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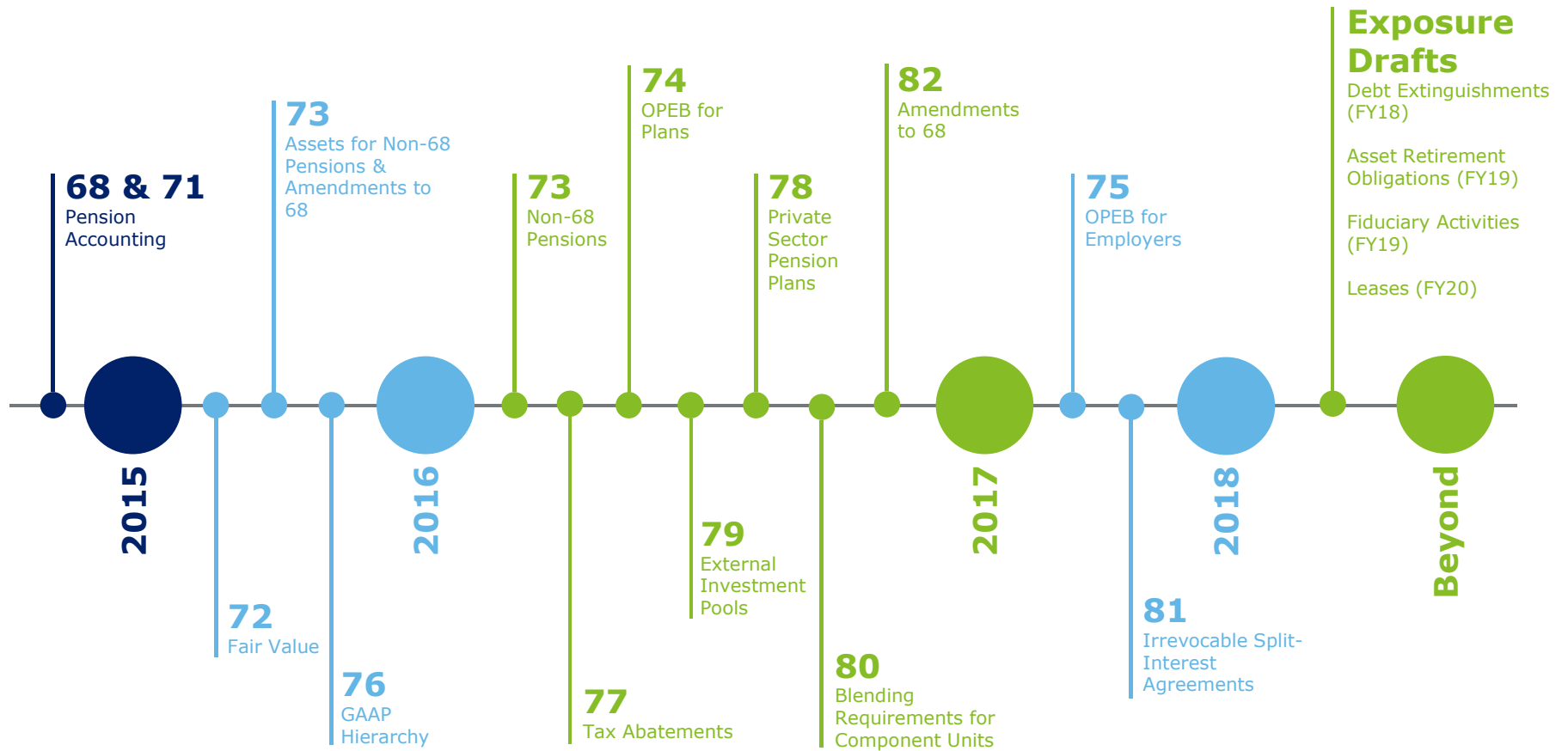
GASB Standards and Projects Update

2016 TASSCUBO Summer Conference

Blake Rodgers, Deloitte & Touche LLP

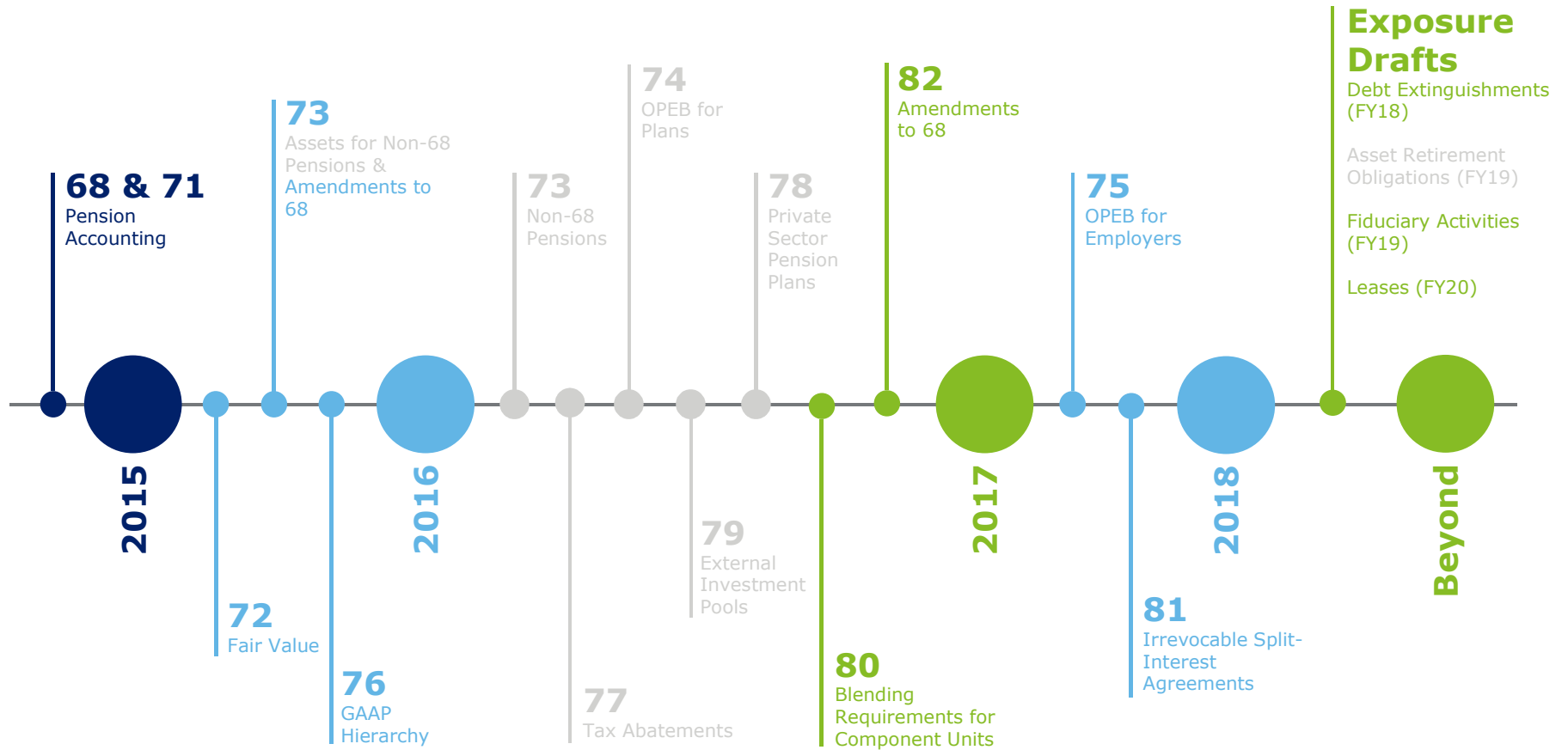
Looking Ahead

The Next 3 Years and Beyond



Looking Ahead

The Next 3 Years and Beyond – Texas Higher Education Focus



GASB Statement No. 72

Fair Value Measurement and Application

GASB Statement No. 72

Overview



Fair value is 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. (i.e. exit price)

