresses pension plans that don't meet the definition of a trust
 - › Applies GASB S-68 modified for no pension assets
- Amends certain provisions of GASB S-67 and S-68
 - › Disclosure of investment related factors affecting trends
 - › Accounting/reporting for separately financed specific liabilities
 - › Non employer contributing entities that are not special funding
- Effective for fiscal years ending June 30, 2016, to the extent this amends S-67 and S-68, June 30, 2017, for non-trusted plans

GASB Statements 74 and 75

- *S-74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions*
 - › Issued in June 2015
 - › Effective for fiscal years ending June 30, 2017 and thereafter
 - › Applies to separately issued OPEB plan reports
 - › **Applies to the employer report if there is no separate plan report**
 - › Applies to non-trusted plans regardless of where reported

GASB Statements 74 and 75

- S-75, Accounting and *Financial Reporting for Postemployment Benefits Other Than Pensions*
 - › Issued in June 2015
 - › Effective for fiscal years ending June 30, 2018 and thereafter
 - › Applies to employers that provide other post-employment benefits (OPEB)
 - › What is OPEB?

GASB Statements 74 and 75

- Other post-employment benefits (OPEB)
 - › Healthcare benefits provided after employment ends (whether or not retired)
 - › Medical, dental, vision, prescription
 - › Other benefits if provided outside of a pension plan
 - › Death benefits, life insurance, disability/long-term care
 - › Part of overall benefit package
 - › Inducement to attract employees
 - › Exchange of benefits for services performed
- Does not include special termination benefits (early retirement incentives)
 - › Offer made by employer for a period of time
 - › Inducement to leave employment
 - › Includes both voluntary and involuntary programs
- Does not include sick leave conversion

GASB Statements 74 and 75

- Other post-employment benefits (OPEB)
 - › Includes explicit benefits and implicit benefits
 - › Explicit benefits the employer pays all or a portion of the benefit
 - › Specific dollar amount, percentage of age adjusted premiums
 - › Implicit benefits generally result from retirees continuing in the employers health plan but not paying an age adjusted premium
- Community rated exemption for implicit subsidy removed

GASB Statement 74

- Retains two basic financial statements for trusted plans
 - › Statement of net position
 - › Statement of changes in net position
- Expands notes to financial statements
 - › Similar to GASB S-67
 - › Investment disclosures
 - › Actuarial disclosures
 - › Components of the net OPEB liability
 - › Changes in the net OPEB liability
- Expands required supplementary information
 - › Ten years of information is required on a prospective basis

GASB Statement 75

- Recording the net OPEB liability
 - › Similar to GASB S-68
 - Single employer plans need an actuarial valuation
 - › Record in accrual basis financial statements
 - › Allocate similar to cost sharing plans
 - › Impact may be more significant than pensions as many governments do not advance fund OPEB
 - › Advance funding requires an irrevocable trust
 - › Greatly expanded note disclosures
 - › Greatly expanded required supplementary information

GASB Statement 76

- *The Hierarchy of GAAP for State and Local Governments*
 - › Issued in June 2015
 - › Effective for fiscal years ending June 30, 2016 and thereafter
 - › Where to turn for guidance
 - › Reduced to two categories
 - › No future GASB interpretations

GASB Statement 76

- Category A
 - › GASB Statements (and previously issued Interpretations (1-6))
- Category B
 - › GASB Technical Bulletins (TB)
 - › GASB Implementation Guide (IG)
 - 2015-1
 - 2016-1
 - › Applicable AICPA literature cleared by GASB
- Widely recognized and prevalent practice and other publications are no longer authoritative

GASB Statement 77

- Tax Abatement Disclosures
 - › Issued June 2015
 - › Effective for fiscal years ending December 31, 2016 and thereafter
- Tax Expenditures – opportunity cost of foregoing collection of taxes
 - › Tax exemptions
 - › Tax deductions
 - › Tax abatements

GASB Statement 77

- Tax Abatements Defined
 - › 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 agree to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity agrees to take specific action after the agreement has been entered into that contributes to the economic development or otherwise benefits the government or its citizens

GASB Statement 77

- Must be a tax
- Existence of agreement
- Applies to your government's agreements
- Applies to agreements of other governments that reduce your government's revenue

