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# What's New in Norwalk?

A look at what the GASB has been up too!

Florida School Finance Officers Association  
November 10, 2015

# Agenda

- **Deferred Outflows of Resources and Deferred Inflow of Resources**
- **New GASB Standards**
  - Statement 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*
  - Statement 69, *Government Combinations and Disposals of Government Operations*
  - Statement 72, *Fair Value Measurement Application*
  - Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*
  - Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
  - Statement 77, *Tax Abatement Disclosures*
- **Current GASB Technical Projects**

# Effective Dates – Issued GASB Statements

June 30,  
2015

- No. 68, Accounting and Financial Reporting for Pensions
- No. 69, Government Combinations and Disposals of Government Operations\*\*
- No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date

June 30,  
2016

- No. 72, Fair Value Measurement and Application
- No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

*\*\* Effective as of the previous December 31*

# Effective Dates – Issued GASB Statements

June 30,  
2017

- No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB 67 and 68
- No. 74, Financial Reporting for Postemployment Benefits Other Than Pension Plans
- No. 77, Tax Abatement Disclosures\*\*

June 30,  
2018

- No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

*\*\* Effective as of the previous December 31*

# History of Deferred Outflows of Resources and Deferred Inflows of Resources

# CONS 4 Definitions of Elements

- **Assets**

- Resources with present service capacity that the government controls.

- **Liabilities**

- Present obligations to sacrifice resources with little or no discretion to avoid.

- **Deferred outflows of resources**

- A consumption of net assets by the government that is applicable to a future reporting period.
- Has a natural debit balance and, therefore, increases net position similar to assets.

- **Deferred inflows of resources**

- An acquisition of net assets by the government that is applicable to a future reporting period.
- Has a natural credit balance and, therefore, decreases net position similar to liabilities.

- **Net position**

- The residual of all elements presented in a financial position statement.

# Deferred Outflows and Deferred Inflows (Pre-GASB 65)

- **CONS 4 specifically states that deferred outflows of resources and deferred inflows of resources should only be used as specifically required in authoritative GASB pronouncements.**
- **Deferred outflows of resources and deferred inflows of resources prior to GASB 65 were only required in:**
  - GASB 53 on derivative instruments.
  - GASB 60 on service concession arrangements.
  - Proposed in Exposure Draft, Accounting and Financial Reporting for Pensions.
  - Proposed in Exposure Draft, Government Combinations and Disposals of Government Operations.
- **GASB 65 will requires reporting several additional deferred outflows of resources and deferred inflows of resources.**

# Presentation of Deferred Outflows and Deferred Inflows

- **GASB Statement No. 63**

- Main purpose of Statement 63 is to address presentation issues associated with the financial position elements created in CONS 4:
  - Assets
  - Liabilities
  - Deferred outflows of resources
  - Deferred inflows of resources
  - Net position

# Basic Reporting Requirements

- **Report each of the financial position elements in a separate section in the statements of financial position in the following order:**
  - Assets,
  - Deferred Outflows of Resources,
  - Liabilities,
  - Deferred Inflows of Resources, and
  - Net position.
  
- **Allowed to report subtotals for:**
  - Combination of assets and deferred outflows of resources, and
  - Combination of liabilities and deferred inflows

# Financial Statement Reporting Format

- **Economic Resources Measurement Focus**

- Preferred reporting format is:  $\text{assets} + \text{deferred outflows} - \text{liabilities} - \text{deferred inflows} = \text{net position}$ .
- Traditional balance sheet format is permitted:
  - $\text{Assets} + \text{deferred outflows} = \text{liabilities} + \text{deferred inflows} + \text{net position}$ .

- **Governmental Fund Financial Statements**

- Required reporting format is:  $\text{assets} + \text{deferred outflows} = \text{liabilities} + \text{deferred inflows} + \text{fund balance}$ .

