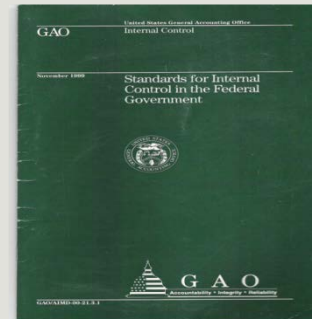


# GASB Update

Louisiana Association of  
School Business Officials  
March 19, 2015

---

# GAO Green Book



- ❑ **Out-of-date (last issued in November 1999)**
- ❑ **Desire to harmonize Green Book with the updated COSO framework**
- ❑ **Retains the 5 components of internal control but introduces 17 principles and related attributes adopted from COSO.**
- ❑ **It may become more relevant to SLGs and NFPs as the Uniform Grant Guidance cites COSO and the Green Book as a “best practice” for establishing and maintaining internal control**

# GASB No. 65

## Items Previously Reported as Assets & Liabilities

---

- Effective periods beginning after 12/15/12
  - FYE 9/30/14
- Conforms to Concepts Statement No. 4
- Identifies assets to be reported as
  - Deferred outflow of resources
  - Outflow of resources
- Use of “deferred” only for deferred inflows & outflows
- Consider deferred inflows & outflows in major fund calculations

# GASB No. 65

## Items Previously Reported as Assets & Liabilities

---

### Deferred inflows or outflows of resources

- Gain/loss on bond refunding
- Imposed nonexchange revenue transactions

### Revenues received/receivable before

- Period property taxes levied
- Period resources required to be used/use first permitted
- When enabling legislation includes time requirements

# GASB No. 65

## Items Previously Reported as Assets & Liabilities

---

- Deferred inflows or outflows of resources**
  - Government-mandated & voluntary nonexchange transactions**
    - Resources transmitted before time requirements met but after eligibility requirements met
  - Certain sales of future revenues**
  - Certain intra-entity sales of future revenues**
  - Gain/loss on sale-leaseback transactions**
  - Revenues not available in governmental funds**
    - Property taxes receivable

# GASB No. 65

## Items Previously Reported as Assets & Liabilities

---

- Inflows or outflows of resources
  - Bond issue costs
    - Insurance costs (net of any rebates from old debt)
      - Prepaid insurance costs excluded (prepaid asset)
    - Financing costs
      - Rating agency fees
      - Underwriter discount fees
    - Other
      - Legal
      - Printing
      - Administrative & trustee expenses

# GASB No. 67 & 68

## Pension Accounting & Financial Reporting

---

- ❑ GASB No. 67 (plans) & 68 (employers)
  - ❑ Issued June 2012
    - ❑ No. 67 effective PB after 6/15/13
      - ❑ Replaces No. 25
      - ❑ If not through a trust, still use No. 25
    - ❑ No. 68 effective PB after 6/15/14
      - ❑ Replaces No. 27
      - ❑ If not through a trust, still use No. 27
  - ❑ Available from GASB Web site

# GASB No. 67 & 68

## Pension Accounting & Financial Reporting

---

- ❑ GASB No. 67 (plans) & 68 (employers)
  - ❑ Major changes
    - ❑ Actuarial valuations required at least every two years
      - ❑ More frequent valuations encouraged
    - ❑ Pension liability required to be based on roll forward procedures from earlier valuation
      - ❑ No more than 30 months & one day prior to most recent YE



# GASB No. 67 & 68

## Pension Accounting & Financial Reporting

---

### GASB No. 67 (plans) & 68 (employers)

- Major changes
  - Requirements now applicable to **cost sharing plans**
    - Proportionate share of pension expense & net pension liability
      - Based on projected LT contributions to the plan (change in % - pension expense over average remaining years of service)
    - Multi-year disclosures
  - Higher **pension expense** amount than currently reported

# GASB No. 67 & 68

## Pension Accounting & Financial Reporting

---

- ❑ GASB No. 67 (plans) & 68 (employers)
  - ❑ Major changes
    - ❑ Unfunded liability (“**net pension liability**”)
      - ❑ Single & multi-employer plans
      - ❑ Include effect of COLAs & ad hoc COLAs if considered “substantially automatic”
    - ❑ **Discount rate**
      - ❑ Expected rate of return & high quality tax exempt muni bond rate
      - ❑ Yield/index rate on 20-year tax-exempt GO bond with average rating AA/Aa or higher)

