

2013 GASB Update

**WVDE Office of School Finance
Summer Conference**

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Agenda

- GASB Update
 - *Items Previously Reported as Assets and Liabilities* (GASB Statement No. 65)
 - *Accounting and Financial Reporting for Pensions* (GASB Statement No. 68)
 - *Government Combinations and Disposal of Government Operations* (GASB Statement No. 69)
 - GASB Agenda
- 2012-13 Comprehensive Implementation Guide
- Common Accounting and Financial Reporting Problems

GASB Statement No. 65

*Items Previously Reported as
Assets and Liabilities*

Basic Definitions

- Deferred outflow of resources
 - Consumption of net assets by the government that is applicable to a future reporting period
- Deferred inflow of resources
 - Acquisition of net assets by the government that is applicable to a future reporting period
- Net position
 - Residual of all other elements presented in a statement of financial position
 - $[(\text{Assets} + \text{Deferred Outflows}) \textit{minus} (\text{Liabilities} + \text{Deferred Inflows})]$

Deferred Outflows of Resources

- Grant *paid* in advance of meeting time requirements
- Deferred amounts (debits) from debt refunding (excess of reacquisition price of refunded debt over net carrying amount)
- Decrease in fair value of derivative instrument associated with an effective hedging arrangement

Deferred Inflows of Resources

- Grants *received* prior to meeting of any timing requirement
- Resources received in advance related to an imposed nonexchange transaction (e.g., prepaid property taxes)
- Revenue of a governmental fund not recognized solely because availability requirements have not been met
- Deferred amounts (credits) on current and advance refundings
- Increase in fair value of hedging derivative instrument

Inflows of Resources (Revenues)

- Loan origination fees
- Commitment fees

Outflows of Resources (Expenses)

- Debt issuance costs (except for prepaid insurance)
- Initial direct costs of operating leases by lessor
- Acquisition costs for insurance entities and public entity risk pools
- Loan origination costs

Assets

- Grants *paid in advance* of *eligibility* requirements
- Purchase of future revenues from a government outside of the financial reporting entity
- Prepayments (other than those discussed earlier)
- Pension plan's net position exceeds total pension liability

Liabilities

- Derived tax revenues received in advance
- Premium revenues (applicable to risk pools)
- Grants *received in advance of eligibility requirements*

Other Items

- “Deferred” should only be for deferred outflows and inflows of resources
- Major Fund criteria amended
 - Assets + deferred outflows of resources
 - Liabilities + deferred inflows of resources
- For deferred inflows and deferred outflows of resources – no distinction between current and noncurrent is needed
- Effective date – early implementation as of 6/30/13 is being recommended by the LGC

Elements of Net Position

- Net investment in capital assets
 - Includes deferred outflows/inflows that are attributable to capital assets
- Restricted net position
 - Includes unspent related debt proceeds or deferred inflows that are unspent
- Unrestricted net position

GASB Statement No. 67
Financial Reporting for Pension Plans

GASB Statement No. 68
Accounting and Financial Reporting for Pensions

Overview of GASB Stmt. No. 68

- Single Employer and agent multiple-employer plans
- Cost sharing plans
- Defined contribution plans
- Note disclosures and RSI
- Effective for FYE 6/30/15

What Does No. 68 *Not* Cover?

- OPEB
 - To be addressed in a future project
 - Continue to follow Nos. 43 and 45
- Pensions that are *not* qualified trusts
 - LEO Special Separation Allowance
- Termination benefits in general

Single Employer/Agent Plans

- Agent multiple-employer plans are basically single employer plans that are aggregated
- Facets to consider
 - Employer liability
 - Employer expense
 - Discount rate
 - Actuarial method
 - Amortization

Employer Liability

- GASB Statement No. 27
 - Liability reported was difference between the ARC and the actual contribution
- GASB Statement No. 68
 - Net pension liability is difference of PV of projected benefits for *past* service and restricted resources held in trust for benefit payments

Employer Expense

- GASB Statement No. 27
 - Pension expense equal to employer’s ARC, adjusted for any prior over/under funding of employer contributions
- GASB Statement No. 68
 - Pension expense will incorporate, primarily,
 - Annual service costs
 - Interest on net pension liability
 - Projected earnings on plan investments
 - Changes in benefit terms

Discount Rate

Total pension liability is the PV of projected benefits earned for past service.

