

GASB UPDATE – Financial Reporting for Public Higher Education



October 10, 2016

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Agenda

- GASB and GASAC
- GASB Terms and Communication
- GASB Activities
 - Newest Standards
 - Exposure Draft and PV Documents



- GASB History
 - Established in 1984 to provide greater accountability and well informed decision making through excellence in public sector financial reporting
 - Public higher education has been under GASB standards since 1989
- Sets accounting and reporting standards for government and governmental entities (GAAP for governments)
 - 82 statements and 6 concept statements
 - Board Chair - David A. Vaudt, former Iowa State Auditor

GASAC

Governmental Accounting Standards Advisory Council

- Representatives from 32 constituent groups are appointed by the Financial Accounting Foundation Trustees
- Advise the GASB on issues related to projects, agenda items and priorities
- Meetings provide the Board with an opportunity to obtain and discuss the views of a very diverse group of individuals from varied professional and occupational backgrounds.

GASAC Agenda

- Reports from the Financial Accounting Foundation, GASB Chairman and Director of Research and Technical Activities
- Topics of meeting agenda on August 8 & 9th
Financial Reporting Model Reexamination, Pension Benefit Issues, Debt Extinguishment Using Existing Resources, Debt Disclosures, including Direct Borrowing and Revenue Recognition for Exchange and Exchange-Like Transactions

GASB – Terms and Communication Issues

GASB – Five Takeaways

1. GASB resources
2. Present service capacity
3. Concepts
 - Deferred inflows and deferred outflows
 - Recognition - Preliminary Views
4. Fiduciary activities
5. Reexamination of reporting model

1. GASB Resources

- GASB Website
- Available online for **FREE**
 - Standards
 - Implementation Guide
 - GARS
- Public Board Meetings are online

2. Present Service Capacity

- Foundation is based on Accountability
- Governmental reporting focus is different
 - Provide services in an effective and efficient manner compared to private enterprises return on investments (**present service capacity**) - “ability and willingness to meet its commitments to provide services”

GASB Concepts Statement 4

3. GASB Concepts

Governmental Accounting standards are based on Concept Statements -

- **Statement No. 4 - Elements of Financial Statements**
(June 2007)
- **Preliminary Views - ~~Recognition and~~ Measurement Approaches**

The Recognition Concept Statement is still in research and deliberation by the GASB.

Deferred Inflows and Outflows

- Definition –
 - *A deferred outflow of resources*—a consumption of net assets by the government that is applicable to a **future reporting period** vs *Assets*—resources with **present service capacity** that the government presently controls
 - *A deferred inflow of resources*—an acquisition of net assets by the government that is applicable to a **future reporting period** vs *Liabilities*—**present obligations** to sacrifice resources that the government has little or no discretion to avoid
- They are not assets or liabilities
- Distinction of unearned revenues and deferred inflow – unearned revenues are “earned” as performance obligations are met. Deferred inflows are “earned” based solely on the passage of time.

Deferred Inflows and Outflows

- Deferred inflows and outflow are resource flows that will be recognized as a revenue or expense in future periods
- Examples –
 - Derivative instruments, service concession arrangements, refundings resulting from a defeasance of debt, resources received with time requirements, split interest agreements and pension plan activities
 - \$ 40 million and 38 million
- Ratios – Do not include as if they are asset and liabilities. This may require adjustments to historical information.

4. Fiduciary Activities

- Defines when a government has a fiduciary responsibility
- Clarifies financial reporting requirements for fiduciary responsibilities
 - Includes a requirement for business-type activities that serve in a fiduciary capacity. It should present fiduciary fund financial statements with its basic financial statements
- Exception for business-type activities resources are expected to be held for three months or less.

5. Reexamination of Reporting Model

- Current state
 - Two standards setting bodies provides guidance
 - Private (FASB) and Public (GASB)
 - Business Type Activities in a governmental environment
- New financial reporting model project
 - Discussion in recognition in governmental-wide and governmental funds
 - Preliminary views documents coming
- Recognition is being discussed

GASB Reporting

STATEMENTS AND CONCEPTS

Pension Standards

GASB Statement No. 67 - Financial Reporting for Pension Plans

GASB Statement No. 68 - Accounting and Financial Reporting for Pensions

- **GASB 67 - Effective FY 2014**
- **GASB 68 - Effective FY 2015**

Pension Standards

- Objective is to improve information for users of the financial statements of employers providing pensions
 - Future projected outflows of resources
 - Full recognition of pension expense and obligation
 - Offers better understanding of resources available to liquidate pension obligations

“Results in appearance of weaker financial position”

Implementation Issues?