# GASB No. 67 & 68

## Pension Accounting & Financial Reporting

---

- ❑ GASB No. 67 (plans) & 68 (employers)
  - ❑ Major changes
    - ❑ Use of **entry age** required for accounting & reporting
      - ❑ Regardless of method used for funding purposes (typically PUC)
    - ❑ **Deferred outflows of resources**
      - ❑ Changes to pension liability not in pension expense
      - ❑ ER contributions subsequent to pension liability measurement date

# GASB No. 67 & 68

## Pension Accounting & Financial Reporting

---

- ❑ GASB No. 67 (plans) & 68 (employers)
  - ❑ Major changes
    - ❑ **Actuarial changes** (liability & plan assets) no longer amortized over 30 years
      - ❑ Recognize immediately - change in benefit terms
      - ❑ Amortize over closed period average remaining service period of members
        - ❑ Change in economic/demographic assumptions
        - ❑ Difference in economic/demographic assumptions & actual experience
    - ❑ Amortize over closed 5-year period – difference in expected & actual ROR

# GASB No. 67 & 68

## Pension Accounting & Financial Reporting

---

- ❑ GASB No. 67 (plans) & 68 (employers)
  - ❑ Major changes
    - ❑ **Pension amounts & current financial resources funds**
      - ❑ Normally expected to be liquidated with expendable available financial resources = “pension liability”
      - ❑ Pension expenditure
        - ❑ Amounts paid to plan PLUS
        - ❑ Change in “pension liability”
    - ❑ **Special funding arrangements**
      - ❑ Contributing government recognizes proportionate share of other government’s net pension liability & pension expense
    - ❑ **Disclosures**
      - ❑ Single & multi-employer plans
      - ❑ 10 year RSI

# GASB No. 69

## Government Combinations & Disposals

---

- Issued January 2013
- Effective PB after 12/15/13
  - FYE 9/30/15
  - Prospective basis only
- Provides guidance for
  - Government combinations
    - Mergers
    - Acquisitions
    - Transfers of operations
      - Disposals of governments operations

# GASB No. 69

## Government Combinations & Disposals

---

### Merger vs. acquisition

- Based on whether significant consideration exchanged

- Include

- Combination of legally separate entities without significant consideration exchanged

- Merger** = carrying values used

- Government acquires another entity or its operations in exchange for significant consideration

- Acquisition** = generally acquisition values used\*

- Net fund balance acquired = special item at fund level

- No goodwill recognized

- Report excess consideration paid for net position acquired as deferred outflow or resources

- Attribute to future periods in systematic, rational manner

- Periodically review & revise estimate of period

\* Exceptions = employment benefit arrangements (compensated absences, pensions, OPEB, termination benefits) where GAAP used

# GASB No. 69

## Government Combinations & Disposals

---

### **Disposal**

- Removal of specific activities of a government
  - Transferred
  - Sold
- Use carrying values

### **Transfer of operations**

- Government combination involving operations of another entity vs. combination of legally separate entities & no significant consideration exchanged
- Use carrying values
  - Transferee may adjust for consistency of GAAP/accounting policies



# GASB No. 70

## Nonexchange Financial Guarantees

---

- ❑ Final standard issued late 4/13
  - ❑ Effective PB after 6/15/13
    - ❑ FYE 9/30/14
  
- ❑ Financial guarantee refers to a transaction that involves three legally-separate parties:
  - ❑ Guarantor or entity providing the guarantee of a separate entity's legal obligation
  - ❑ Issuer
    - ❑ Entity that issues the obligation that is being guaranteed
  - ❑ Bondholder
    - ❑ Entities that purchase the obligation

# GASB No. 70

## Nonexchange Financial Guarantees

---

### Financial Guarantees

- **Recognize liability & expense (economic resources)**
  - **If/when qualitative factors indicate more likely than not a government will actually make a payment on nonexchange financial guarantees it extended**
    - **Best estimate of discounted present value of future outflows expected to be incurred as a result of the guarantee**
      - **Or minimum of a range when no best estimate**

# GASB No. 70

## Nonexchange Financial Guarantees

---

### Financial Guarantees

- Recognize fund liability & expenditure (financial resources)
  - To extent liability is normally expected to be liquidated with expendable available financial resources
  - Normally expected to be liquidated with expendable available financial resources when payments are due & payable on the guaranteed obligation.