- GASB Statement No. 27
 - Discounting based on estimated long-term investment yield for plan
- GASB Statement No. 68
 - Discounting based on a single blended rate of the long-term expected rate of return (for as long as net position is expected to pay current benefits) *and* a yield/index rate on tax-exempt bonds (for any period after that)

Actuarial Method

- GASB Statement No. 27
 - Employers choose from six different actuarial cost methods for both accounting/reporting and funding
- GASB Statement No. 68
 - Employers will use one single method for accounting/reporting (entry age method), regardless of funding method used

Amortization

Changes in benefit terms, demographic assumptions, differences in estimates and actual assumptions, and differences in expected and actual investments affects net pension liability.

- GASB Statement No. 27
 - Effect of such changes amortized for up to 30 yrs.
- GASB Statement No. 68
 - Much shorter amortization period (some immediate, some closed period equal to average remaining service life of members, some closed five year periods)

Cost-Sharing Plans – Employer Liability

- GASB Statement No. 27
 - Liability only reported to the extent that employers fail to make all or a portion of their ARC
- GASB Statement No. 68
 - Liability represents the employer’s proportionate share of the *net pension liability* for the entire plan (collective of all employers participating)

Cost-Sharing Plans – Pension Expense

- GASB Statement No. 27
 - Pension expense is based on the contractually-required contribution to the plan (the ARC)
- GASB Statement No. 68
 - Pension expense is the employer’s proportionate share of total pension expense for all employers participating in the plan

Defined Contribution Plans

- GASB Statement No. 68 does not change current accounting and reporting guidance for defined contribution plans
 - Pension expense = required contribution
 - Liability only for difference in required and actual contributions

Note Disclosures

- Description of plan and benefits provided
- Assumptions used to measure net pension liability
- Description of any benefit changes/changes in assumptions
- Discount rate assumptions
- Net pension liability and deferred outflows/inflows of resources

Note Disclosures (continued)

- In addition, single and agent multiple-employer plans would disclose
 - Beginning balance of net pension liability
 - Ending balance of net pension liability
 - Effect of changes/differences during the period

Required Supplementary Information

- Actuarially determined annual pension contribution
- Amount of contribution made
- Difference between determined and made
- Payroll of covered employees
- Ratio of actual employer contributions to covered payroll
- Various additional RSI for single and agent-multiple employer plans

**Government Combinations
(GASB Statement No. 69)**

- Objective to provide financial reporting requirements for government combinations
 - Typically through mergers/acquisitions
 - Can relate to governmental, business-type, or a combination of both
- Guidance focuses on how to account for such events and the related note disclosure requirements
- Effective in NC for FYE 6/30/15

A Preview of the GASB's Agenda

Main Topical Areas

- Conceptual Framework
- Economic Condition Reporting
- Fair Value Measurement and Application
- Financial Guarantees
- OPEB
- GAAP Hierarchy

Conceptual Framework – Recognition and Measurement Approaches

- Two primary objectives
 - Develop recognition criteria for *whether* information should be reported in financials and *when*
 - Consideration of the measurement approach or approaches that should be used in governmental financial statements
- Ultimately resulting in a Concepts Statement
- ED (2Q13); Final CS (2Q14)

Introduction / Background

- Measurement Focus – what items should be reported as elements of financial statements
- Basis of Accounting – when should those items be reported
- Measurement Approach – should items be valued at the original amount or remeasured at the financial statement date

Objectives

- Recognition issues
 - Economic resources measurement focus
 - Current financial resources measurement focus
 - Deferred inflows and outflows of resources
- Current financial resources measurement focus
 - Does not have cohesive conceptual foundation
 - Some items are not “current” – long-term receivables
 - Some items are not “financial” – inventories
 - Reporting complex transactions – derivatives
- Measurement approaches

Measurement Approaches

- Act of assigning dollar amounts to financial statement elements
- 2 approaches:
 - Initial transaction date based – amount assigned is when asset acquired or liability incurred with appropriate subsequent modifications (e.g., depreciation)
 - Current financial statement date based – amount measured (or re-measured) at current financial statement date
- Only relevant for assets and liabilities
- Concepts apply to both measurement focuses
- Only a single approach can be applied to each asset and liability

Initial Amounts

- Historical cost, fair value for donations + ancillary charges for assets
- Liabilities recorded at amount of resources required to satisfy the liability
- GASB proposes using initial amounts for assets used directly in providing services
 - Lower cost of obtaining information
 - Remeasured values less needed because assets will not be sold or exchanged since they are being used to provide services

Remeasured Amounts

- Establishes new carrying amounts for assets and liabilities at financial statement date
- Results in reporting of remeasurement gains and losses
- Remeasured amounts may be more relevant in assessing financial position and ability to meet obligations
- Measurement may be more difficult
- GASB believes that remeasured amounts are more appropriate for:
 - Assets that will be converted to cash (cash and investments)
 - Variable payment liabilities (e.g., compensated absences, pollution remediation obligations)

