

When GASB Goes “Dormant”

Tuesday, April 15, 2014

*AKA Why Someone At My City Should
Join the FRRR Committee*

What's Going On in 2014

- With all the effort being put into pensions, GASB only has a few projects scheduled to be finalized in 2014
 - Concepts Statement #6, *Measurement of Elements of Financial Statements*
 - Comprehensive Implementation Guide (14/15 Annual Edition)
 - Implementation Guide on Pension Accounting and Financial Reporting (Employer Reporting)
- But they're certainly not taking a vacation in Norwalk

Current Agenda Projects

Topic	Next Step	Estimated Date
Concepts - Measurement	Final Statement	At the Printer
Concepts – Recognition	Exposure Draft	On Hold
Financial Projections	Exposure Draft	On Hold
Fair Value Measurement	Exposure Draft	2Q 2014
Fiduciary Responsibilities	Exposure Draft	3Q 2014
Leases	Exposure Draft	4Q 2014
OPEB	Exposure Draft	2Q 2014



Updates to Conceptual Framework

- Measurement & Recognition project added to GASB's current agenda in 2005
- Two objectives:
 - Criteria for whether information should be included in financial statements and when it should be reported
 - Consideration of measurement approaches and attributes that are appropriate for use in financial statements

History – Recognition & Measurement

- Preliminary Views issued June 2011
 - 39 responses including GFOAT (“Pace of Change”)
 - Board concluded there was not enough feedback to issue an Exposure Draft, especially from financial statement users
- During 2012, GASB staff conducted targeted interviews with financial statement users
 - Board deliberations began during the second half of 2012
- Recognition & Measurement split into two projects in December 2012

Concepts – Measurement

- Exposure Draft issued June 2013
 - GFOAT response
- Concepts Statement 6, *Measurement of Elements of Financial Statements* issued March 2013 (5-2 vote in favor)
 - Currently at the printer

Measurement – Board Decisions

- Two Measurement approaches
 - Initial Transaction Date based measurement (initial amounts)
 - Current Financial Statement Date based measurement (remeasured amounts)
- Four Measurement attributes
 - Historical Cost
 - Fair Value
 - Replacement Cost
 - Settlement Amount

Measurement – Board Decisions (cont.)

- Initial amounts are more suitable for assets that are used in directly providing services
 - Fixed assets
- Remeasured amounts are more suitable for assets that will be converted to cash
 - Investments
- Remeasured amounts are more suitable for liabilities for which there is uncertainty about the timing and amount of payments
 - Compensated absences

Concepts – Recognition

- Board discussed perceived issues with current financial resources measurement focus during 2013
- Project was placed indefinitely **on hold** due to potential impact of a proposed reexamination of the financial reporting model



Financial Projections

- Financial Projections project added to GASB's current agenda in 2009
- Objectives:
 - Consider whether guidance should be provided for financial projections to be included in general purpose financial statements
 - Consider what information was needed by users to assess intergovernmental financial dependencies

Financial Projections - History

- Preliminary Views issued in November 2011
 - 173 responses
 - GFOAT strenuously opposed the PV, and recommended abandoning the project entirely
 - Response distributed to GFOAT Board and co-signed by President
- GFOA and other national organizations questioned GASB's authority to set standards for financial projections
 - Financial Accounting Foundation placed project **on hold** in 2012 and reviewed GASB's agenda-setting processes

Fair Value Measurement

- Fair Value project added to GASB's current agenda in August 2011
- Objectives:
 - Consider alternatives for the development of a definition of fair value
 - Assess methods used to measure fair value
 - Determine applicability of fair value guidance to investments and other items reported at fair value
 - Review potential disclosures about fair value measurements

Fair Value Measurement - History

- GASB began deliberations as an offshoot of the Measurement & Recognition project
- Preliminary Views issued in June 2013
 - Clone of FASB 157, *Fair Value Measurements*
 - GFOAT responded, citing two concerns:
 - Cart before the horse, concepts relating to measurement not finalized
 - One-size fits all disclosures that make sense for investment pools and pension systems burdensome for governments with simple investment choices
- Exposure Draft expected 2Q 2014



Fair Value –Decision Highlights

- 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
- The measurement date can be other than the reporting date
- In measuring fair value, price is not adjusted for transaction costs, but can be considered for determining principal market
- Asset and liability fair values are organized into a hierarchy of inputs used to measure them

Fair Value – More Highlights

- Quoted prices or pricing services for investments are acceptable if the government has determined these prices were developed in accordance with accounting standards
- Acquisition value used for:
 - Donated capital assets
 - Donated works or art, historical treasures
- Application of fair value to be an ongoing project
 - Investments
 - Real estate investments

Fair Value – Even More Highlights

- Applicable for periods beginning after June 15, 2015
 - 9/30/2016 CAFR's
- Disclosures
 - Fair value measurements by asset or liability class and level of fair value hierarchy
 - Quantitative information about significant level 3 inputs
 - Valuation techniques and inputs for level 2 and level 3 measurements
 - Sensitivity information for level 3 measurements



