

GASB Update

2015 Summer NCGFOA Conference

Presented by

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GASB Statement No. 72, *Fair Value Measurement and Application*

- Finalized February 2015
- Effective for FYE 6/30/16



Fair Value Measurement and Application

- Review and consideration for further development of the definition of fair value, methods to use, and potential disclosures
- Fair Value = *price that would be received to sell an asset or paid to transfer a liability*
- Measurement Date = *point in time when the fair value of an asset or liability is determined*

Valuation Approaches and Techniques

- Three basic approaches
 - Market approach – Uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or group of assets and liabilities
 - Cost approach – Amount that would be required currently to replace the service capacity of an asset
 - Income approach – Converts expected future amounts (for example, cash flows) to a single current amount (that is, discounted)

Hierarchy of Inputs

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the government access at the measurement date
- Level 2: Inputs, other than quoted prices included in Level 1, that are observable (either directly or indirectly)
 - Market quotes for similar assets
- Level 3: Unobservable inputs
 - Unobservable inputs for an asset/liability
 - Use best information available under the circumstances, including management judgement

Fair Value Application

- Applies to most investments
- Definition of an investment
 - A security or other asset that a government holds primarily for the purpose of income or profit and its present service capacity is based solely on its ability to generate cash or to be sold to generate cash
- Investment asset
 - 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

Investment Exemptions

- Money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less, reported by governments other than external investment pools
- Investments in 2a7-like pools
- Investments in common stock that meet the criteria for applying the equity method
- Non-participating interest earning investment contracts
- Unallocated insurance contracts
- Synthetic guaranteed investment contracts that are fully benefit responsive

Application of Acquisition Value

- Capital assets acquired through a nonexchange transaction
- Donated capital assets
- Donated works of art, historical treasures, and similar assets
- Capital assets received through a service concession arrangement

Note Disclosures

- Supplements current disclosure requirements
- Disclosures should be organized by type or class of asset or liability
 - Table or narrative format
- Specific disclosures
 - Fair value measurement at the end of the reporting period
 - Level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)
 - Description of the valuation technique(s) and the inputs used in the fair value measurement
- Additional disclosures for Level 3 measures and investments where the value is based on net asset value per share

GASB 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*



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Pensions Assets Not Held In A Qualifying Trust

- Addresses pension arrangements that are *not* administered through a trust
- No significant difference with pension guidance *other than* restrictions on assets
 - Most common situation in NC is LEOSSA
 - If LEOSSA *is* administered in a trust (rare), guidance of GASB 67 and 68 should be followed (FYE 6/30/16)
- Effective for FYE 6/30/17 *except* reporting of assets accumulated which would be FYE 6/30/16

Key Provisions

- Calculate total pension liability – similar to pensions with trust arrangements
- Actuarial valuation
 - Performed at least biennially
 - May roll forward numbers to measurement date
 - Measurement date no earlier than the end of the employer's prior fiscal year
 - Assumptions conform to actuarial standards of practice
- Projected benefit payments:
 - Calculated similarly to GASB 67 and 68
 - Same requirements for COLAs being included in calculations

Accounting and Financial Reporting Requirements

- Current Financial Resources, Modified Accrual MFBA
 - Recognize liability only to the extent it will be liquidated with expendable available resources
 - Pension expenditures for payments made and change in total pension liability that is due and payable
- Notes and RSI similar to GASB 67 and 68
 - Additional disclosure that assets are not available in a trust
 - Notes to RSI should indicate that there are no assets available in a trust

Accounting and Financial Reporting Requirements (cont.)

- Reporting of assets – defined benefit pension plans
 - For single-employer plans – report assets as assets of employer or nonemployer contributing entity – not the plan
 - For multi-employer plans:
 - Sponsoring government reports assets in an agency fund
 - Assets in excess of liabilities due – report as liabilities to employers
 - For sponsoring government’s employees – do not show assets and liabilities in an agency fund

OPEB



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OPEB Guidance

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
 - Guidance for OPEB plans themselves (similar to GASB Statement No. 67)
 - Effective in NC for FYE 6/30/17

OPEB Guidance (cont.)

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
 - Guidance for accounting/financial reporting for employers that offer such plans (similar to GASB Statement No. 68)
 - Effective in NC for FYE 6/30/18

GASB Statement No. 76,
*The Hierarchy of Generally Accepted Accounting
Principles for State and Local Governments*



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Final Guidance

- GAAP hierarchy reduced to two authoritative and one nonauthoritative level
- First level will be GASB Statements
 - Guidance must be formally approved by the Board and publicly exposed for comment without limitations
- Second level will be primarily Technical Bulletins, approved AICPA guidance, and newly revised CIG
 - Guidance must be cleared by the Board and publicly exposed for comment without limitations

Final Guidance (cont.)

- Nonauthoritative level includes
 - GASB Concepts Statements
 - Widely recognized and prevalent practices
 - FASB Accounting Standards Codification
 - Other accounting literature
- Effective for FYE 6/30/16