GASB Update

Presented by:

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May 5, 2014
GFOASC Spring Conference
Columbia Metropolitan Convention Center
Columbia, SC

GASB Update

GFOASC
Government Finance Officers Association of SC

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MAULDIN & JENKINS

GASB Update

- Effective Dates
  - **December 31, 2013 (and June 30, 2014)**
    - Statement 65—Items Previously Reported as Assets and Liabilities (recommending early adoption however)
    - Statement 66—Technical Corrections—2012, an amendment of GASB Statements No. 10 and No. 62
  - **June 30, 2014 (and December 31, 2014)**
    - Statement 67—Financial Reporting for Pension Plans (an amendment to GASB Statement No. 25)
    - Statement 70—Accounting and Financial Reporting for Nonexchange Financial Guarantees

GASB Update

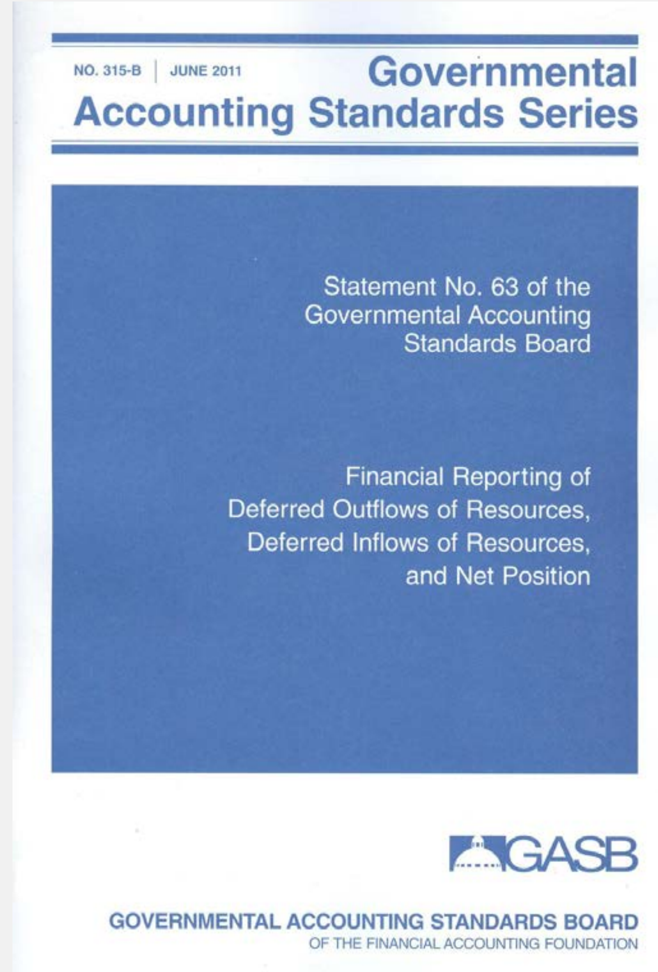
- Effective Dates
  - **December 31, 2014 (and June 30, 2015)**
    - Statement 69—Government Combinations and Disposals of Government Operations
  - **June 30, 2015 (and December 31, 2015)**
    - Statement 68—Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)
    - Statement 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68

GASB 63:

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Effective for periods beginning after December 15, 2011

(fiscal years 12/31/12 or 6/30/13)


NO. 315-B | JUNE 2011

Governmental Accounting Standards Series

Statement No. 63 of the Governmental Accounting Standards Board

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

- Definitions
  - **Deferred outflows** of resources
    - A consumption of net assets by the government that is applicable to a future reporting period
    - Has a positive effect on net position, similar to assets
  - **Deferred inflows** of resources
    - An acquisition of net assets by the government that is applicable to a future reporting period
    - Has a negative effect on net position, similar to liabilities
  - **Net position**
    - The residual of all elements presented in a statement of financial position
    - = assets + deferred outflows – liabilities – deferred inflows

- Display Requirements
  - No more Statement of Net Assets – is Statement of Net Position
  - Deferred outflows are reported in a separate section following assets
  - Deferred inflows are reported in a separate section following liabilities
  - Net position components resemble net asset components from Statement 34, but include the effects of the deferred outflows and inflows
    - "Net investment in capital assets" (*Still calculated net of related debt*).
    - "Restricted" (*Still show by major category on face of statement or notes*).
    - "Unrestricted"
  - Applies to all full accrual accounting statements but no change in governmental fund balance or use of the term "Balance Sheet"
    - Will add deferred outflows and inflows as categories, if necessary

GASB 65:
Items Previously Recognized as Assets and Liabilities

Effective for periods beginning after December 15, 2012

(fiscal years 12/31/13 or 6/30/14)

- Approach to Standard
  - Prior to this Standard the only deferrals identified by the Board were:
    - GASB 53 – Derivative instruments
    - GASB 60 – Service concession arrangements
  - This project reviewed existing balances to see if they meet the definition of an asset or a liability as defined in Concepts Statement 4.
  - **If not**, did they meet the definition of a deferred outflow or deferred inflow of resources.

