

GASB Agenda Update

2014 NCGFOA Summer Conference

Presented by

Gregory S. Allison

UNC School of Government

Quick Overview

- GAAP Hierarchy
- Conceptual Framework
- Fair Value Measurement
- Fiduciary Responsibilities
- Lease Accounting
- OPEB

GASB Statement No. 55

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

GASB Statement No. 55 (cont.)

- Basically copied existing GAAP hierarchy standards from the AICPA's Auditing Standards to the GASB standards as to allow for ease of access
- New statement did not establish new hierarchy or change existing hierarchy
- Effective upon issuance

The GAAP Hierarchy

- GASB Statements and Interpretations
- GASB Technical Bulletins and AICPA audit guides and SOPs *if cleared by GASB*
- AICPA Practice Bulletins *if cleared by GASB*
- Implementation Guides published by GASB staff, as well as other generally accepted practices (e.g., *The Blue Book*)

Proposed Changes to the GAAP Hierarchy

GAAP Hierarchy

- Project to modify the GAAP hierarchy, currently as per GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- Exposure Draft and Proposed Revised CIG planned for December 2013
- Comment Period – 2014
- Final standard anticipated June 2015

What direction is this going?

- GAAP hierarchy will be reduced to two authoritative and one nonauthoritative levels
- 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

Direction (cont.)

- Nonauthoritative level includes
 - GASB Concepts Statements
 - Widely recognized and prevalent practices
 - FASB Accounting Standards Codification
 - Other accounting literature

What are the practical effects?

- The Implementation Guides will now be subject to an exposure period
- GASB Interpretations will no longer be considered authoritative. The GASB plans to incorporate them via referencing.

Practical Effects (cont.)

- *If guidance for a transaction or event is not specified within a source of authoritative GAAP, a governmental entity should first consider accounting principles for similar transactions and then may consider other accounting literature.*

Practical Effects (cont.)

- *If the guidance for a transaction or event is not specified within a source of authoritative GAAP or cannot be analogized to similar transactions within a source of GAAP, governments should not select an accounting policy from a nonauthoritative source that conflicts with or contradicts authoritative GAAP.*

Conceptual Framework

- 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

Current Status

- Recognition element
 - On hold pending pre-agenda research on re-examination of the financial reporting model
- Measurement element
 - GASB Concepts Statement No. 6, *Measurement of Elements of Financial Statements* (issued March 2014)

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

Measurement Attributes

- Historical cost
 - Price paid to acquire an asset or amount received pursuant to the incurrence of a liability
- Fair value
 - Price paid/received between market participants at the measurement date
- Replacement cost
 - Price that *would be* paid to acquire an asset at the measurement date
- Settlement amount
 - Amount at which an asset could be realized or a liability could be liquidated in other than an active market

Fair Value Measurement and Application

Proposed Definition of Fair Value

- 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
 - Based on the principal or the government's most advantageous market

Valuation Approaches and Techniques

- Valuation technique used to measure fair value should be appropriate to the circumstances and should maximize the use of relevant observable inputs (assumptions that market participants would use in pricing an asset or liability)
- 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
 - Yield curves that are observable at commonly quoted intervals
- Level 3: Unobservable inputs
 - Midmarket consensus price for a swap that uses data that are not directly observable and cannot be corroborated by the observable market data.

Proposed 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

Timeline

- Exposure Draft released in May 2014
- Comment deadline—August 15, 2014

Fiduciary Responsibilities

Project Description

Development of guidance regarding application of fiduciary responsibility criteria to determine when/how fiduciary activities should be reported

Primary Objectives

- Clarification of difference between a private-purpose trust fund and an agency fund
- Clarification of whether a business-type activity engaging in fiduciary activities should present fiduciary fund financial statements
- Consider requirement of a combining statement of changes in assets and liabilities for agency funds

Proposed Fiduciary Definition

- A government that controls assets either:
 - as a trustee for the sole benefit of its own employees or recipients other than the financial reporting entity, or
 - for which it does not have administrative or direct financial involvement over the assets used to provide benefits to individuals that are not part of its citizenry, or organizations or other governments that are not part of the financial reporting entity.

Fiduciary Fund Reporting

- Fiduciary activities continue to be reported as basic financial statements in GPEFRs
 - Pension (and other employee benefit) trust funds, investment trust funds, and private-purpose trust funds of governments meeting the proposed definition of a fiduciary continue to be reported in GPEFRs
- The classification of fiduciary activities be determined by the presence or the lack of presence of a trust agreement or equivalent arrangement

Custodial Funds

- An expanded fund type be established that includes any fiduciary arrangement that is not governed by a formal trust agreement or equivalent arrangement—**CUSTODIAL FUNDS**
 - Funds previously classified as agency funds
 - Trust funds for which there is no trust agreement or equivalent arrangement
- Custodial funds of governments meeting the proposed tentative definition of a fiduciary be reported in GPEFRs
- A commitment be recognized and reported as a liability only when the event giving rise to the liability has occurred
 - Otherwise..... The commitment should be recognized and reported as net position restricted for beneficiaries for **ALL FIDUCIARY FUNDS**

Timeline

- Issues to be deliberated
 - Events that give rise to a liability
 - Issues related to stand-alone business-type activities engaging in fiduciary activities
 - Note disclosures
- Due Process
 - Preliminary Views in December 2014

Lease Accounting

- Reexamination of various NCGA and GASB guidance that relates to lease accounting
- Do operating leases meet the definition of assets or liabilities?
- PV expected in November 2014, final statement November 2016(?)

OPEB

- Board planning to improve accounting and financial reporting requirements to existing OPEB guidance
 - Similar to recent changes to Pension guidance
- Exposure draft issued June 2014
- Final statement anticipated June 2015
- Implementation FYE 2017 Plans (?) and FYE 2018 Employers (?)