- Did plans provide beginning NPL in employer pension schedules?
- Was a separate proportion calculation required for the beginning of the measurement period?
- ‘Covered payroll’ defined by GASB different from ‘pensionable wages’ as captured by Plans
- Classification of contributions between employer and employee
- Employee ‘pick-up’ contributions paid by employer
- Additional Disclosures and schedules - how many more pages?
- Audit coordination?
- Additional audit costs?
- Ratios?
- Discussion with rating agencies?

Pension Accounting and Financial Reporting Changes – Year 2

- Surprises?
- Changes?
- Layers of Deferred Inflows and Outflows
- Impact of change in allocation?
- Further education and explanation?

GASB Concepts Statement 6 - Measurement of Elements of Financial Statements

- Issued March, 2014
- Establishes two primary measurements approaches
 - Initial amounts
 - Remeasured amounts
- Measurement Attributes
 - Historical costs, **Fair Value**, Replacement Cost, Settlement Value

GASB Concepts Statement 6 - Measurement of Elements of Financial Statements

- Measurement Approaches

- Initial Amounts – Initial Transaction Date Based Measurement
 - Price or amount assigned at acquisition or when incurred
- Remeasured Amounts – Current Financial Statement Date Measurement
 - Amount assigned measured at financial statement date
 - **Fair value** - Current acquisition, sales, settlement price, replacement costs and value-in-use
 - Examples – assets that will be converted to cash or for variable payment liabilities such as compensated absences or pollution remediation liabilities

GASB Statement No 72 - Fair Value Measurement and Application

- Issued February, 2015, Effective FY 2016
 - Remember Concepts Statement 6?
- Impacts Endowments and Pension Plan investments
- 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 a measurement date at exit price based on the principal market or the most advantageous market available.

GASB Statement No 72 - Fair Value Measurement and Application

- Valuation Techniques and Approaches
 - Valuation techniques used to measure should be appropriate to circumstances and should maximize the use of relevant observable inputs
 - Three basic approaches
 - Market – market transactions
 - Cost – current replacement
 - Income – future amounts that are discounted
- Fair value hierarchy
 - Level 1 - Quoted prices in active markets for identical assets or liabilities
 - Level 2 Significant other observable inputs
 - Level 3 Significant unobservable inputs

GASB Statement No 72 - Fair Value Measurement and Application

- Guidance limited to most investments
 - Definition of 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, to be sold to generate cash
 - Investment Asset
 - Service capacity refers to mission to provide services
 - Held primarily for future income or profit
- Additional Note Disclosures
 - Organize by type or class of asset or liability
 - Specific disclosures
 - Fair value measurement
 - Level of fair value hierarchy
 - Description of the valuation techniques used

GASB Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other than Pensions

GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions

- **GASB 74 - Effective FY 2017**
- **GASB 75 - Effective FY 2018**

Postemployment Benefits

- Definition-
 - Benefits (such as post-employment health care benefits, death benefits, life insurance, disability and long-term care) paid in the period after employment and provided separately from a pension plan.
 - Excludes termination benefits or termination payment for sick leave.
- Scope-
 - Contributions made to plan are irrevocable
 - Assets in plan are dedicated to plan members for benefits
 - Assets are legally protected from employer and plan member creditors
- Plans can be administered
 - Through trusts or equivalent arrangements
 - Insured plans

Postemployment Benefit Liability

- Similar to the pension accounting and financial reporting standards for cost sharing plans
- Net OPEB Liability (NOPEBL)
 - Use the same valuation methods used by OPEB plan for preparing the statement of fiduciary position
 - Measured at the date no earlier than the end of the prior fiscal year and no later than the current fiscal year
- Actuarial Valuation
 - At measurement date
 - Or use of update procedures to roll forward to measurement date no more than 30 months and one day earlier than the employer's most recent fiscal year end, subject to professional judgement.
 - For accounting and reporting purposes , an actuarial valuation of the total OPEB liability should be performed biannually.
 - Key assumptions will include inflation, salary increases, investment rate of return, mortality rates, discount rate and health care cost trend rate.