- Some Items That Retain the Classification as an Asset
  - Prepayments
    - This includes any bond insurance paid at closing
  - Grants paid in advance of meeting eligibility requirements (other than timing)
  - Rights to future revenues acquired from outside the reporting entity
  - "Regulatory" assets (capitalized incurred costs)
  - Pension asset (Plan net assets exceed total liabilities)

- Some transactions in which the resulting item should be reported as a deferred outflow of resources (currently classified as assets)
  - Grant paid in advance of meeting timing requirement
  - Deferred amounts from the refunding of debt (debits)
  - Costs to acquire rights to future revenues (intra-entity)
  - Deferred loss from sale-leaseback

- Some transactions in which the resulting item should be reported as an outflow of resources/expense (currently classified as assets)
  - Debt issuance costs (other than insurance)
  - Initial direct costs incurred by the lessor for operating leases
  - Acquisition costs for risk pools
  - Loan origination costs

- Some Items That Retain the Classification as a Liability
  - Resources received in advance of an exchange transaction
  - Derived tax revenue received in advance
  - Premium revenue (risk pools)
  - Grants received in advance of meeting eligibility requirements (other than timing)
  - Refunds imposed by a regulator

- Some transactions in which the resulting item should be reported as a deferred inflow of resources (currently classified as liabilities)
  - Grants received in advance of meeting timing requirement
  - Taxes received in advance
  - Deferred amounts from refunding of debt (credits)
  - Proceeds from sales of future revenues
  - Deferred gain from sale-leaseback
  - "Regulatory" credits (gains or other reductions)
  - "Unavailable" revenue in governmental funds

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- Some transactions in which the resulting item should be recognized as an inflow of resources/revenue (currently classified as liabilities)
  - Loan origination fees (excluding points) – lessor accounting
  - Commitment fees (after exercise of expiration)

- Loan accounting – lender activities
  - Not covered on previous slides.
  - Standard establishes and amends accounting for various lending activities associated with **government lenders**.
  - If you are a government lender refer to p. 21-27 for accounting related to origination fees, the sale of loans, and mortgage banking activities.

- Governmental Fund impact
  - **No change** in governmental fund basic revenue recognition – still measurable and available.
  - While certain amounts (as specified in standard) impact governmental funds – the basic overriding criteria still apply
    - For example all debt related accrual considerations still only apply to full accrual accounting

- Other reporting changes
  - The use of the term "**deferred**" should be limited to deferred inflows and outflows as defined in the standard.
  - Major fund criteria
    - Assets should be combined with deferred outflows.
    - Liabilities should be combined with deferred inflows.

- Transition
  - Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented

GASB 66:
Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62

Effective for periods beginning after December 15, 2012
(fiscal years 12/31/13 or 6/30/14)

- Objective = Resolve Issues from 2 Standards:
  - Addressed Risk Financing & Insurance Issues Prompted by:
    - GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions;* and,
    - GASB #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
      - Self-Insurance - Lessor Accounting
      - Purchase of Loans - Servicing Fees

- GASB #54 Matter:
  - *Risk Financing* - special revenue funds can be used for self-insurance if they meet GASB 54 requirements. Example is when a government has a dedicated tax levy to cover prospective liabilities.

    (I am not aware of state law allowing such methods)

- GASB #62 Matters:
  - *Leases* - continues to allow a lessor government that enters into an operating leases with scheduled rent increases to recognize operating lease payments on a straight-line basis over the lease term or based on the estimated fair value of the rental.
  - *Purchase of Loans* - continues to require that when there is an exchange in an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments, a transferee government recognizes those receivables acquired at the purchase price.
  - *Servicing Fees* – continues to require a transferor government to recognize a gain or loss on the difference between the proceeds and the carrying value of receivables sold.