Economic Condition Reporting – Financial Projections

- Should guidance be provided for additional info related to economic condition via financial projections for external financial reporting
- Timing is still to be determined
 - Exposure draft tentatively anticipated during first half of 2013

Fair Value Measurement and Application

- Review and consideration for further development of the definition of fair value, methods to use, and potential disclosures
- Currently anticipating ED 1Q13; Final standard 1Q14

Financial Guarantees

- Objective is to establish additional guidance regarding the recognition and disclosure of financial guarantees made and received by state and local governments
- ED issued in June 2012, *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions*
- Final standard anticipate for 1Q13

Financial Guarantees (cont.)

- One government occasionally guarantees the obligations of another in case of default
- Such guarantees typically *not* associated with exchange transactions
- Proposed guidance designed to apply to both the maker and beneficiary of such a guarantee

Financial Guarantees (cont.)

- Proposed guidance applies only to situations that meet *both* of the following conditions
 - Guarantee qualifies as a *nonexchange* transaction (thus excluding guarantees of special assessment debt)
 - Guarantee involves a *third party* that is legally separate from counterparties to the obligation (e.g., a party other than the bond issuer or the bondholders)

Financial Guarantees (cont.)

- Guarantor Guidance
 - Proposes slight modification to current determination of contingencies
 - Guarantor would recognize liability as soon as payment is considered *more likely than not* (basically 51% likelihood or more)
 - Obligor entering bankruptcy
 - Breach of debt contract
 - Other indicators of financial difficulty
- Liability recognized at the estimated discounted present value of future outflows of the guarantee

Financial Guarantees (cont.)

- Beneficiary Guidance
 - Typically a beneficiary is legally required to reimburse the guarantor for payments it makes
 - Guaranteed obligation would continue to be reported as a liability *until* the beneficiary is legally released as an obligor
 - At this point, the beneficiary would recognize revenue equal to the abated amount of the liability

OPEB

- Board planning to improve accounting and financial reporting requirements to existing OPEB guidance
 - Similar to recent changes to Pension guidance
- ED anticipated 2Q14
- Final anticipated 2Q15

GAAP Hierarchy

- Objective to consider possible modifications to GAAP hierarchy, currently as per GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
 - Tentatively considering reducing to two levels – authoritative and nonauthoritative
 - Concepts statements? Implementation guides?
- ED anticipated for 1Q14; Final anticipated 1Q15

GAAP Hierarchy (cont.)

- Tentative Decisions
 - Create a second authoritative level below GASB Statements for AICPA and Technical Bulletins
 - Considering revised “due process” for Implementation Guides (including CIG), elevating them to the second level
 - “Prevalent practices” are nonauthoritative

2012-13 Comprehensive Implementation Guide

2012-13 CIG

- Updated through June 30, 2012
- Significant modifications of existing questions throughout guide resulting from required implementation through 2012
 - Ex., GASB Statement Nos. 61, 62, and 63
- New or amended questions related primarily to GASB Statement No. 54

Z.54.54

Scenario

- City Council chooses to reduce fund balance by raising less revenue than is required for appropriations
- Plan is to reduce fund balance by \$2 million for 3 years and \$1 million each for years 4 & 5

Question

- Is entire \$8 million assigned?

Z.54.54 (cont.)

Answer

- No...the amount that is assigned would be an amount *not greater* than the projected excess of expenditures over expected revenues *for that year*
- Q&A builds on question from previous years that only addressed the concept of assigning fund balance for subsequent year budget deficits

Z.54.55

Scenario

- Proceeds of a federal grant are accounted for in a capital projects fund and are restricted solely for road construction; no other resources exist in the fund
- Governing board commits a portion of the funds for a particular road project

Question

- Is that portion considered committed fund balance for classification purposes?

Z.54.55 (cont.)

Answer

- The entire portion of fund balance is still considered restricted.
- The commitment action by the governing board still does not “trump” the ultimate nature of the restriction.

Z.54.58

Scenario

- Local government has statutory authority to use ordinance *or* resolutions, each of which is considered equally binding

Question

- Is the government required to identify one or the other specifically to establish a commitment?

Z.54.58 (cont.)

Answer

- No...if the two forms of decision-making authority both meet the criteria to establish a commitment and are equally binding, then either action may establish the commitment.

Z.54.59

Scenario

- County government maintains a special revenue fund for restricted grant proceeds.
- At year end, there was \$45,000 cash and \$50,000 outstanding purchase orders.