# Statement 65, Items Previously Reported as Assets and Liabilities

- Issued in March 2012
- Objective of this Statement is to determine whether certain balances currently reported as assets and liabilities should continue to be reported as such or instead should be reported as:
  - A deferred outflow of resources, or
  - An outflow of resources (expense/expenditure);

*Or*

  - A deferred inflow of resources, or
  - An inflows of resources (revenue).
- Effective for periods ending June 30, 2014.

# Approach to Development of Statement 65

- The Board considered two approaches in developing the Exposure Draft.
  - The first approach:
    - Establish a hierarchy for applying the definitions of the elements in Concepts Statement 4.
      - First review the items to see if they continue to meet the definition of an asset or a liability as defined in CONS 4.
      - If not, the items were then reviewed to see if they met the definition of a deferred outflow of resources or a deferred inflow of resources.
      - Finally, if the items did not meet the definition of an asset or a liability, or a deferred outflow of resources or a deferred inflow of resources, then the item was recognized as an outflow of resources or an inflow of resources, as applicable.
  - The second approach:
    - Choose the items that may require reclassification and then determine which definition of the six elements of CONS 4 most appropriately fit each specific balance.

The Board elected to the adopt the first approach.

# Approach to Development of Statement 65 (Continued)

- Scope
  - The Board identified, in the existing authoritative literature, requirements to report assets or liabilities that may appear to meet the definitions in CONS 4 of a deferred outflow of resources or a deferred inflow of resources, respectively.
- Searched the GASB Codification for terms such as:
  - Deferred,
  - Deferral,
  - Defer,
  - Amortize, or
  - Allocate.
- Any indication a balance should be recognized over more than one period.

**GASB Statement No. 68,  
Accounting and Financial  
Reporting for Pensions – an  
amendment of GASB  
Statement No. 27**

# Overview of Statement No. 68

## Statement No. 68

- Issued in June 2012
- Effective for fiscal periods beginning after June 15, 2014

## Objectives

- Primary objective is to improve accounting and financial reporting for pensions
- Result of a review of the effectiveness of existing standards for pensions
- Replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*

# Statement No. 68

## Scope

Applies to pensions that are provided to employees of state and local governments through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities, and earnings on those contributions, are irrevocable
- Plan assets are dedicated to providing pension benefits to plan members in accordance with benefit terms
- Plan assets are legally protected from creditors of employers and nonemployer contributing entities and the plan administrator

Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, provides accounting and financial reporting guidance for pension plans

# Key Concepts of Statement No. 68

- Establishes procedures for measuring and recognizing obligations associated with pensions as liabilities and the cost of pensions as expenses, deferred outflows of resources, or a deferred inflow of resources.
  - A net pension liability should be recorded
    - Measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service (**total pension liability**), net of the pension plan's fiduciary net position (**net plan assets**)

# Key Concepts of Statement No. 68

- Identifies the methods and assumptions to be used in determining the net pension liability
  - Timing and frequency of actuarial valuations
    - Total pension liability should be determined by:
      - An actuarial valuation as of a measurement date,
      - Or, the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end.
  - Selection of assumptions
    - The selection of all assumptions used in determining the total pension liability and related measures should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

# Key Concepts of Statement No. 68

- Identifies the methods and assumptions to be used in determining the net pension liability (continued)

## – Discount Rate

- Should be a single rate that reflects the following:
  - a) Long-term expected rate of return on the pension plan investments that are expected to be used to finance the payment of benefits to the extent:
    - Pension plan investments are projected to be sufficient to make projected benefit payments
    - Pension plan assets are expected to be invested using a strategy to achieve that return
  - b) Or, a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher to the extent that the conditions in (a) are not met.

## – Projected benefit payments

- Entry age actuarial cost method is the method used to attribute the actuarial present value of projected benefit payments to periods of service

# Key Concepts of Statement No. 68

- Enhances note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions and defined contribution benefits through a qualified trust.
- Disclosure are dependent on the type of plan (Single Employer, Agent, or Cost Sharing)

**GASB Statement No. 69,  
Government Combinations  
and Disposals of  
Government Operations**

# Overview

## Statement No. 69

## Objective

- Issued in January 2013
- Effective for periods beginning after December 15, 2013
- Primary objective is to provide accounting and financial reporting guidance for government combinations and disposals of government operations.