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GASB 67:
Financial Reporting for Pension Plans

Effective for periods beginning after June 15, 2013

(Fiscal years 6/30/14 or 12/31/14)

GASB 68:
Accounting and Financial Reporting for Pensions

Effective for periods beginning after June 15, 2014

(Fiscal years 6/30/15 or 12/31/15)

- GASB #67 – For Plan Financial Reports:
  - Replaces GASB #25, relative to pension plans that are administered through trusts or similar arrangements.
  - Builds upon existing financial reporting framework:
    - Statement of Fiduciary Net Position
    - Statement of Changes in Fiduciary Net Position
  - More footnote disclosures relative to DB and DC plans.
  - Requires presentation of new information re: annual money-weighted rates of return in notes and 10 year RSI.

GASB Update

- GASB #68 – For Gov Fin. Reports with Plans:
  - Replaces GASB #27, relative to governments providing pensions through pension plans that are administered through trusts or similar arrangements:
    - Employer/non-employer contributions irrevocable;
    - Plan assets dedicated to providing pensions;
    - Plan assets legally protected from creditors.
  - Excludes all OPEB (upcoming project)

- GASB #68 – In a Nutshell:
  - Defined Benefit Plans – requires governments to report a Net Pension Liability in the Statement of Net Position.
  - Net Pension Liability – the difference between the total pension liability (the PV of projected benefits) and the assets held in trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.
  - Fewer actuarial valuation methods (5 to 1).
  - Immediate recognition of more pension expense than is currently required.
  - Assets valued at market and not at the "actuarial value".

- GASB #68 – In a Nutshell (Continued):
  - Net Pension Liability (NPL)

    Requires governments to recognize the long-term obligation for the net unfunded actuarial pension liability to the face of the government-wide Statement of Net Position.

    - Single/agent employers = 100% of NPL;
    - Cost-sharing employers = proportionate share of NPL.

- GASB #68 – In a Nutshell (Continued):
  - Costs Sharing Employer Governments – requires recording of a liability and expense equal to their proportionate share of the collective Net Pension Liability and expense for the total cost sharing plan.

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- GASB #68 – In a Nutshell (Continued):
  - Special Funding Situations – For certain governments who are legally responsible for making contributions directly to a pension plan that is used to provide pensions to employees of another government.

    Ex., a state that is legally required to contribute to a pension plan that covers local government employees.

    Non-employer contributing entities must recognize in their own financial statements their proportionate share of the other governmental employers' Net Pension Liability and pension expense.

Defined Benefit Plans

- Two potential liabilities

1. **Liability to the pension plan (payables)**

    - Short-term amounts
        - Example—contributions payable at FYE
    - Long-term amounts
        - Example—installment contract for individual past service liability upon joining a cost-sharing plan
        - Formerly referred to as "pension-related debt"

- Two potential liabilities (cont.)
  2. **Liability to employees for pensions**
     - "Net pension liability" (NPL)
       - Total pension liability (TPL), net of pension plan's fiduciary net position
         - TPL = actuarial present value of projected benefit payments attributed to past periods
         - Fiduciary net position as measured by pension plan
       - "Collective NPL" = NPL for all benefits provided through cost-sharing pension plan
     - Single/agent employers recognize 100 percent of NPL
     - **Cost-sharing employers recognize proportionate shares of collective NPL**

- NPL: Measurement - Timing
  - Potentially 3 different dates
    - FYE
    - 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)
  - FYE Coordination with pension plan
    - Measurement date will most likely correspond to year-end of plan. In this case, employers with same year-end as plan must choose measurement date as of their prior or current year-end