Fiduciary Responsibility

- Fiduciary Responsibility project added to GASB's current agenda in September 2013
- Objectives:
 - Develop guidance regarding the application of the fiduciary responsibility criteria in deciding whether and how fiduciary activities should be reported in financial reports

Fiduciary Responsibility - History

- Stems from implementation of GASB 25/27
 - Should governments include pension plan trusts they sponsor?
- Numerous technical inquiries to GASB seeking additional guidance
- Inconsistent application of existing standards
- Exposure Draft expected 3Q 2014

Fiduciary Resp. – Board Decisions

- New focus on “control”
 - Controlling assets in a fiduciary manner if assets are used to provide benefits to specified beneficiaries and have present service capacity that can be used, can be converted to cash, or employed in another way that provides benefits
 - Concepts of “holding” and “administering” are implied within “control”
 - Continuing to examine idea of control even if assets have been assigned or delegated to a third party



Fiduciary Resp. – More Board Decisions

- New fund type – custodial funds
 - Fiduciary activities that don't have a trust agreement
- Fiduciary activities should continue to be included in fund financial statements



Lease Accounting

- Lease Accounting project added to GASB's agenda in April 2013
- Objectives:
 - Consider improvements to existing lease guidance
 - Form the basis for deciding whether operating leases meet the definition of assets and liabilities



Lease Accounting – History

- Lease Accounting potentially impacted by new Concepts Statement definition of assets and liabilities
- FASB/IASB project to reexamine lease accounting for the private sector
- Exposure Draft expected 4Q 2014

Leases – Board Decisions

- Concept of operating leases and capital leases merged into a unified treatment
 - Capital lease treatment wins out
- Lease liability is the present value of lease payments
- Lease asset is amortized over the shorter of the life of the lease or the asset's useful life
 - For assets owned at end of lease term, amortized using current depreciation policy

Leases – More Board Decisions

- Lease asset/liability subject to remeasurement
 - Change of lease terms
 - Significant change in rates used to assess present value
 - Impairment of asset
- Exceptions for short-terms leases (total life of 12 months or less)

Other Post Employment Benefits

- OPEB project added to GASB's agenda in April 2011
 - Phase I governments implemented in period beginning after 12/15/2006 (9/30/2008 CAFR's)
- Objectives:
 - Improve existing guidance for OPEB
 - Improve accountability, transparency and usefulness in reporting OPEB commitments
 - Help financial users assess interperiod equity



OPEB – History

- OPEB potentially impacted by new Concepts Statement definition of assets and liabilities
- Desire to align OPEB accounting and disclosures with new pension standard methodology
- Exposure Drafts expected 2Q 2014 (April & May)

OPEB – Board Decisions

- Employer's OPEB obligation meets the definition of a liability
 - Trust arrangement not required
- OPEB obligations are measurable with sufficient reliability for inclusion in financial statements
- Blended discount rate
 - Long Term Rate of Return for plan investments
 - Index rate for 20-year tax-exempt GO's rated AA/Aa or higher

OPEB – More Board Decisions

- ❑ Entry age actuarial cost method
- ❑ Level percent of payroll to determine service costs
- ❑ Benefits accrue at employee hire date, regardless of vesting requirements
- ❑ Deferred inflows/outflows for differences between expected and actual economic or demographic factors and/or changes in assumptions
- ❑ Valuations at least every two years

OPEB – Still More Board Decisions

- Heavy disclosures
 - Details of plan and assumptions
 - Sensitivity analysis
 - Funding policies
 - 5-year schedule of deferred inflow/outflow balances in Notes
 - 10-year schedule of funding and contribution data in RSI
- Effective for fiscal years beginning after December 15, 2016 (9/30/2018 CAFR's)
 - June 15, 2016 if no trust arrangement (9/30/2017 CAFR's)

*Just a Few Minor Tweaks
Here and There!!*

Current Practice Issues

Topic	Next Step	Estimated Date
Comprehensive Implementation Guide (d)	Annual Guide Update	3Q 2014
Comprehensive Implementation Guide (b)	ED Public Comment	Comments Due 12/31/14
GAAP Hierarchy	ED Public Comment	Comments Due 12/31/14
Implementation Guide – Pension Accounting	Final Guide Issued	Out Now
Tax Abatements	Exposure Draft	4Q 2014

Comprehensive Implementation Guide

- What is the Comprehensive Implementation Guide (“CIG”)?
 - Common questions submitted to GASB by preparers seeking clarification of standards
 - Answered by staff, and approved by the Board
 - Not subject to due process
 - Currently level (d) guidance
 - Below Standards, Technical Bulletins, and AICPA Practice Bulletins
 - Usually updated annually