Postemployment Benefit Accounting

- Follows pension accounting and financial reporting standards for cost sharing plans
- Employer's net obligation meets the definition of a liability
 - Projection of benefits include
 - Benefits provided, historic pattern of sharing costs between employers and benefit recipients
 - Benefit changes that the employer has approved and communicated to the employees
- Beware – Most likely not funded since typically annual decisions are made for benefits offered.

Postemployment Benefit Reporting

- Standards for recognition and measurement
 - OPEB Liability
 - Deferred inflows and outflows
 - Net position
 - Expense

Footnote Disclosures

- Information on the plan and participants
- Contribution requirements
- Significant assumptions
- Information on the discount rate and long-term expected rate of return including sensitivity analysis
- Information on plan net assets
- Other information – including proportion and the basis for its determination
- Details of deferred inflows/outflows and when they will be recognized

Required Supplementary Information

- Cost Sharing Plans (10 years of information)
- Schedule of changes in net OPEB liability
- Schedule of total OPEB liability, OPEB plan's fiduciary net position, net OPEB liability, ratios
- Other
 - Employer's proportion (percentage) of net OPEB liability
 - Employer's proportion (amount) of collective net OPEB liability
 - Employer's covered-employee payroll
 - Miscellaneous other information, if a special funding situation exists
 - Schedule of statutorily or contractually required employer's contribution
- Notes
 - Significant methods and assumptions
 - Factors that significantly affect trends

OPEB Reporting - Planning and Communication

- Cost sharing plans
 - Each participating employer must record allocated share of plan unfunded liability
- Funding and accounting issues
- Communicate with OPEB plan administrators
- Communicate with your auditor
- Develop plan for communication to governing bodies
- Implementation Guide for OPEB?

GASB Statement No. 76 - Hierarchy of Generally Accepted Accounting Principles

- Issued July, 2015, Effective FY 2016
- Modifications to GASB Statement No. 55
 - Reduces from four levels of authoritative literature to two levels
 - Category A – Statements
 - Includes interpretations
 - Category B – Guidance formally cleared by the GASB
 - Technical Bulletins
 - Implementation Guides
 - AICPA literature cleared by the GASB
 - Non-GAAP
 - Conceptual Framework
 - Other Standard-Setters

Non Authoritative - Does it follow GASB Conceptual guidance?

GASB Statement No. 77 – Tax Abatement Disclosures

- Issued August, 2015, Effective FY 2017
- Requires disclosure
- Potential impact if you have taxing authority

GASB Statement No. 78 – Pensions Provided Through Certain Multiple-Employer Cost Sharing Pension Plans

- Issued December, 2015, Effective FY 2017
- Exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that
 - Not a state or local governmental pension plan
 - Provides defined benefit pensions
 - to employees of state or local governmental employers and
 - to employees of employers that are not state or local governmental employers
 - Has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan)
 - Provides for measurement and disclosure of pension contributions

GASB Statement No. 79 – Certain External Investment Pools

- Issued December, 2015, Effective FY 2016
- Applies to external investment pool meets the specific criteria of the Statement
 - Measures all of its investments the external investment pool at amortized cost
 - When external investment pool does not meet the criteria of the Statement, measurement of the investments will be at fair value.
 - Additional note disclosure is required for qualifying external investment pools that measure all of their investments at amortized cost.

GASB Statement No. 80 – Blending Requirements for Certain Component Units

- Issued January, 2016, Effective FY 2017
- Amends GASB Statement No 14 by adding –
Additional Blending Requirement

A component unit should be included in the reporting entity financial statements using the blending method if:

The component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and

The component unit is included in the financial reporting entity.

GASB Statement No. 81 – Irrevocable Split-Interest Agreements

- Issued January, 2016, Effective FY 2018
- Under a typical irrevocable split-interest agreement, a donor transfers assets for the shared benefit of at least two beneficiaries: a government (often a public college, university, or hospital) and another donor-designated beneficiary. The donor transfers the related assets to either the government or to a separate third party, such as a bank.
- Addresses when these types of arrangements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The Statement also provides expanded guidance for circumstances in which the government holds the assets.

GASB Statement No. 82 - Pension Issues

- Issued April, 2016, Effective FY 2017
- Addresses -
 - Presentation of Payroll-Related Measures in Required Supplementary Information - Changes requirement for the supplementary information, to present covered payroll, which is the portion of compensation paid to active employees on which contributions to a pension plan are based, and ratios based on that measure.
 - Classification of Employer-Paid Member Contributions - Clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions and as employee contributions. It also requires that an employer's expense be included in salaries and wages of the period for which the contribution is assessed.