# GASB No. 70

## Nonexchange Financial Guarantees

---

- ❑ **Financial Guarantees – qualitative factors**
  - ❑ **Initiation of the process of entering into bankruptcy or a financial reorganization**
  - ❑ **Breach of a debt contract in relation to the guaranteed obligation, such as a failure to meet rate covenants, failure to meet coverage ratios, or default or delinquency in interest or principal payments**

# GASB No. 70

## Nonexchange Financial Guarantees

---

- ❑ **Financial Guarantees – qualitative factors**
  - ❑ **Indicators of significant financial difficulty**
    - ❑ **Failure to transfer deposits from debt service funds to paying agents or trustees**
    - ❑ **Draw on a debt service reserve fund**
    - ❑ **Initiation of the process by a creditor to intercept receipts to make a debt service payment**
    - ❑ **Debt holder concessions**

# GASB No. 70

## Nonexchange Financial Guarantees

---

- ❑ **Financial Guarantees – qualitative factors**
  - ❑ **Indicators of significant financial difficulty**
    - ❑ **Significant investment losses**
    - ❑ **Loss of a major revenue source**
    - ❑ **Significant increase in noncapital disbursements in relation to operating or current revenues**
    - ❑ **Commencement of financial supervision by another government**

# GASB No. 71

## Pension Transition - Contributions Made Subsequent to the Measurement Date

---

- Issued late 11/13
- Effective simultaneously with No. 68
- Corrects potential to understate restated beginning net position & pension expense in year of implementation
  - Pension contributions made between measurement date of beginning net pension liability & beginning of initial year of implementation = deferred outflow of resources
    - Recognize whether practicable to determine other beginning deferred amounts re: pensions

# GASB No. 72

## Fair Value Measurement & Application

---

- Fair value measurement project

- Issued February 2015

- Effective PB after 6/15/15

- FYE 9/30/16

- Major provisions

- Fair value definition consistent with FASB definition

- Fair value of nonfinancial assets to consider highest & best use

- Valuation approaches

- Market

- Cost

- Income

- Numerous new disclosures



# GASB No. 72

## Fair Value Measurement & Application

---

### Fair value

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

Consider highest & best use – nonfinancial assets

May use pricing services/brokers

Have to determine prices provided developed in accordance with requirements of this statement

# GASB No. 72

## Fair Value Measurement & Application

---

- All investments measured at fair value
  - Consider
    - Significant decreases to level of market activity
    - Transactions not orderly
- Investment classification determined at acquisition
- Defined investment
  - Security/other asset a government holds primarily for purpose of income or profit, & its present service capacity is based solely on its ability to
    - Generate cash
    - Be sold to generate cash
    - Procure services for the citizenry

# GASB No. 72

## Fair Value Measurement & Application

---

### **Considered investments**

- Royalty interests held by state in oil & gas properties for purpose of raising funds to finance public education
- Assets held in reserve that are invested/sold to raise cash to make bond payments if needed

### **Not considered investments**

- Timber resources when rights occasionally sold to raise money for natural preservation & recreation
- Mortgage loans to encourage home ownership (housing authorities)

# GASB No. 72

## Fair Value Measurement & Application

---

- ❑ **Current exceptions to reporting at fair value retained**
  - ❑ 2a-7 like pools = NAV
- ❑ **Acquisition value used to measure**
  - ❑ Donated capital assets received in nonexchange transactions
  - ❑ Donated works of art & historical treasures
  - ❑ Certain assets received in SCAs
- ❑ **Transaction costs to be reported as expenses**
  - ❑ Currently netted with change in fair value

# GASB No. 72

## Fair Value Measurement & Application

---

### Disclosures

- Nature, characteristics, risks
- Level of FV hierarchy
- Disaggregate disclosures by type as per other Statements
- Objective of the mission of the government
- Characteristics of the government
- Relative significance of assets & liabilities
- Whether separately issued FS available
- Line items in the Statement of Net Position
- Certain information re: recurring & nonrecurring FV changes