# Types of Government Combinations

- GASB 69 identifies three types of government combinations:

## Government merger

- Combination of legally separate entities with no significant exchange of consideration, and *either*
- Two or more governments cease to exist as legally separate entities and are combined to form one, or
- A legally separate government or nongovernmental entity ceases to exist and the operations are absorbed into a continuing government

## Government acquisition

- Combination in which a government acquires another entity or operations of another entity in exchange for significant consideration

## Transfer of operations

- Involves combination of operations rather than legally separate entities in which no significant consideration is exchanged
- Can be a transfer of operations to a continuing government or a newly formed government

# Recognition and Measurement for Government Combinations

- GASB 69 provides the following accounting for the three types of government combinations:

## Government merger

- Assets and liabilities are recognized at their **carrying value** as of the merger date
- Adjustments for:
  - Accounting principles
  - Impairment of capital assets
  - Eliminations

## Government acquisition

- Assets and liabilities are recognized at **acquisition cost** as of the acquisition date with the following exceptions:
  - Employee benefit arrangements
  - Landfill and pollution remediation liabilities
  - Investments and derivatives reported at fair value
  - Deferred outflows and deferred inflows

## Transfer of operations

- Assets and liabilities are recognized at their **carrying value** as of the merger date
- Reporting is similar to government mergers

# Disclosures

## All Combinations

- Brief description of the combination and entities involved
- Date of the combination
- Primary reasons for the combination

## Mergers and Transfers of Operations

- Amounts recognized as follows:
  - Total assets – current assets, capital assets and other assets
  - Total liabilities- current and long-term amounts
  - Total deferred outflows and total deferred inflows
  - Total net position
- Brief description of significant adjustments
- Initial amounts recognized if adjustments were made

## Government Acquisitions

- Brief description of consideration provided
- Total amount of net position acquired
- Brief description of contingent consideration arrangements

## Disposals of Operations

- Identification of the operations and circumstances leading to the disposal of those operations
- Disclose the following information:
  - Total expenses
  - Total revenues
  - Total governmental fund revenues and expenditures

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

## Statement No. 72

## Objective

- Issued in February 2015
- Effective for periods beginning after June 15, 2015
- To address accounting and financial reporting issues related to fair value measurements
- Provides guidance for determining a fair value measurement for financial reporting purposes
- Also provides guidance for applying fair value to certain investments and disclosures related to fair value measurements

# Fair Value Measurement

- Defines ***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
  - Described as a ***exit price***
- Assumes a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market
  - Assumes the general market participants would act in their economic best interest
  - Should not be adjusted for transaction costs

# Fair Value Measurement

- To determine a fair value measurement, a government should consider the unit of account of the asset or liability
  - Unit of account refers to the level at which an asset or liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes
    - Example
      - Investment held in brokerage account – each individual security
      - Investment in mutual fund – each share of the mutual fund held

# Fair Value Measurement

- Statement requires the use of a valuation technique that is appropriate under the circumstances and for which sufficient data are available to measure fair value:

## Market Approach

- Uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of asset and liabilities.

## Cost Approach

- Reflects the amount that would be required to replace the present service capacity of an asset

## Income Approach

- Converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount

- Should be applied consistently, though a change may be appropriate in certain circumstances
- Should maximize the use of observable inputs and minimize the use of unobservable inputs

# Fair Value Measurement

- Establishes a hierarchy of inputs to valuation techniques

## Level 1 Inputs

- Inputs with quoted prices (unadjusted) in active markets for identical assets or liabilities