Fair value measurement assumptions

- Takes place in government's principal market
- If no principal market, the most advantageous market
- General market participants act in their best interest
- Should not be adjusted for transactional costs

Determine unit of account (UofA)

- Definition – Refers to the level at which the asset or liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by accounting standards
- For example:
 - Investments held in brokerage account – Each individual security
 - Investment in a mutual fund – Individual shares of the mutual fund

GASB Statement No. 72

Valuation

Types of valuation techniques (Use the more appropriate based on available data)



Market Approach

Value based on market transactions involving comparable assets, liabilities, or a group assets and liabilities



Cost Approach

Amount required to replace the present service capacity of an asset



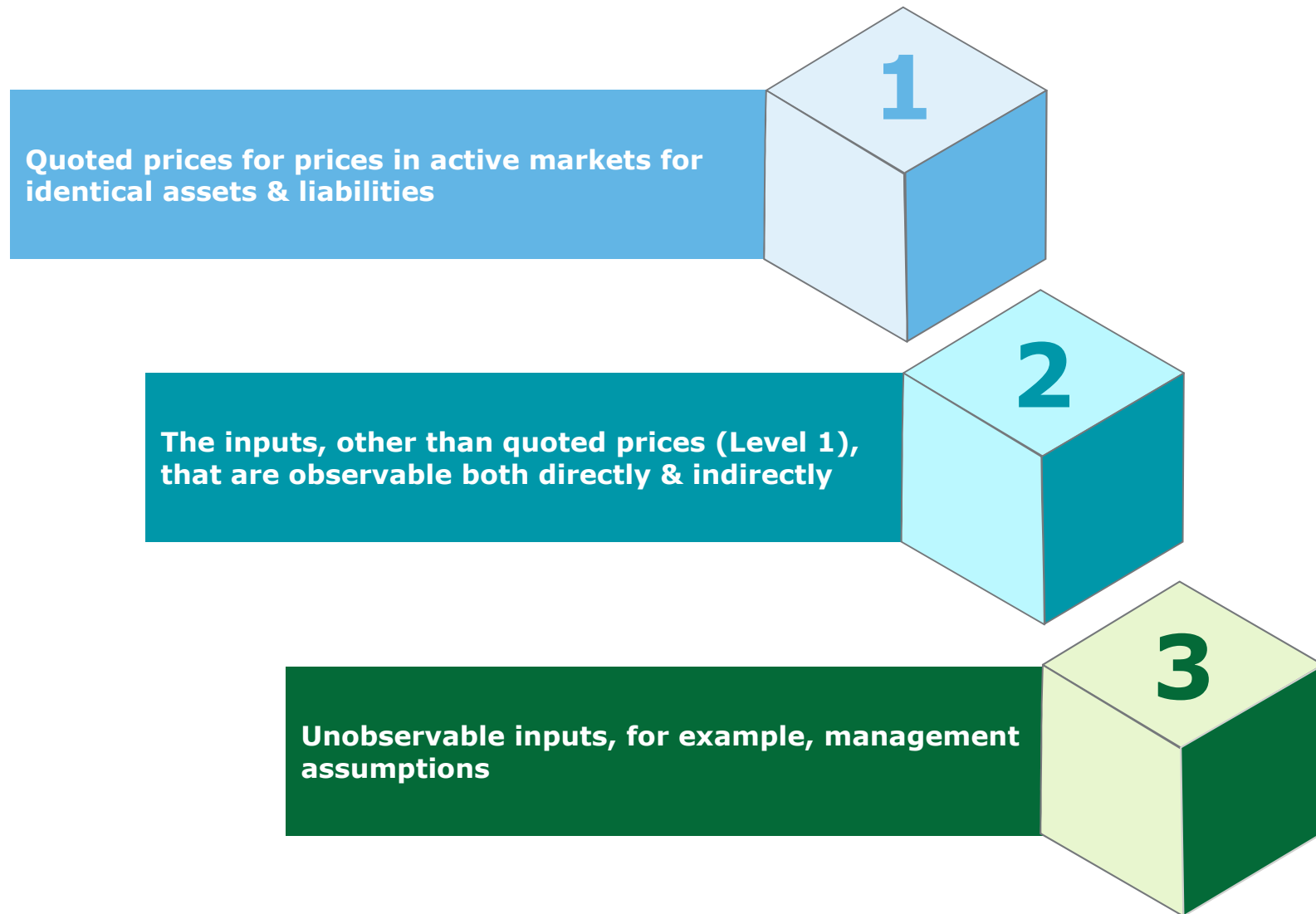
Income Approach

Net present value of future cash flow from the asset

Valuation techniques should be applied consistently, though a change might be appropriate in certain circumstances

GASB Statement No. 72

Hierarchy of Inputs Used for Valuation



GASB Statement No. 72

Valuation (continued)

If the volume or level of activity for an asset or liability has significantly decreased, additional analysis of fair value would be needed. To identify this decrease in activity the relevant factors would be:

- There are few recent transactions
- Price quotations are not developed using current information
- Price quotes vary substantially either over time or among market makers (e.g. some brokered markets)
- Previously highly correlated indices are demonstrable uncorrelated with recent indications of fair value of that asset/liability



GASB Statement No. 72

Fair Value Application

GASB 72 generally requires investments to be measured at fair value

An **investment** is defined as a security or other asset that:

- A government holds primarily for the purpose of income/profit AND
- Has a present service capacity based solely on its ability to generate cash or to be sold to generate cash

Investments not measured at fair value

- Money Market Investments
- 2a-7 like external investment pools
- Investments in life insurance contracts
- Common stock which is recorded as equity method
- Unallocated Insurance contracts

A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share of the investment

GASB Statement No. 72

Fair Value Application (continued)

The following items are measured at acquisition value (an entry price)

- Donated capital assets
- Donated historical treasures, works of art, and similar assets
- Capital assets received in a service concession arrangement



GASB Statement No. 72

Fair Value Disclosures

Disclosures should be organized by type of asset or liability. Points to note when determining the level of detail and disaggregation and how much emphasis to place on each disclosure requirement:



GASB Statement No. 72

Fair Value Disclosures (continued)

Recurring fair value measurements of assets or liabilities are those that other statements require or permit in the statement of net position at the end of each reporting period

Nonrecurring fair value measurements of assets or liabilities are those that other statements require or permit in the statement of net position in particular circumstances

Disclosure requirement for both recurring & nonrecurring:

- The fair value measurement at the end of the reporting period
- Their level within the fair value hierarchy
- Valuation techniques used in the measurements
- If there has been a change in valuation technique that has a significant impact on the result, the entity should disclose the reason for the change
- Nonrecurring fair value measurements – the reason for the measurement

GASB Statement No. 72

Effective Date & Transition

Effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

In the period of first application, changes made should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated

The use of acquisition value (entry price) for valuation should be applied prospectively to transactions occurring in the period that this statement is first applied

GASB Statement No. 80

Blending Requirements for Certain Component Units

GASB Statement No. 80

Overview

Small, but significant tweak to the blending requirements, especially for healthcare entities

Applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member.