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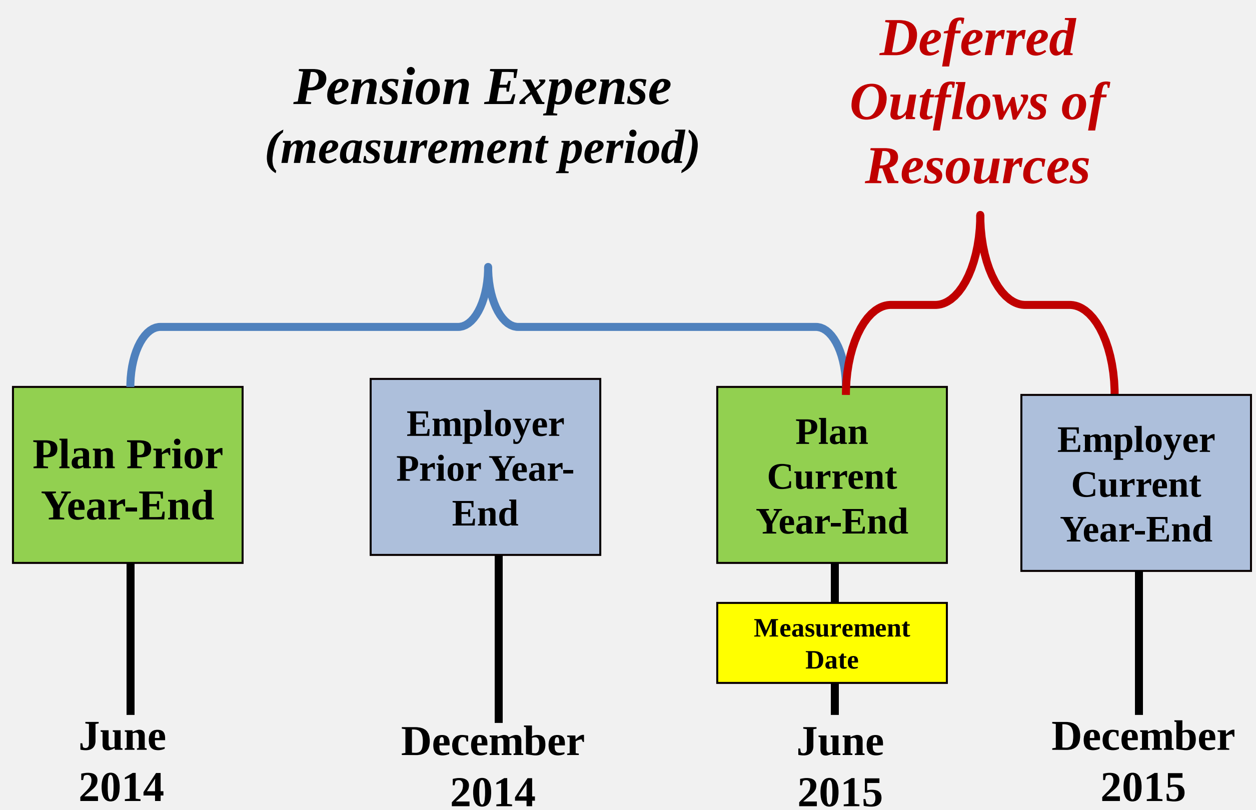

Measurement date will most likely correspond to year-end of plan. Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.

- Impact on Funding
  - GASB does not set funding standards
  - New GASB rules separates accounting/financial reporting standards from funding requirements
    - Potentially adds volatility to accounting expense and liability
  - Changes in accounting rules do not “require” a change to contribution strategy
    - Adoption of a funding policy will be helpful in applying new rules
  - Volatility in accounting does not “need” to cause volatility or inconsistent approach to contributions
    - To the contrary, development of a level contribution could help in the applying the new rules

Accounting and Audit Requirements and Issues Related to Agent Multiple- Employer PERS

- Agent Multiple-Employer Plans-Requirements
  - Accounting requirements are basically the same as those previously discussed.
  - Employers can choose their own measurement date – however even less control over plan.
  - Employers will each have their own unique actuarial valuation and financial position.

Accounting and Audit Requirements and Issues Related to Cost-Sharing Multiple- Employer PERS

- NPL: Cost-sharing employers
  - Recognize proportionate shares of collective NPL, pension expense, deferred outflows of resources/ deferred inflows of resources
  - Proportion (%)
    - Relationship of the employer to the total of all contributing entities
    - Basis required to be consistent with assessed contributions
    - Consider separate rates related to separate portions of collective NPL
    - Use of relative long-term projected contribution effort encouraged

- NPL: Cost-sharing employers (cont.)
  - Calculation of the employer's proportionate shares
    - Collective measure x proportion

	Collective Measure	Employer's Proportion	Employer's Proportionate Share
NPL	$7,455,024	2%	$149,100
Deferred Outflows of Resources	$2,185,968	2%	$43,719
Deferred Inflows of Resources	$1,229,826	2%	$24,597
Pension Expense	$1,162,654	2%	$23,253

- NPL: Cost-sharing employers-additional considerations
  - Potentially three items
    1. Net effect of change in proportion
    2. Difference between:
       - Employer’s proportionate share of all employer contributions included in collective plan net position
       - Contributions recognized by the employer in the measurement period
    3. Employer’s contributions subsequent to measurement date

