

# Maryland GFOA

## GASB Update—Past, Present, and Future

*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—June 30

- 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
- 2018
  - Statement 75—OPEB—Employers

# Expected Effective Dates—June 30

- 2017
  - Pension issues
  - Implementation guide 2016-1
- 2018
  - Irrevocable split-interest agreements
- 2019
  - Fiduciary activities
  - Asset retirement obligations
- 2020
  - Leases

# Pension Implementation Issues

# Pension Issues—Technical Agenda Projects

- Pension Issues—focused on issues raised since the release of Statements 67 and 68 that could not be addressed in an implementation guide
- Statement 78—Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans
  - Carved out of the pension issues project
  - Does not apply to any state or local government pension plan

# Pension Issues

- Seven issues were raised by stakeholders
  - Taft-Hartley Plans (and similar plans) was spun-off into a separate project
  - 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)

# Covered-employee Payroll

- Change in measure slipped under the radar for many plans
- Board recognized that the measure provides a more consistent measure for across plan comparison; however, based on feedback received from plans has tentatively concluded to propose that:
  - Covered payroll as measured based on prior pronouncements would replace covered-employee payroll for both plans and employers

# ASOPs

- The Board will propose that no deviations (excepted as provided in GASB pronouncements) will be allowed in the application of the Statements 67, 68, and 73 (the pension standards)
  - Consistent with the conclusion reached in Statement 74 and 75

# Treatment of Employer Paid Member Contributions

- Repeal of IRC 414.h.2
- All can agree that these contributions are related to service costs and therefore have no bearing on:
  - Total pension liabilities
  - Proportional shares allocated to participating employers in cost-sharing plans
- The issue is how these contributions should be reflected in the financial statements of plans and employers
  - Plan—employee contributions
  - Employer—salaries

# Other Pension Implementation Issues?

# Fair Value Measurement and Application: Statement 72

# 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
- Fair value is not an option

# Valuation Techniques and 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

# Investments 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)

# Other Postemployment Benefits: Statements 74 and 75

# 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 government 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

# 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

# Transition

- Beginning deferred outflow of resources for contributions (payments as benefits come due), if any, subsequent to the measurement date of the beginning OPEB liability
- All other deferred outflows/deferred inflows of resources balances—all or nothing at initial implementation
- RSI schedules prospective if information not initially available

# Implementation

- Implementation Guides
  - Plan—February 2017 (Exposure Draft—October 2016)
  - Employer—November 2017 (Exposure Draft—June 2017)
- Webinars and other implementation assistance
  - What worked and what did not work

# GAAP Hierarchy: Statement 76

# 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

# Definition and Scope

- Does not include all transactions that reduce tax revenues
- Emphasis is on the substance of the arrangement meeting the definition, not on its name or form
- Applies only to arrangements 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 (a) one or more governments promise to forgo tax revenues to which they are otherwise 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

- 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

# Certain External Investment Pools: Statement 79

# External Investment Pools

- What: The GASB has proposed revisions to the accounting and financial reporting standards for 2a7-like investment pools ( for example, Maryland Local Government Investment Pool)
- Why: Securities and Exchange Commission changes to Rule 2a7 would make it difficult for external investment pools to meet the criteria to continue to report as 2a7-like
- When: Final Statement approved December 2015

# Effective Date and Transition

- Effective for reporting periods beginning after June 15, 2015, except for requirements that are more stringent than SEC Rule 2a7 before the 2014 amendments.
- Changes made to comply with the Statement should be applied on a prospective basis.

# Proposed Standards for Public Comment

# Fiduciary Responsibilities: Exposure Draft

# When Is a Government a Fiduciary?

- An activity is a fiduciary activity of a government if (1) the government controls the assets of the activity, (2) those assets are not derived solely from the government's own-source revenue, and (3) one of the following is met:
  - The assets result from a pass-through grant for which the government does not have administrative or direct financial involvement in the program
  - The assets are administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary
  - The assets are to be used for the benefit of individuals that are not required to be residents or recipients of the government's good and services as a condition of being a beneficiary
  - The assets are to be used for the benefit of organizations or other governments that are not part of the financial reporting entity

# Pension Plans

- An activity should be reported as fiduciary if:
  - Government controls the assets of the activity and
  - Activity is a pension or other postemployment benefit arrangement within the scope of Statement No. 67, *Financial Reporting for Pension Plans*, or Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, or is required to apply the provisions of paragraph 116 of Statement No. 73, *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 Statements 67 and 68*.

# Focus on Control

- A government controls assets in a fiduciary capacity if those assets:
  - are used by the government (or its assignee) to provide benefits to specified or intended beneficiaries AND EITHER OF THE FOLLOWING IS TRUE
    - (1) The government holds the assets
    - (2) The government has the ability to administer or direct the
      - (a) Use
      - (b) Exchange, or
      - (c) Employed the present service capacity of the assets in any other way that provides benefits.

# 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	December 2015
Final Statement Expected	October 2016

# Asset Retirement Obligations: Exposure Draft

# Scope

- **Asset retirement obligation—A legal obligation associated with the retirement of a capital asset**
  - Retirement of a tangible capital asset—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)
- **Would include:**
  - Nuclear power plant decommissioning
  - Coal ash pond closure (those that are not landfills)
  - Contractually required land restoration such as removal of wind turbines
  - Other similar obligations
- **Would exclude:**
  - Landfills (Statement 18)
  - Pollution remediation obligations from abnormal operation (Statement 49)
  - Conditional obligations to perform asset retirement activities, such as most asbestos removal

# Initial Recognition

- ARO meets the definition of a liability
- Initial recognition of an ARO liability would happen when the liability is incurred and is reasonably estimable
  - Incurrence generally would be based on internal and external obligating events
- Corresponding debit meets definition of a deferred outflow of resources
  - Deferred outflow would be subsequently recognized as an expense in a rational, systematic manner

# Project Approach and Measurement

- Project approach—General guidance, with specific guidance added as needed to operationalize the principles
- Measurement attribute—Settlement amount
- Measurement technique—Current cost

# Project Timeline

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

# Leases Exposure Draft

# Leases

- What: The GASB has proposed revisions to existing standards on lease accounting and financial reporting (primarily Statement 62) based on public comments received on the November 2014 Preliminary Views
- 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: Exposure Draft approved in January 2016

# Initial Reporting

	Assets	Liability	Deferred Inflow
<b>Lessee</b>	Intangible asset (right to use underlying 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, reasonably certain residual guarantees, etc.)	NA
<b>Lessor</b>	<ul style="list-style-type: none"> <li>• Lease receivable (generally including same items as lessee liability)</li> <li>• Continue to report leased asset</li> </ul>	NA	Equal to lease receivable plus any cash received up front that relates to a future period

# 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	<ul style="list-style-type: none"> <li>• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)</li> <li>• Reduce receivable by lease payments (less payment needed to cover accrued interest)</li> </ul>	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 Approved	January 2016
Final Statement Expected	November 2016

# Current Technical Agenda Projects

# Financial Reporting Model— Reexamination of Statement 34

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# 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 project was added to the current technical agenda at the September 2015 meeting.

# Debt Refundings with Existing Resources

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# Debt Refundings

- **What:** A review of existing standards for debt extinguishments (Statement 62)
- **Why:** The debt extinguishment standards were incorporated from FASB literature “as is” and not reviewed to consider their appropriateness for governments
- **When:** The Board added the project to the current technical agenda in September 2015

# Research in Process

- Debt Disclosures
- Going Concern
- Exchange and Exchange-like Revenue Recognition

# Questions?

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