Could result in the blending of component units, generally in the healthcare sector, that had been previously discretely presented.



GASB Statement No. 75

Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

GASB Statement No. 75

Overview

Effective date for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

Scope applies to:

- Defined Benefit OPEB that is provided through OPEB plans that are administered through trusts that meet the specified criteria AND
- Defined Benefit OPEB that is NOT provided through OPEB plans that are administered through trusts that meet the specified criteria AND
- Defined Contribution OPEB plans

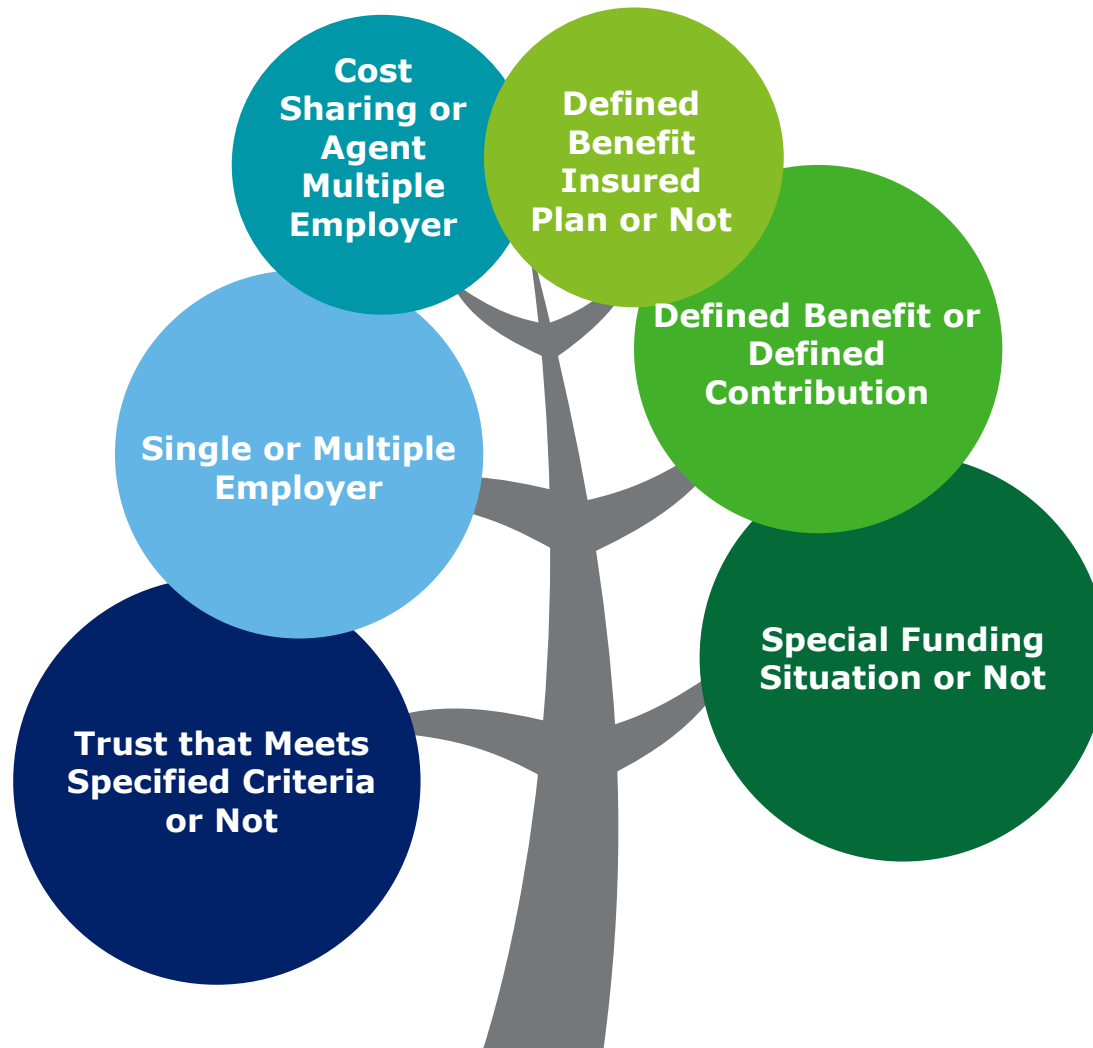
Applies to governmental nonemployer contributing entities that have a special funding situation for both OPEB plans administered through trusts that meet specified criteria and those that are not administered through trusts that meet specified criteria

Applies to all types of OPEB benefits

- Healthcare benefits - Medical, dental, vision, hearing, and other health-related benefits even when provided through a pension plan
- Other forms of benefits - Death benefits, life insurance, disability, and long-term care when provided separately from a pension plan