GASB Statement 78

- *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
 - › Issued December 2015
 - › Effective for reporting periods beginning after December 15, 2015
 - › Defined benefits provided by a pension plan that is not a state or local government pension plan
 - Federal plans, union plans
 - › Plan provides benefits to both employees of state or local governments and non state and local government employees
 - › Reduces reporting requirements as the pension plan does not follow GASB pronouncements

GASB Statement 79

- *Certain External Investment Pools and Pool Participants*
 - › Issued December 2015
 - › Effective for reporting periods beginning after June 15, 2015, except for provisions on portfolio quality, custodial credit risk and shadow pricing which are effective for periods beginning after December 15, 2015
 - › Criteria for external investment pool to meet to account for investments at cost or amortized cost
 - › Pool participants generally report a constant net asset value for the shares (e.g., \$1)
 - › Criteria not met, pool reports at fair value, participants report at fair value (fluctuating net asset value)

GASB Statement 79

- Criteria for the pool to report investments at cost/amortized cost
 - › Transactions executed with participants at a stable net asset value (e.g., \$1)
 - › Meet portfolio maturity requirements
 - › Meet portfolio quality requirements
 - › Meet portfolio diversification requirements
 - › Meet portfolio liquidity requirements
 - › Meet shadow pricing requirements

GASB Statement 79

- **Maturity requirements**
 - › Maturity at time of purchase of any security is at most one year + two days
 - › Weighted average maturity of portfolio is 60 days or less
 - › Weighted average life of less than 120 days
- **Quality requirements**
 - › Acquired securities denominated in U.S. currency
 - › Highest category of short term credit ratings by a nationally recognized rating agency
 - › Can continue to hold a security that initially met the credit quality requirement but experienced a subsequent decline
- **Diversification requirements**
 - › No more than 5 percent of portfolio in any one issuer
 - › Excludes U.S. Treasury and certain agency securities and insured certificates of deposit
 - › Includes securities underlying repurchase agreements

GASB Statement 79

- Liquidity requirements
 - › No illiquid investments > 5 percent
 - Can not be sold at cost or amortized cost within five business days
 - › 10 percent of portfolio in daily liquid assets
 - › 30 percent of portfolio in weekly liquid assets (maturity in five business days)
- Shadow pricing requirements
 - › Shadow price is net asset value per share on a full fair value basis measured at least monthly.
 - › Shadow price cannot deviate > .5 percent (1/2 of 1 percent) from the net asset value measured at cost/amortized cost

GASB Statement 80

- *Blending Requirements for Certain Component Units, an Amendment of GASB Statement No. 14*
 - Issued January 2016
 - Effective for fiscal years ending June 30, 2017 and thereafter
 - Incorporated as not-for-profits and primary government is sole corporate member
 - Blend with primary government
 - Does not apply to Foundations included under GASB S-39

GASB Statement 81

■ *Irrevocable Split-interest Agreements*

- Issued March 2016
- Effective for fiscal years ending December 31, 2017 and thereafter
- Split interest agreements are a specific type of giving arrangements by donors to provide resources to two or more beneficiaries
- Recognize assets, liabilities and/or deferred inflows at the inception of the agreement
 - GASB S-72 may apply
- Revenue is recognized at termination of the agreement if remainder interest beneficiary
- Revenue recognized for amount of benefit for the period lead interest beneficiary
- Life-interests in real estate, capital asset or investment

GASB Statement 82

■ *Pension Issues*

- Issued March 2016
- Effective for fiscal years ending June 30, 2017
- Amends GASB S 67, 68 and 73
- Payroll related measures for single employer and cost-sharing plans
- Disclosures of Covered Payroll, payroll on which contributions to the plan are based
- Selection of assumptions, a deviation as defined in Actuarial Standards of Practice is not in conformance with GASB S 67, 68 or 73
- Classification of employer-paid member contribution, classify as plan member contributions

GASB Exposure Drafts

- Certain Asset Retirement Obligations
- Fiduciary activities
- Leases

GASB Technical Plan

- Financial Reporting Model
 - › ITC/PV – 4Q16/2Q18
 - › ED – 4Q19
- Debt Refundings with Existing Resources
- Pension Benefit Issues
- Debt Disclosures
- Going Concern Disclosures
- Revenue Recognition for Exchange and Exchange-like Transactions