GASB Reporting

EXPOSURE DRAFTS

Fiduciary Responsibilities – Exposure Draft

- Exposure Draft Issued - December 2015, Expect Standard in 4th Quarter 2016
- Defined when a government has a fiduciary responsibility and when it is required to present fiduciary fund financial statements
- Clarifies financial reporting requirements for fiduciary responsibilities
 - Includes a requirement for business-type activities that serve in a fiduciary capacity. It should present fiduciary fund financial statements with its basic financial statements

Fiduciary Responsibilities – Exposure Draft

- Fiduciary Responsibilities - A government is a fiduciary if it controls an asset in any of the following ways-
 - From a pass-through grant for which the government does not have administrative or direct financial involvement
 - In accordance with a trust agreement or equivalent in which the government is not the beneficiary
 - For the benefits of individuals that are not required to be part of the citizenry
 - For the benefit of organizations or other governments that are not part of the financial reporting entity.

Fiduciary Responsibilities – Exposure Draft

- A government has control of assets of an activity that are used by the government to provide benefits to specified or intended beneficiaries if –
 - Directly holds the assets
 - Has the ability to administer or direct present service capacity –
 - Use of assets
 - Exchange of assets or
 - Employment of the assets
- Exception Paragraph 16 - Business-type activities resources are expected to be held for three months or less.
- Disclosure requirements for fiduciary activities

Fiduciary Responsibilities – Exposure Draft

- Examples of fiduciary in higher education includes the sponsorship of pension plans, investment of other institutions' funds in endowment pools and agency funds held longer than 90 days

Leases – Exposure Draft

- Issued January 2016, Expect Standard 4th Quarter 2016
- One definition for all leases (formerly operating and capital).
- Requires lessee government reporting all leases except short-term leases (maximum term, including options to extend, of 12 months or less)
 - An intangible asset that represents the government's right to use the lease asset
 - A corresponding liability for lease payments
 - Amortization of lease asset (recognizes asset amount as an expense over the lease term) and related interest expense

Leases – Exposure Draft

- Government lessors under similar criteria will record will record –
 - Lease receivable
 - Deferred inflow of resources
 - Release deferred inflow to revenue and interest revenue
- Closely aligns reporting to the economic substance of the transaction
- New guidance on lease accounting will add to the differences between public and independent higher education institutions (depending on FASB deliberations)
- May potentially impact ratio, audit emphasis and current business and systems processes

Asset Retirement Obligation – Exposure Draft

- Initial recognition of ARO liability will happen when the liability is incurred and is reasonably estimated
 - Will be based on internal and external obligating events.
- Corresponding debit meets the definition of a deferred outflow of resources
 - Deferred outflow will be recognized as an expense in a systematic and rational manner
- ARO Liability Measurement
 - Settlement amount
 - Current cost
- Example - nuclear reactor used in research or other equipment that causes contamination in the normal course of use

Certain Debt Extinguishments – Exposure Draft

- Addresses when existing resources are placed in trust for extinguishing debt
- Provides for uniform guidance for defeasance regardless of the sources
- Reminder – when debt is defeased the debt and resources are no longer reported on the financial statement. Footnotes are required for defeased debt.

GASB Reporting

OTHER PROJECTS

Reexamination of Financial Reporting Model

March 2016

Government-wide/governmental funds: format/terminology changes for each recognition approach/model.

Role of cash flows statements

Government-wide statement of activities format.

Fiduciary funds: method of communication.

June 2016

Task force meeting—feedback on concepts, recognition approaches, format.

August–September
2016

Government-wide/governmental funds/fiduciary funds: finalize models and illustrations.

Invitations to Comments - 4QTR 2016/Preliminary Views – 2nd QTR 2018
Exposure Draft – 4th QTR 2019
Standard – 2nd QTR 2021

Resources

- GASB
 - Website – Exposure Drafts, Preliminary Views, Governmental Accounting Research System – Basic View
 - Website - www.gasb.org
- GFOA – www.gfoa.org
- CACUBO – Higher Education Accounting Workshop
 - May, 2017 - Nashville, TN
- NACUBO – www.nacubo.org
 - FARM – Financial Accounting and Reporting Manual
 - Higher Education Accounting Forum
 - May, 2017 - Austin, Texas
 - Webcasts
 - Sue Menditto, NACUBO
 - Accounting Principles Council – Tom Ewing, Chris Leach



Questions?

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