## Level 2 Inputs

- Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly

## Level 3 Inputs

- Unobservable inputs

# Fair Value Application

- Requires investments to be measured at fair value
  - Provides a definition of an **Investment**
    - A security or other asset that
      - Is held for the purpose of income or profit; and
      - Has a present service capacity based solely on its ability to generate cash or to be sold to generate cash
- Examples of investments not measured at fair value:
  - Money market investments, 2a7-like external investment pools, investments in life insurance contracts, and synthetic GICs
- In certain circumstances net asset value per share (NAV), or its equivalent, can be used if an investment does not have a readily determinable fair value.
- Donated capital assets, donated works of art, historical treasures, and similar assets should be reported at acquisition value

# Fair Value Disclosures

- Required to disclose the level of fair value hierarchy and valuation techniques
- Disclosures should be organized by type of asset or liability reported at fair value
- Additional disclosure required for investments that are valued using NAV

**GASB Statement No. 75,  
*Accounting and Financial  
Reporting for  
Postemployment Benefits  
Other than Pensions***

# Overview

## Statement No. 75

## Objective

- Issued in June 2015
- Effective for periods beginning after June 15, 2018
- Primary objective is to improve accounting and financial reporting by employers for OPEB
- Result of a review of the effectiveness of existing standards for OPEB
- Replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

# Trusted vs. Non-trusted Plans

- Plan Standard (GASB No. 74)
  - Applies to plans administered as trust or equivalent arrangements
  - Plans not administered through trust or equivalent arrangements
    - Any assets accumulated should be reported as assets of the employer
    - If held in a custodial capacity, reported as an agency fund of the employer
- Employer Standard
  - Recognize a Net OPEB Liability for benefits provided through a trust
  - Recognize a Total OPEB Liability for benefits not provided through a trust
    - Assets accumulated outside a trust do not offset the total pension liability

# Measurement of Total OPEB Liability

- Determined through an actuarial valuation performed at least every two years
- Actuarial valuation rolled-forward to the measurement date if not performed as of the measurement date
- Projections of benefit payments based on claim costs and benefit terms existing at the measurement date
  - Consideration given to established pattern of practice within an entity if no written plan document
  - Includes projected salary changes and automatic postemployment benefit changes
  - Includes taxes and other assessments expected to be imposed on benefit payments
  - Not reduced by amounts expected to be received for making benefit payments (other than amounts received for providing Medicare benefits)

# Measurement of Total OPEB Liability (Continued)

- Discount rate used in measurement of the OPEB liability should be the single rate reflecting
  - (1) The long-term rate of return on plan investments to the extent that:
    - a) The plan's fiduciary net position is projected to be sufficient to make projected **benefit payments and**
    - b) Plan assets are expected to be invested using a strategy to achieve that return
  - (1) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, to the extent the conditions in (1) are not met.
- Entry age actuarial cost method is the method used to attribute the actuarial present value of projected benefit payments to periods of service

This methodology is similar to the corresponding provisions for pensions in GASB 68.

# OPEB Employer Accounting

- Employer would recognize liability equal to the net OPEB liability (total OPEB liability less OPEB fiduciary net position) calculated as of the measurement date
- Most changes in the net OPEB liability will be expensed
- Certain other changes would be recognized over time
  - Changes in economic and demographic assumptions
  - Difference between expected and actual experience
  - Difference between projected and actual earnings
- Employer contributions subsequent to the measurement date reported as deferred outflows of resources
- Employers participating in cost-sharing plans would recognize a liability for their proportionate share of the net OPEB liability
  - Determined on a basis that is consistent with the manner in which contributions to the plan are determined

Similar to the corresponding provisions for pensions in GASB 68.

# OPEB Disclosures for Employer

- Type of benefits provided
- Number and classes of employees covered
- Source of changes in the net OPEB liability
- Sensitivity in total OPEB liability based on a discount rate 1% higher and lower and a healthcare cost trend rate 1% higher and lower
- Significant assumptions used to calculate the total OPEB Liability
  - Inflation
  - Healthcare cost trend rate
  - Salary changes
  - Ad hoc postemployment benefit changes
  - Inputs to the discount rate
  - Mortality assumptions

Disclosures are similar to the corresponding provisions for pensions in GASB 68.