- NPL: Cost-sharing employers additional considerations (cont.)
  - Expense impact of changes in proportion and contribution-related differences
    - In current and future periods
    - Systematic/rational method
    - Closed period = average of expected remaining service lives (actives and retirees)
  - Employer contributions subsequent to measurement date
    - Deferred outflow of resources in current period
    - Reduction of collective NPL in next period (part of comparison of actual contributions to share of collective contributions)

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- Cost-Sharing Multiple-Employer Plans-Issues
  - Standard is silent on who (plan or each individual participating employer) should calculate allocation percentages
  - Audited financial statements of the plan may not include necessary information to calculate allocation percentages
  - Standard provides flexibility in approach to determining allocations
  - Standard encourages an allocation method that will be extremely difficult to audit as it is based on projected future contributions

Who should calculate the allocation percentages?

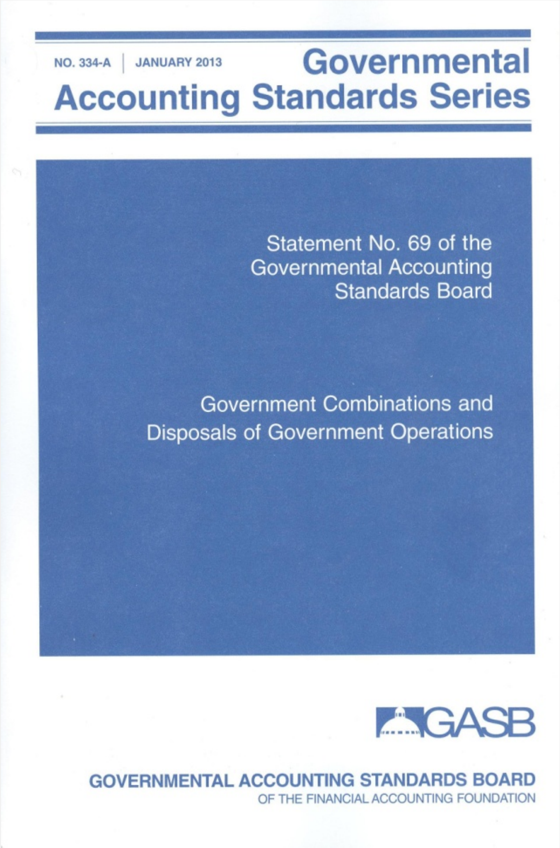
Who should calculate the allocated pension amounts?

GASB 69

Government Combinations and Disposals of Government Operations

Effective for periods beginning after December 15, 2013

(fiscal years 12/31/14 and 6/30/15)



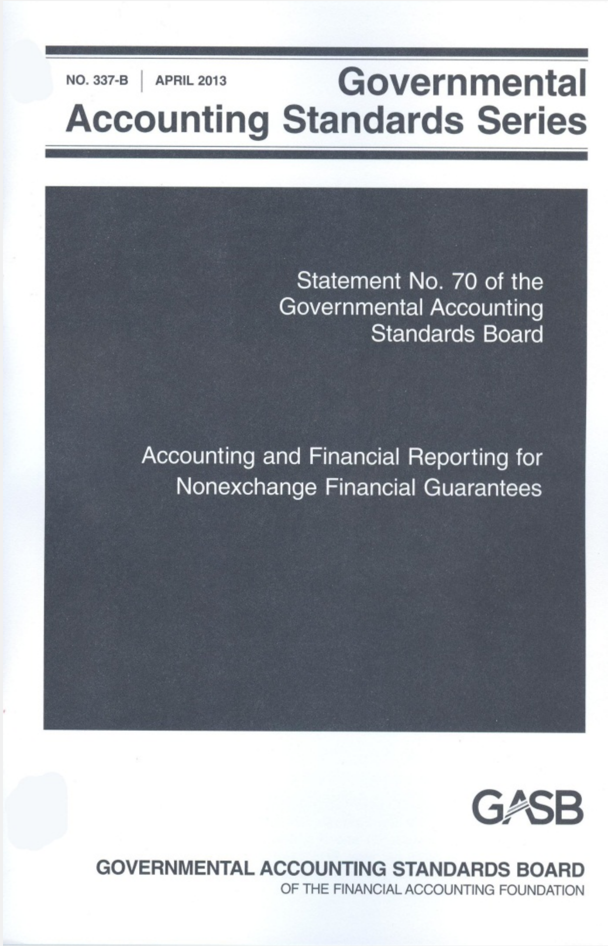
- **Types of Combinations:**
  - **Mergers** *(Consolidations)* – combination of legally separate entities without the exchange of significant consideration:
    - Use carrying value to measure the assets and liabilities.
  - **Acquisition** – transaction in which a government acquires another entity, or its operations, in exchange for significant consideration:
    - Measurement of assets acquired and liabilities assumed at acquisition value (i.e. costs).
  - **Transfers of Operations** – between two or more separate legal entities and no significant consideration exchanged:
    - Use carrying value to measure the assets and liabilities.