# GASB No. 72

## Fair Value Measurement & Application

---

- ❑ **Disclosures for NAV measurements – each type of investment**
  - ❑ FV at measurement date & description of significant investment strategies
  - ❑ Investments that can never be redeemed but for which distributions are received through liquidation of assets
    - ❑ Estimate of periods over which underlying assets expected to be liquidated
  - ❑ Government's unfunded commitments re: investment type
  - ❑ Description of terms & conditions to redeem investments

# GASB No. 72

## Fair Value Measurement & Application

---

- ❑ **Disclosures for NAV measurements – each type of investment**
  - ❑ Circumstances redeemable investments might not be redeemable
    - ❑ Estimate of when redemption restrictions might lapse
      - ❑ If not know, disclose this & how long restriction has been in effect
  - ❑ Other significant restrictions on ability to sell at measurement date
  - ❑ When probable investments to be sold at other than NAV
    - ❑ Total FV of all investments & remaining actions to complete sale
    - ❑ When individual investments to be sold not specifically identified
      - ❑ Plans to sell & remaining actions to complete sale

# Other Activities

---



# Concepts Statement No. 6

---

- Measurement of Elements of Financial Statements**
  - Issued March 2014**
  - Measurement approaches**
    - Initial-transaction-date-based measurement**
      - Initial amount
    - Current-financial-statement-date-based measurement**
      - Re-measured amount

# Concepts Statement No. 6

---

- ❑ **Conceptual framework project related to recognition & measurement attributes**
  - ❑ **Measurement attributes**
    - ❑ **Historical cost**
      - ❑ Paid/received to acquire asset/incur liability in actual exchange
    - ❑ **Fair value**
      - ❑ Price received/paid to sell/transfer asset/liability in orderly transaction between market participants at measurement date
    - ❑ **Replacement cost**
      - ❑ Paid to acquire an asset with equivalent service potential in orderly market transaction at the measurement date (**applicable only to assets**)
    - ❑ **Settlement amount**
      - ❑ *Asset could be realized*/liability could be liquidated through counterparty & not in an active market

# Outstanding Exposure Drafts

---

- ❑ **Postemployment benefits & OPEB**
  - ❑ **Three EDs issued 5/28 – comments due 8/29/14**
    - ❑ **Two to supersede #43 & #45**
    - ❑ **One for “non trusts”**
  - ❑ **OPEB project to make consistent with No. 67 & No. 68**
    - ❑ **OPEB meets definition of a liability**
    - ❑ **Discount rate for liability**

# Outstanding Exposure Drafts

---

- ❑ **GAAP Hierarchy & related “Implementation Guide 20xx-1”**
  - ❑ ED issued 12/20/13 - comments due 12/31/14
  - ❑ Two levels proposed
    - ❑ **Authoritative**
      - ❑ Standards
    - ❑ **Nonauthoritative**
      - ❑ Implementation Guides, other “approved” guidance

# Outstanding Exposure Documents

---

- Tax abatement disclosures**
  - ED issued October 2014, comments due January 30
  - Disclosures only
  
- Economic Condition Reporting: Financial Projections**
  - PV issued October 2011
  - On hold pending FAF decision

# Outstanding Exposure Documents

---

- ❑ **Fiduciary responsibilities**
  - ❑ **PV issued November 2014, comments due March 6**
    - ❑ Legal structure & control of assets
    - ❑ Investment & private-purpose trust arrangements only
    - ❑ New “custodial fund” for all not administered through trusts
  - ❑ **Public hearings April 2015**
  - ❑ **ED expected October 2015**

# Outstanding Exposure Documents

---

## Lease accounting

PV issued November 2014, comments due March 6

Right to use approach

Lessors = deferred inflow

Lessee = intangible lease asset

Public hearings April 2015

ED expected January 2016

# Other GASB Projects

---

- Asset retirement obligations – other than landfills**
  - What constitutes an ARO & retirement term
  - Recognition & measurement
  - Disclosures
  - ED expected December 2015
  
- Financial reporting model**
  - Reexamination of Statement Nos. 34, 35, 37, 41, 46 & Interpretation 6
  - Pre-agenda research phase