Question

- How should the fund balance be classified?

Z.54.59 (cont.)

Answer

- Report restricted fund balance in the amount of \$45,000 (NOT \$50,000 restricted and \$5,000 negative unassigned).
- The amount reported as restricted should not exceed the actual restricted assets in a fund.

Z.54.60

Scenario

- Special revenue fund used for revenues restricted for use by state statute
- At year end, the entire fund balance is restricted
- Government anticipates budget deficit for next year

Question

- Should the amount necessary to balance the budget be reclassified to assigned?

Z.54.60 (cont.)

Answer

- No – the amount necessary to balance the budget is already classified as restricted to the purpose for which it is appropriated.
- Assignment to satisfy a budgetary imbalance is assumed to only be necessary when it is coming from unassigned fund balance
- The “superior” classification prevails....

Z.54.61

Scenario

- Government chooses to disclose in the notes, rather than of face of the financials, fund balance classification details.

Question

- Can the disclosure present aggregated amounts for total governmental funds?

Z.54.61 (cont.)

Answer

- No – the information disclosed in the notes should provide the same level of detail as would be displayed on the face of the financials.
- Level of detail would be the general fund, each major governmental fund, and nonmajor funds in the aggregate.

Z.54.62

Question

- Can the general fund report a deficit in unassigned fund balance if there are assigned fund balances in other governmental funds?

Answer

- Yes – each fund stands on its own. The focus of fund balance is on resources *within* a fund.

Common Accounting and
Financial Reporting Problems

Obsolete Terminology to Describe Fund Balance

- Reserved, unreserved, designated are no longer appropriate fund balance references or classifications
- ALL references should be modified
 - Letter of transmittal
 - MD&A
 - Note disclosures

Inadequate Analysis of Significant Changes in Financial Position

- The MD&A should include an analysis of significant changes in financial position
 - Governmental activities
 - Business-type activities
 - Individual major funds
- MD&A still lacking in any real analysis or reasons for change in the verbiage

Failure to Describe Significant Capital Asset and Long-term Debt Activity

- MD&A still lacking in its description of significant capital asset and long-term debt activity
- Not unusual for it to be completely missing
- The MD&A should be consistent with the type of information that is included in the note disclosures

Incorrect Reporting of Shared Taxes

- *Shared* taxes are technically *not* a tax from the recipient government’s perspective
 - *Levied* taxes NEVER reported as program revenue
 - *Shared* taxes are often appropriately reported as program revenue
 - *Shared* taxes that are not restricted but are general revenues should be *intergovernmental* and not part of general tax revenues

Inadequate Disclosure for Encumbrances

- GASB 54 prohibited encumbrances from being reported as a component or subcomponent of fund balance on the balance sheet
- Instead, “significant encumbrances should be disclosed in the notes...by major funds and nonmajor funds in the aggregate...”
- While balance sheets not a major problem, governments still tend to retain their pre-GASB 54 disclosures and not as part of significant commitments or at the required fund level of detail

Inadequate Disclosure for Special Revenue Funds

- “...one or more specific restricted or committed revenues should be the foundation for a special revenue fund.”
- Other resources may supplement but should not supplant
- Disclosure should be made regarding “...which revenues and other resources are reported in each of these funds.”

Ambiguity Surrounding Committed Fund Balance

- Committed fund balance requires “formal action of the government’s highest level of decision-making authority”
 - Ordinance vs. resolution?
 - Formal action also necessary for rescission
 - Disclosure regarding “the formal action that is required to be taken...”
 - “Ordinance or resolution” typically not sufficient (which is it?)

Failure to Provide Adequate Disclosure for Assigned Fund Balance

- Note disclosures should identify “...the body or official authorized to assign amounts to a specific purpose...” and describe “...the policy established by the governing body pursuant to which that authorization is given...”
- Reviewers are noting significant deficiencies in both requirements

Incomplete Information on Funded Status of Postemployment Benefits

- Governments that offered defined benefit plans (retirement or OPEB) are required to include multi-year trend information on funding progress as RSI
- Also required to disclose funding progress data in the notes
- *Both* require (1) covered payroll and (2) employer’s unfunded actuarial liability as a % of covered payroll
- This info is often absent from the RSI and/or notes.

Incorrect Amounts Reported in the Schedule of Direct/Overlapping Debt

- There should be consistency between debt capacity schedules and the basic financial statements
 - Amounts should include discounts, premiums, and other adjustments
 - Deep-discount debt should agree with accreted amounts reported in the basic financial statements

Free for all....

....any further questions??