# OPEB Disclosures for Employer (Continued)

- Date of actuarial valuation, including information about changes in assumptions and benefit terms, and basis for determining employer contributions to OPEB plan
- Information about deferred outflows and inflows of resources including:
  - Differences between expected and actual experience
  - Changes in assumptions
  - Net difference between projected and actual earnings on OPEB plan investments
  - Changes in proportion, if applicable
  - Employer contributions subsequent to the measurement date
  - Recognition of deferrals over the next five years and thereafter

Disclosures are similar to the corresponding provisions for pensions in GASB 68.

# OPEB RSI

- Changes in the net OPEB liability
- Components of the net OPEB liability and related ratios
  - OPEB plan's fiduciary net position as a percentage of the total OPEB liability
  - Net OPEB liability as a percentage of covered-employee payroll
- Schedule of employer contributions
- Schedule of Investment Returns (Plan RSI Only)
- 10 most recent fiscal years presented

RSI is similar to the corresponding provisions for pensions in GASB 68.

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

# Overview

## Statement No. 76

## Objective

- Issued in June 2015
- Effective for periods beginning after June 15, 2015
- To identify the sources of accounting principles use to prepare financial statements of state and local governmental entities in conformity with GAAP
- Supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

# GAAP Hierarchy

- Sets for what constitutes GAAP for all state and local governmental entities.
- Establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance.
- Sources of authoritative GAAP in order of authority:
  - Category A
    - Officially established accounting principles – GASB Statements\*\*
  - Category B
    - GASB Technical Bulletins
    - GASB Implementation Guides
    - Literature of the AICPA cleared by the GASB

\*\*Authoritative GAAP can be incorporated into the Codification and retains its authoritative status.

# GAAP Hierarchy (Continued)

- Application of GAAP Hierarchy

- If accounting treatment is not specified by in Category A, consider whether the accounting treatment is specified by a source in Category B
- If accounting treatment is not specified in either Category A or B:
  - Consider accounting principles for similar transactions with a source of authoritative GAAP, and then
  - Consider nonauthoritative accounting literature from other sources that do not conflict with or contradict authoritative GAAP. Examples of nonauthoritative:
    - GASB Concepts Statements
    - Pronouncements and literature of FASB, FASAB, IPSASB, IASB and AICPA
    - Practices that are widely recognized and prevalent in SLG
    - Other

**GASB Statement No. 77,  
*Tax Abatement  
Disclosures***

# Overview

## Statement No. 77

## Objective

- Issued in June 2015
- Effective for periods beginning after December 15, 2015
- To provide users with information about the nature and magnitude of the reduction in tax revenues through tax abatement programs.

# Definition of a Tax Abatement

- A tax abatement results from an agreement between a government and a taxpayer in which the government promises to forgo tax revenues and the taxpayer promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

# Required Disclosures

- Description of the tax abatement
  - Tax being abated
  - Authority under which tax abatements are provided
  - Eligibility criteria
  - Mechanism by which taxes are abated
  - Provisions for recapturing abated taxes
  - Types of commitments made by tax abatement recipients
- Number of tax abatement agreements entered into during the reporting period and total number in effect as of the end of the reporting period
- Dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

# Required Disclosures (Continued)

- Distinguish between a government's own tax abatements and those entered into by other governments that reduce the reporting government's tax revenues
- Disclose by individual tax abatement agreements or aggregate the information by major tax abatement program
- Tax abatements of other governments that affect the reporting government can be combined

# Current GASB Technical Projects

# GASB Current Agenda

**Fiduciary Responsibilities**

**Other Post Employment Benefits**

**Accounting for Leases**

**Asset Retirement Obligations**

**Irrevocable Charitable Trusts**

**\*\* Project on hold**

# Research Agenda Projects

External Investment Pools

Blending Requirements for Certain BTA's

Financial Reporting Model

Debt Refundings

Going Concern Disclosures

**Questions?**