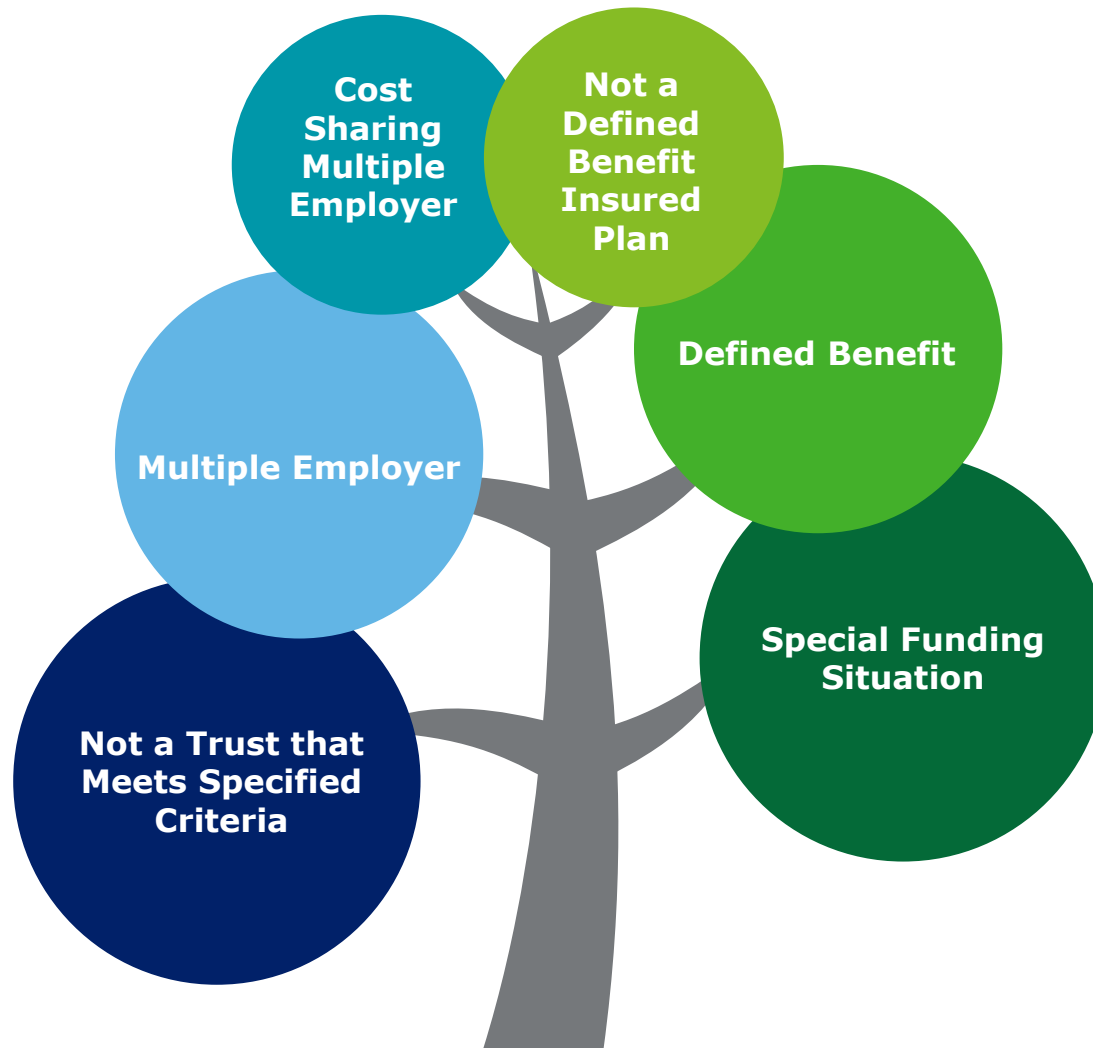
GASB Statement No. 75

Types of OPEB Plans



GASB Statement No. 75

Types of OPEB Plans – ERS State Retiree Health Plan



The large OPEB plans offered through the University of Texas System, the University of Texas A&M System, and the ERS State Retiree Health Plan are *unfunded* plans. Unlike pensions, *no assets have been set aside in a trust* that meets GASB's specified criteria to fund these benefits.

GASB Statement No. 75

Measurement and Recognition

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting:

- Single or agent employer that does not have a special funding situation is required to recognize a liability equal to the total OPEB liability.
- Cost-sharing employer or single or agent employer with a special funding situation is required to recognize its proportionate share of the collective total OPEB liability.

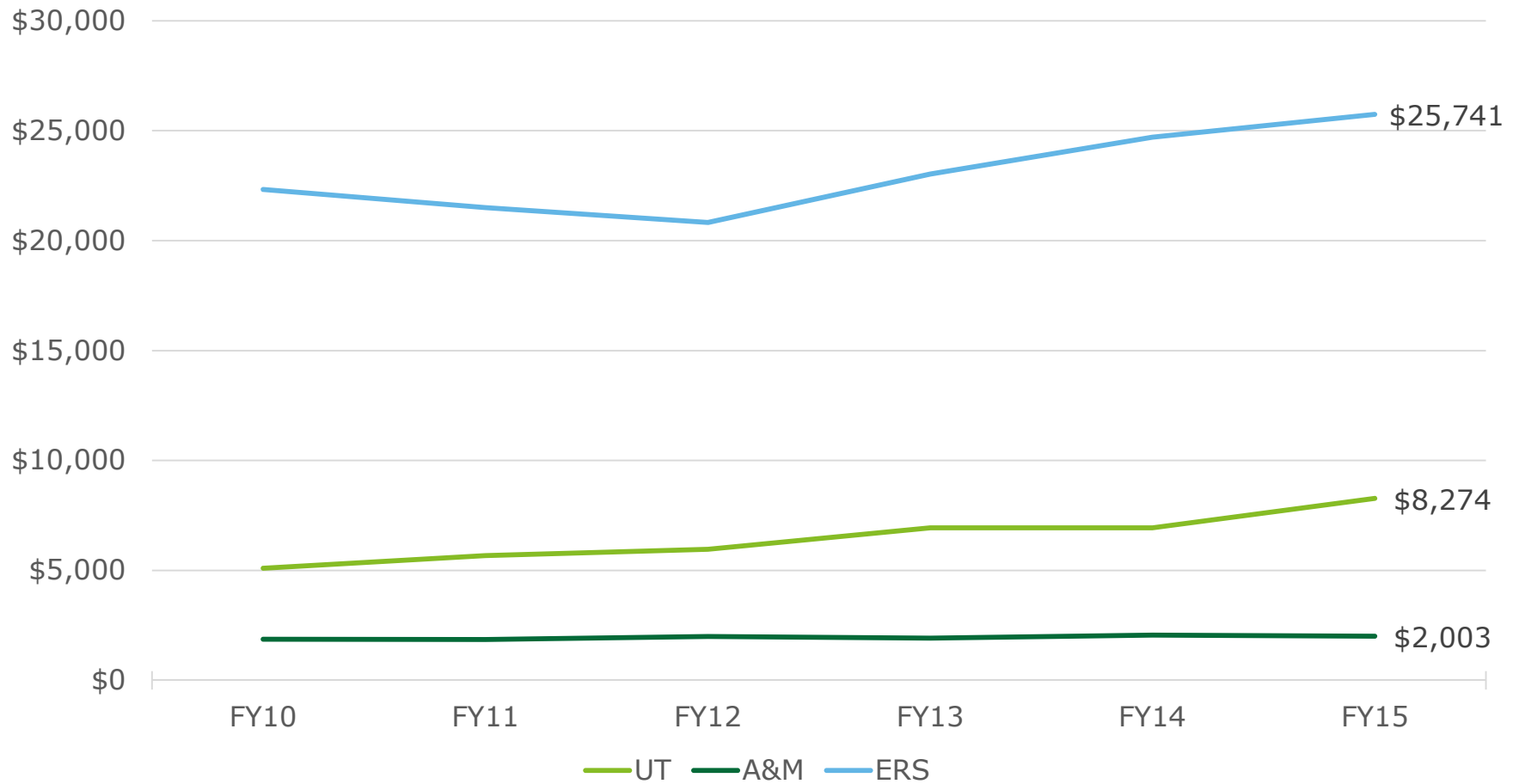
The total OPEB liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the end of the employer's current fiscal year, consistently applied from period to period.

