

# Florida GFOA

## GASB Update—All Of The Hot Buttons

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

# Effective Dates—September 30, 2016 and 2017

- 2016
  - Statement 72—Fair value—Measurement and application
  - Statement 73—Pensions—Related assets (outside the scope of Statements 67 and 68) and Statements 67 and 68 amendments
  - Statement 76—GAAP hierarchy
  - Statement 79—External investment pools
  - Implementation Guide—2015-1
- 2017
  - Statement 73—Pensions—Employers (outside the scope of Statement 68)
  - Statement 74—Other Postemployment Benefits (OPEB) plan reporting
  - Statement 77—Tax abatements disclosures
  - Statement 78—Pensions provided through certain multiple-employer defined benefit pension plans
  - Statement 80—Blending requirements for certain component units
  - Statement 82—Pension Issues
  - Implementation Guide—2016-1

# Effective Dates—September 30, 2018

- 2018
  - Statement 75—OPEB—Employers
  - Statement 81—Irrevocable split-interest agreement

# Expected Effective Dates—September 30

- 2019
  - Fiduciary activities
  - Asset retirement obligations
- 2020
  - Leases

# The Blue Covers

# Fair Value Measurement and Application: Statement 72

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# 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

# Valuation Techniques

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

# Fair Value Hierarchy

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities, most reliable
- Level 2: quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are observable
- Level 3: unobservable inputs, least reliable
- Inputs categorized within different levels of the hierarchy
  - Fair value measurement is categorized in its entirety in the same level as the lowest (in terms of reliability) level input that is significant to the entire measurement

# Investments—Fair Value

- Assets that meet the definition of an investment generally should be measured at fair value
- 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

# Acquisition Value

- Acquisition value (an entry price) replaces fair value for the following:
  - Donated capital assets
  - Donated works of art, historical treasures, and similar assets
  - Capital assets received through a service concession arrangement

# Note Disclosures

- Organized by type or class of asset or liability based on considerations including the following:
  - The nature, characteristics, and risks of the asset or liability
  - The level of the fair value hierarchy within which the fair value measurement is categorized
  - Whether Statement 72 or another Statement specifies a type or class for an asset or a liability
  - The relative significance of assets and liabilities measured at fair value compared to total assets and liabilities
  - Whether separately issued financial statements are available
  - Line items presented in the statement of net position
- Table or narrative format

# Note Disclosures

- **Recurring versus Non-recurring Measurements**
  - Recurring – Required or permitted in the statement of net position at the end of each reporting period
  - Non-recurring – Required or permitted in the statement of net position in particular circumstances
- **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)

# Disclosures

## Classify Investments by Level of Inputs

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

# Pensions: Statement 73

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*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*

# Fundamental Approach

- Same fundamental approach for pensions that are not provided through pension plans that are administered through trusts that meet the criteria as those that are within the scope of Statement 68
- Major differences in requirements with Statement 68 result from the lack of assets held in trust
  - Liability reported without netting plan net position (the total pension liability)
  - Discount rate is the municipal bond rate without consideration of the long-term expected rate of return

# Statement 73 Provisions

- Primarily pensions that are not within the scope of Statements 67/68
  - Plan reporting—agency fund
- Clarifications (“amendments”) of Statements 67/68
  - Notes to RSI—investment-related factors—influence (for example, change in policy)
  - Payables to defined benefit plans/receivables of defined benefit plans
    - Receivable as a result of employer joining the plan
    - Receivable as a result of change in benefits
    - Receivable as a result of one-time commitment by a nonemployer contributing entity

# Other Postemployment Benefits—Plan: Statement 74

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# 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 governments 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

# Other Postemployment Benefits—Employer: Statement 75

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# 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

# Notes

- Similar to those required for pensions
- Disclosure of effect on net OPEB liability of a discount rate +/- 1 percent
- Disclosure of effect on net OPEB liability of a healthcare cost trend rate +/- 1 percent
- Single and agent plans: 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 plans: 10-year RSI schedules of statutorily or contractually determined contributions

# Pension Issues: Statements 78 and 82

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# Pension Issues

- Seven issues were raised by stakeholders
  - Taft-Hartley Plans (and similar plans) was spun-off into a separate project
    - Statement 78
  - Timing of the measurement of liability
  - Disclosure of annual required contribution (ARC) as a benchmark
  - Covered-employee payroll
  - Application of administrative costs as a reduction of discount rate
  - Treatment of employer–paid member contributions
  - Deviations from Actuarial Standards of Practice (ASOPs)

# GAAP Hierarchy: Statement 76

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# Categories of Authoritative GAAP

Category	Sources	Due Process
A	GASB Statements	Formally approved by the Board for the purpose of creating, amending, superseding, or interpreting standards, <u>AND</u> exposed for a period of public comment
B	GASB Technical Bulletins and Implementation Guides; AICPA literature specifically cleared by GASB	Cleared by the Board, specifically made applicable to state and local governmental entities, <u>AND</u> exposed for a period of public comment

# Comprehensive Implementation Guide (CIG)

- 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

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# Definition of a Tax Abatement

- Statement 77 applies only to transactions meeting this definition:
  - A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which:
    - One or more governments promise to forgo tax revenues to which they are otherwise entitled and
    - Individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

# Substance over Form

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

# General Disclosure Principles

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments and reduce the reporting government's taxes
- Disclose own tax abatements by major program
- Disclose those of other governments by the government and specific tax abated
- May disclose individual tax abatements above quantitative threshold established by the government
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

# Disclosing Individual Abatements

- If a government chooses to disclose individual abatement agreements, it should select a quantitative threshold and disclose all agreements that meet or exceed the threshold
  - Any quantitative threshold used by the government to determine which agreements to disclose individually should be described in the note disclosure
  - A government may use one threshold for its own abatements and a different threshold for other governments' abatements
  - A government may disclose some of its own abatements individually but disclose those of other governments in the aggregate, or vice versa
  - Tax abatements below the threshold (if any) should be presented in the aggregate, as described in the Statement

# Tax Abatements of Component Units

- Blended component units' tax abatement agreements that reduce the primary government's tax revenues – disclose the information required for the government's own tax abatement agreements
- Discretely presented component units' tax abatement agreements that reduce the primary government's tax revenues should be evaluated to determine whether they are essential to fair presentation of the primary government (as required by Statement No. 14, *The Financial Reporting Entity*, as amended):
  - If they are essential to fair presentation, disclose the information required for the government's own tax abatements
  - If they are not essential, disclose the information required for other governments' tax abatements

# Summary of Required Disclosures

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

# Summary of Required Disclosures

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

# External Investment Pools: Statement 79

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# Basic Principles

- Application of fair value measurement to investments generally is preferable—no requirement to apply amortized costs to all pooled investments
- Application of amortized cost to all pooled investments is allowed for qualifying external investment pools
  - Criteria focus on whether amortized cost of those investments closely approximates fair value
- Bottom line—Statement 79 supersedes the accounting and financial reporting standards for 2a7-like external investment pools

# Criteria for Qualifying Pools

- Transacts with its participants at a stable net asset value per share (for example, at \$1.00 NAV per share)
- Portfolio maturity
- Portfolio quality
- Portfolio diversification
- Portfolio liquidity
- Shadow pricing

# Questions?

- Visit [www.gasb.org](http://www.gasb.org)