GASB 70

Accounting and Financial Reporting for Nonexchange Financial Guarantees

Effective for periods beginning after June 15, 2013

(fiscal years 6/30/14 and 12/31/14)



- Applies to governments that:
  - Extend a non-exchange financial legal guarantee on an obligation of another party (*any kind of separate legal entity*);
  - Receive a guarantee from another party on its obligations.
- Non-exchange financial guarantee:
  - Based on GASB #33 definition of non-exchange;
  - Extended without receiving equal or approximately equal value in exchange;
  - Excludes exchange and exchange-like transactions.

- Guarantee should be recognized as a liability when qualitative factors indicate that it is more likely than not that a payment will be required:
  - More likely than not = a likelihood of more than 50%
  - Full accrual accounting = liability and expense are recognized at the discounted present value of the best estimate of the future outflows expected to be incurred. OR
  - If there is no best estimate but a range of estimates exists, the minimum amount of the range should be used.
  - Modified accrual accounting = liability and expense are recognized when normally expected to be liquidated with expendable available financial resources (when guarantee payments are due and payable and similar debt accounting).

- Examples of qualitative factors include:
  - Indication or initiation of bankruptcy or financial reorganization.
  - Breach of debt contract on guaranteed obligation:
    - Failure to meet covenants or coverage ratios;
    - Default or delinquency in interest or principal payments.
  - Drawing on a reserve fund to make debt service payments;
  - Debt holder concessions;
  - Loss of a major revenue source;
  - Commencement of financial supervision by another government.

- Guarantor Disclosures:
  - Extended non-exchange financial guarantees:
    - Description of the guarantees identifying:
      - Legal authority and limits;
      - Relationship to entity or entities issuing the guaranteed obligation;
      - Length of time of the guarantee;
      - Arrangements for recovering guarantee payments made.
      - Amount of guarantees outstanding

- Guarantor Disclosures (Continued)
  - When liability recognized or payments made during the period:
    - Description of timing and recognition of measurement
    - Information about amounts recognized (beginning of the year balance, increases, decreases, and end of the year balance)
    - Cumulative amounts paid on the guarantee
    - Amounts expected to be recovered

- Guarantee Recipient Disclosures:
  - Governments that have received a non-exchange financial guarantee should disclose:
    - Name of guarantor;
    - Amount of guarantee;
    - Length of time of guarantee;
    - Amount of actual guarantee payments (if any) made by guarantor during period;
    - Cumulative amounts of actual guarantee payments (if any) made on outstanding obligations;
    - Description of requirements to repay guarantor (if applicable);
    - Amount of outstanding requirements to repay guarantor (if applicable).

- Transition and Effective Date:
  - Effective for periods beginning after June 15, 2013 (meaning, June 30, 2014).
  - Any accounting changes should be treated as an adjustment of prior periods, and prior periods presented should be restated.
  - Disclosure requirements for cumulative amounts paid to-date:

- Other Current Projects
  - – Conceptual Framework
    - Current measurement focus considerations:
      - o May dictate a period (such as 60 days) for revenue and expenditure recognition
      - o May expense items such as supplies and prepaids at acquisition (consumption vs. purchase method)
  - – Economic Condition Reporting
    - Possible presentation of information on fiscal sustainability (including projections, etc.……)
    - The scope of GASB (tabled for now)

GASB Update

- Other Current Projects (Continued)
  - Fair Value Measurement and Reporting
    - Definition of fair value
    - Methods of determining fair value (will relate to investments, donated assets, etc.).
  - Leases
    - Changes & improvements to existing guidance.
    - Do operating leases meet the definitions of being an asset or liability……
  - OPEB
    - Possibly following GASB 67 & 68 model.

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Questions

Thank You

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