- The total OPEB liability as of the measurement date should be based on a valuation that is as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end
- If the valuation is rolled forward to the measurement date, consider changes between the valuation date and the measurement date, such as changes in the discount rate
- Based on benefits provided in accordance with benefit terms and any additional legal agreements that are in force at the measurement date.
 - If there is not a written plan, should take into consideration communications between employers and employees and established patterns of practice with regard to sharing of benefit-related costs with inactive employees
 - Should include taxes or other assessments expected to be imposed on benefit payments using the rates in effect at the measurement date

GASB Statement No. 75

Actuarial Accrued Liabilities

Actuarial Accrued Liabilities (in millions)

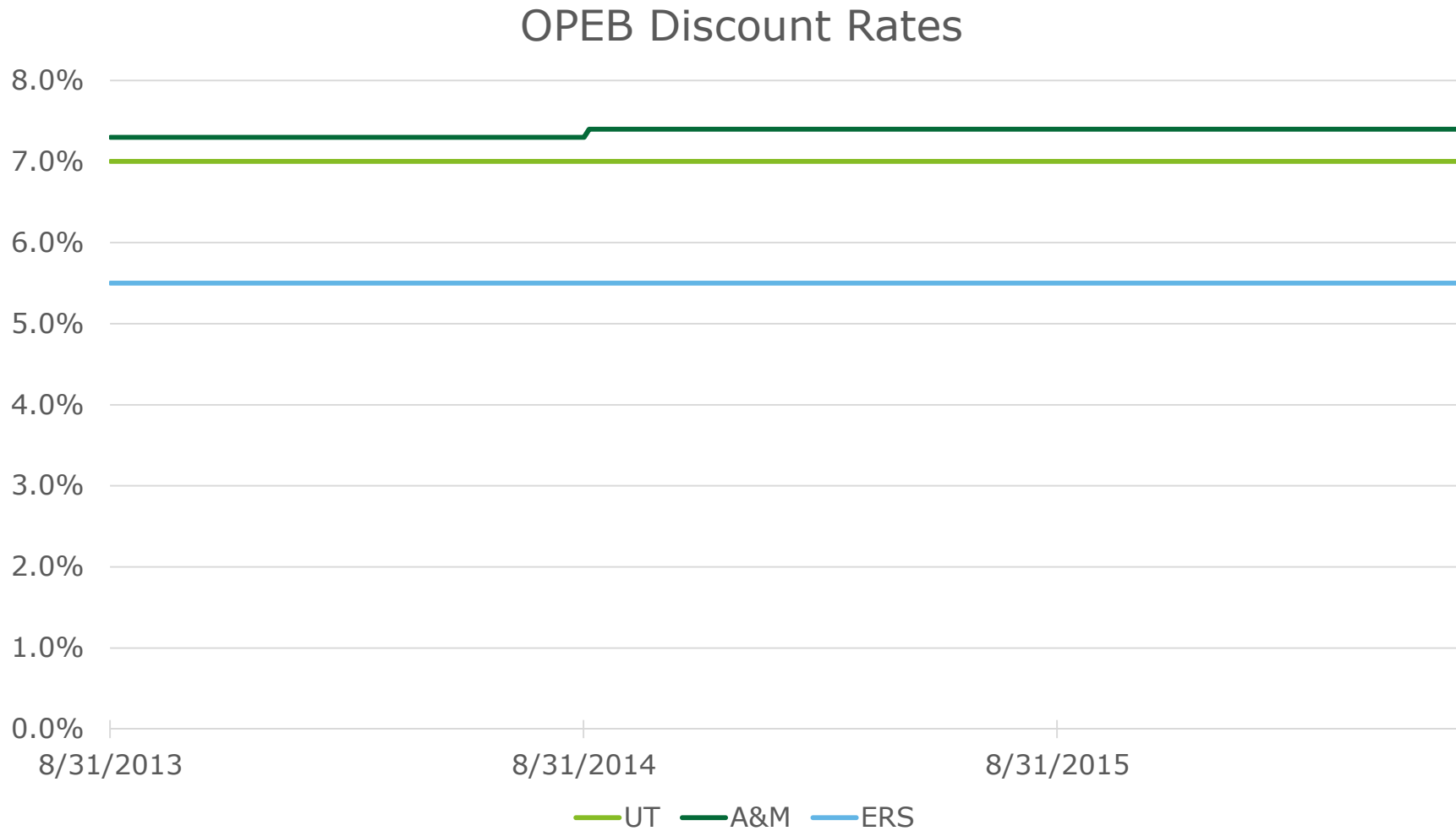


The discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

The Bond Buyer 20-year GO Index shows that rate to be *approximately 3.82% as of August 31, 2015 and currently 2.80%.*