CIG Updates

- Last CIG update is scheduled for 3Q 2014
- Current GAAP Hierarchy comes from Statement 55, issued in 2009
 - Respondents to Exposure Draft for Statement 55 indicated concern that CIG had lowest level of authority
- New GAAP Hierarchy project added to GASB's agenda in April 2012

Proposed Change to Hierarchy

- Two levels instead of four
 - GASB Standards
 - Technical Bulletins, Implementation Guides, and applicable AICPA literature
- Two Exposure Drafts are open for comments through December 31, 2014
 - Updated GAAP Hierarchy
 - The Entire CIG - any and all Q&A is open for review
 - Since never vetted through due process

Future Changes to CIG

- Assuming that the CIG is elevated to the second level of GAAP Hierarchy, future changes to CIG's will be subject to due process
 - Shorter review process each year
 - May result in some delays in issuance of new CIG's – especially ones that are standard specific



Pension Implementation Guides

- Released in January 2014
- Q&A relating to implementation for pensions and pension plans
 - Pension guide – 210 pages
 - Pension plan guide – 108 pages

Tax Abatement Disclosures

- Tax Abatement Disclosure project added to GASB's agenda in December 2013
- Objectives:
 - Consider developing disclosure guidance for governments who grant tax abatements
- Scope:
 - Reduction or exemption from taxes for a specific taxpayer (including amounts rebated later)
 - Will not include exemptions offered to broad classes (senior exemptions/freezes)
 - Will not include recognition concepts

Tax Abatement – History

- A GASB research grant showed that 44 states allow some form of abatement by statute, but only 6 states have statutory reporting requirements
 - Grant included User Needs Survey of county board members, citizen groups, and bond analysts
- Fall 2013 GASB survey of 78 government preparers showed that governments surveyed generally kept detailed records of abatements offered
- Exposure Draft expected 4Q 2014

Tax Abatements – Likely Direction

- User Needs Survey – Statements
 - Gov'ts should report annually on abatement agreements
 - Legislators should receive timely reports comparing expected to actual performance
 - Citizens should have access to performance reports
 - Legislators should receive data about recaptured taxes
 - Citizens should have access to recapture data
- All statements received 4.0 or higher scores on a 5.0 scale

Tax Abatements – Direction (cont.)

- User Needs Survey – Importance
 - Name of recipient
 - Date granted
 - Amount of abatement in current year
 - Length of abatement and projected amounts in future years
 - Commitments made by govt. under agreements (infrastructure, etc.)
 - Contractual promises of the recipient
 - Recipient's compliance with contractual promises
- All but first two items ranked as important to very important

Tax Abatements – Direction (cont.)

- User Needs Survey – Familiarity
 - 38 citizen group members, 68 county board members, 114 bond analysts
 - On a 1 to 5 scale, citizens averaged 3.42 with familiarity to audited governmental financial statements
 - On a 1 to 5 scale, county board members averaged 3.60 with familiarity to audited governmental financial statements
- User Needs Survey – Reporting
 - Majority agree that reporting should include net revenue approach and Notes disclosure

Still There?



Pre-Agenda Research

Topic

Asset Retirement Obligations

Blending Requirements for Business-Type Activities

Financial Reporting Model

Irrevocable Charitable Trusts



Asset Retirement Obligations

- Research various asset retirement obligations
 - Landfills, nuclear plants, sewage treatment
- Landfills covered by GASB Statement 18
- Other categories not covered under GASB guidance
- GASB Statement 49 – Pollution Remediation, only covers actual clean up, not future closure obligations



Blending Requirements for BTA's

- Research methods of reporting component units for business type activities
- Generally guidance on component units focuses on the governmental side of the standards
 - Primary impacts to colleges, universities, and special-purpose entities

Financial Reporting Model

- Re-examination of GASB 34 reporting model and subsequent modifications
- Recent GASB grants have focused on effectiveness of components of GASB 34
 - Infrastructure reporting, especially alternative method vs user needs
 - Usefulness of MD&A, government-wide statements, and budgetary comparisons for bond analysts
- Long term project



Irrevocable Charitable Trusts

- Identify the kinds of irrevocable charitable trusts encountered in the governmental environment
- Determine whether resources held for the exclusive benefit of the government constitute assets of the government
 - Irrevocably pledged by donor, but not yet available to the government

Resources



GASB's Web Site

- All standards, guidance, and implementation guides are online
- Web casts of GASB meetings, as well as video archives
- Information about status of current projects and future projects



GFOAT's FRRR Committee

- ❑ Reviews GASB documents available for public comment and provides responses/suggestions for improvement
- ❑ Meets before each conference and throughout the year as needed
- ❑ Focuses on working to improve the standards before they are finalized
- ❑ Open to any member/sponsor of GFOAT

We Need Your Help!!!

CIG Exposure Draft

- FRRR is actively looking for people to help review the Comprehensive Implementation Guide
- The CIG is about the size of a good metropolitan phone book
 - And generates the same level of excitement in most circles
- If you're willing to take on a chapter or two over the next several months, please let us know...

Questions?