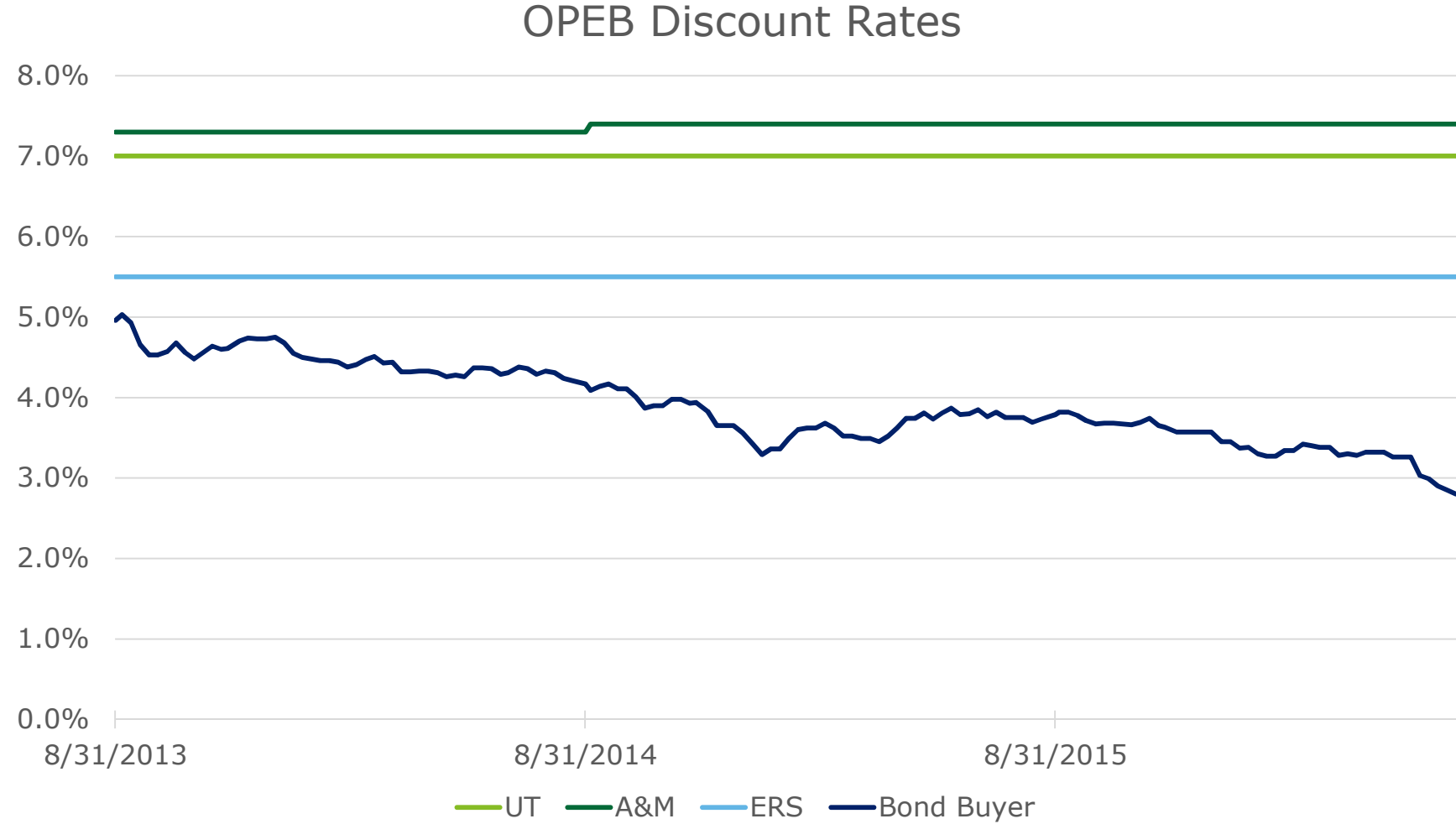
GASB Statement No. 75

OPEB Discount Rate Comparisons



GASB Statement No. 75

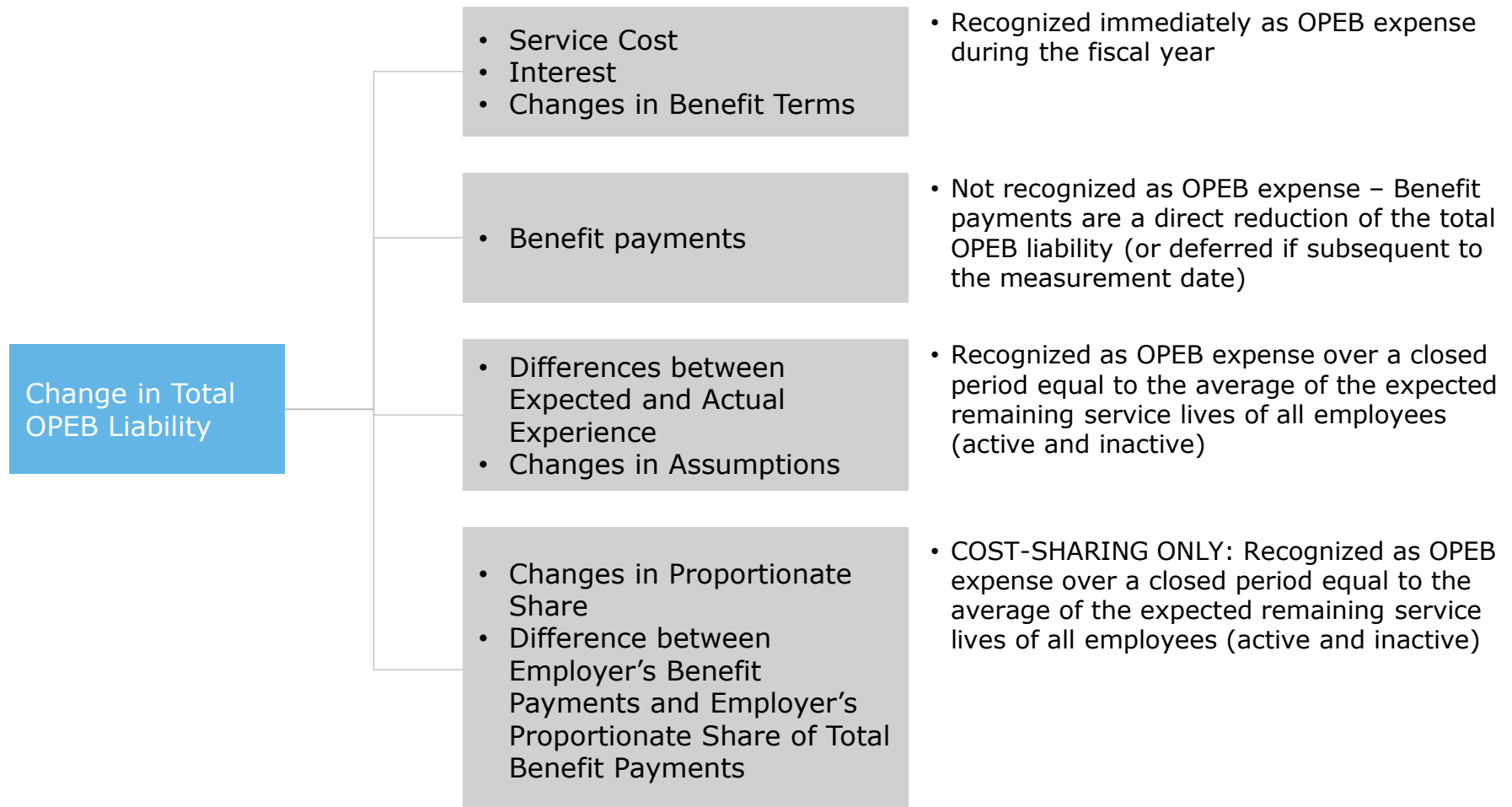
OPEB Discount Rate Comparisons



GASB Statement No. 75

Changes in the Total OPEB Liability

The OPEB expenses and deferred outflows of resources and deferred inflows of resources related to OPEB arise from changes in the total OPEB liability



GASB Statement No. 75 Disclosure Requirements

Description	Assumptions	Sensitivity Analysis
Changes in the Total OPEB Liability	OPEB-Related Deferred Balances	Other Information

GASB Statement No. 75

Disclosure Requirements (continued)

Description

- Name of the plan, type of plan (single or multiple employer, defined benefit or contribution) and identification of administrator
- Description of benefit terms (classes of employees, types of benefits, key elements of the benefit formulas)
- Authority of establishing and changing benefit terms
- Number of employees covered (active, inactive not receiving benefits, and inactive receiving benefits)*
- No asset are accumulated in a specified-criteria trust
- Authority of requirements for nonemployer contributing entity, if any

*Only required for single-employer plans

GASB Statement No. 75

Disclosure Requirements (continued)

Assumptions

- Inflation
- Mortality
- Discount rate
- Healthcare cost trend rates
- Salary changes
- Ad hoc postemployment benefit changes
- Sharing of benefit-related costs with inactive employees

GASB Statement No. 75

Disclosure Requirements (continued)

Sensitivity Analysis			
	1% Decrease (3.0%)	Discount Rate (4.0%)	1% Increase (5.0%)
Total OPEB liability	\$ 873,486	\$ 778,984	\$ 705,338
	1% Decrease (8.5% decreasing to 4.5%)	Healthcare Cost Trend Rates (9.5% decreasing to 5.5%)	1% Increase (10.5% decreasing to 6.5%)
Total OPEB liability	\$ 669,927	\$ 778,984	\$ 911,412

GASB Statement No. 75

Disclosure Requirements (continued)

Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balance at 6/30/X8	<u>\$ 851,095</u>
Changes for the year:	
Service cost	16,712
Interest	33,898
Changes of benefit terms	(203,619)
Differences between expected and actual experience	58,936
Changes in assumptions or other inputs	45,945
Benefit payments	<u>(23,983)</u>
Net changes	<u>(72,111)</u>
Balance at 6/30/X9	<u><u>\$ 778,984</u></u>

GASB Statement No. 75

Disclosure Requirements (continued)

OPEB-Related Deferred Balances

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 111,188	\$ 18,327
Changes of assumptions or other inputs	98,543	213,409
Total	<u>\$ 209,731</u>	<u>\$ 231,736</u>
Year ended June 30:		
20Y0	\$ (15,416)	
20Y1	(13,476)	
20Y2	(12,781)	
20Y3	(12,747)	
20Y4	16,702	
Thereafter	15,713	

GASB Statement No. 75

Disclosure Requirements (continued)

Other Information

- Measurement date
- Date of actuarial valuation
- If there is a special funding situation
 - The employer's proportionate share and how it was determined
 - Revenue recognized for support from nonemployer
- Description of any changes to assumptions or other inputs or changes to benefit terms since prior measurement date
- Any changes between the measurement date and the financial statement date expected to have a significant effect
- OPEB expense

GASB Statement No. 75

Required Supplementary Information

Governments will need to present the following required supplement information (RSI) 10-year tables:

- Schedule of changes in the total OPEB liability for each year (accumulation of information presented in the notes)
- Schedule presenting the following for each year
 - No special funding situations
 - Total OPEB liability
 - Covered-employee payroll
 - Total OPEB liability as a percentage of covered-employee payroll
 - Special funding situations
 - Total OPEB liability
 - Nonemployer contributing entities' total proportionate share (amount) of the total OPEB liability
 - Employer's proportionate share (amount) of the total OPEB liability
 - Covered-employee payroll
 - Employer's proportionate share (amount) of the total OPEB liability as a percentage of covered-employee payroll

Notes to RSI must include the fact that no assets are accumulated in a trust that meets the criteria as well as information about significant trends

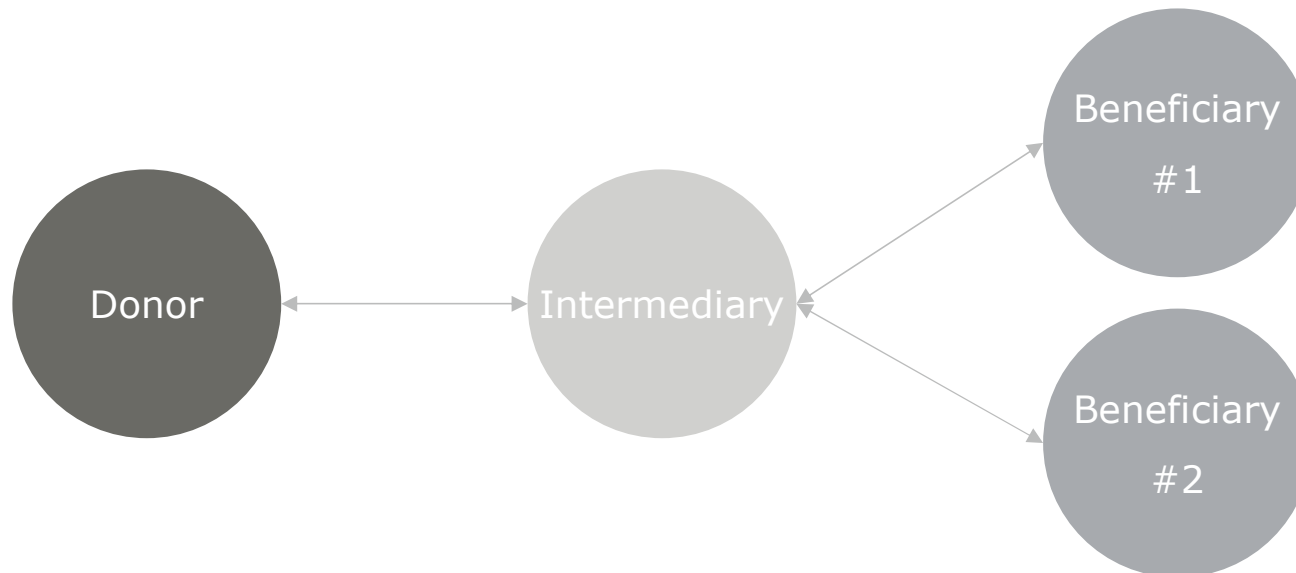
GASB Statement No. 81

Irrevocable Split-Interest Agreements

GASB Statement No. 81

Terminology

A **split-interest agreement** is defined as an agreement in which the donor enters into a trust or other legally enforceable agreement (with the characteristics that are equivalent to a split-interest agreement) under which the donor transfers resources to an intermediary to administer for the benefit of at least two beneficiaries, one of which could be a government.



An **irrevocable split-interest agreement** is defined as a split-interest agreement in which the donor has not reserved, or conferred to another person, the right to terminate the agreement at will and have the assets returned to the donor or a third party

GASB Statement No. 81

Terminology (continued)

Charitable lead trusts – Government is provided with resources throughout the term of the agreement. The lead interest can be fixed at the beginning of the agreement (annuity) or defined as a variable amount (unitrust)

Charitable remainder trusts – Government is provided with a final disbursement at the termination of the agreement

Life-interests in real estate – Type of life-contingent irrevocable split-interest agreement in which the donor (or parties named by the donor) retain the right to use the donated asset

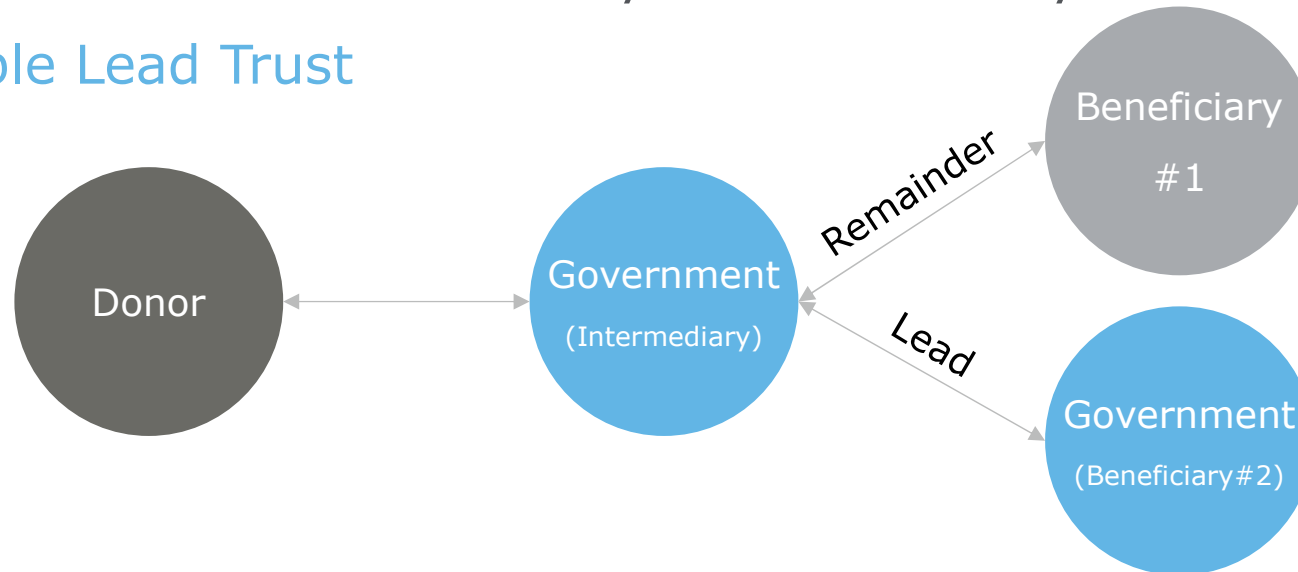
Irrevocable split interest agreements can termination either with:

- Period-certain term – A term with a specific end date, for example, a specified number of years
- Life-contingent term – A term that ends upon occurrence of a specified event, commonly death

GASB Statement No. 81

Government is the Intermediary and Beneficiary

Charitable Lead Trust

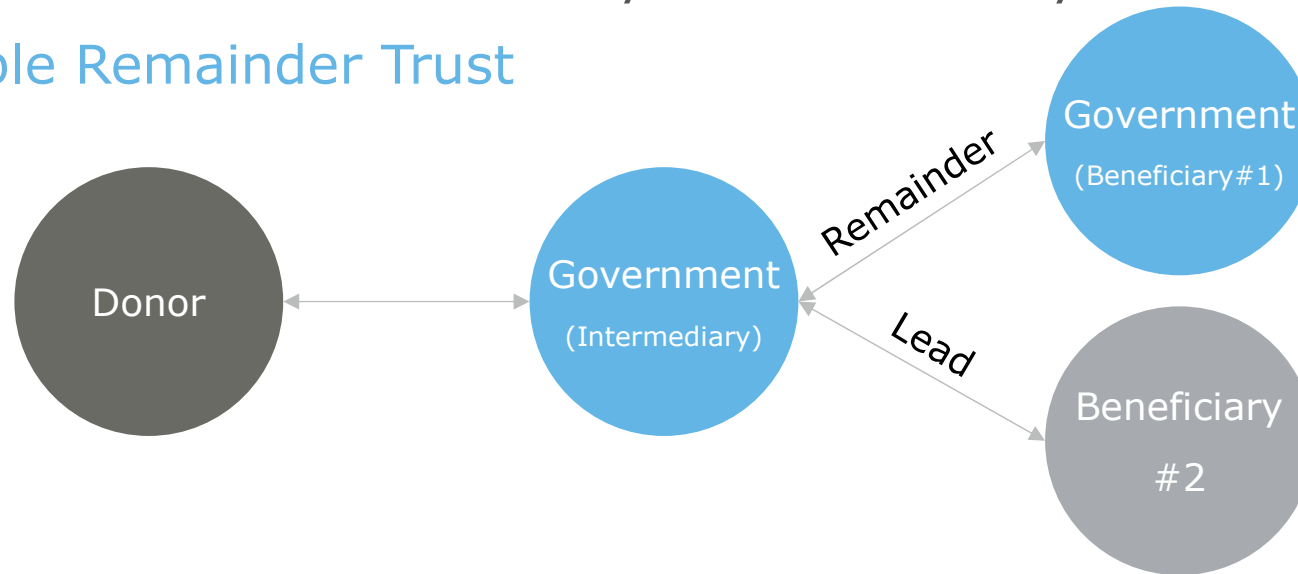


- Recognize assets for resources received or receivable - Follow guidance based on the asset received
 - Any changes in value flow through to the liability
- Recognize liability for the remainder interest that is assigned to other beneficiaries – Removed when agreement is terminated
- Deferred inflow of resources for the government’s unconditional lead interest – Recognize as revenue at the end
 - Measured at settlement amount. Generally will be an estimate considering payment provisions, estimated return of the assets, mortality rate, and a discount rate.
 - Remeasure annually, changes go to the liability
 - Reduced by payments the government receives, which are recognized as revenue

GASB Statement No. 81

Government is the Intermediary and Beneficiary

Charitable Remainder Trust

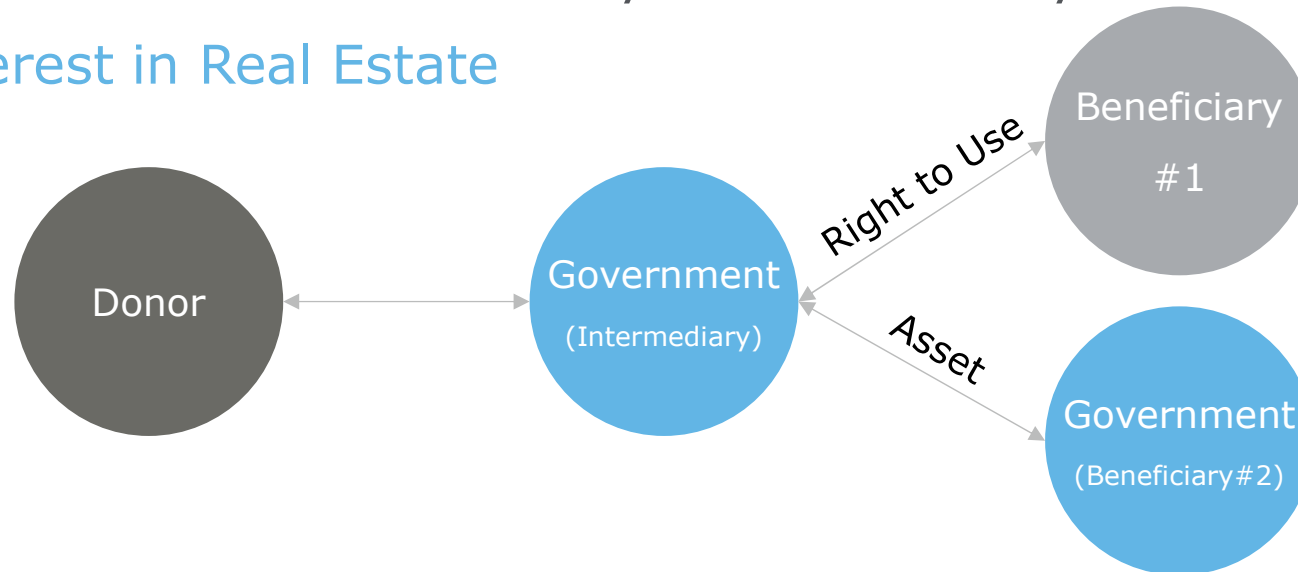


- Recognize assets for resources received or receivable - Follow guidance based on the asset received
 - Any changes in value flow through to the deferred inflow of resources
- Recognize liability for the lead interest that is assigned to other beneficiaries
 - Measured at settlement amount. Generally will be an estimate considering payment provisions, estimated return of the assets, mortality rate, and a discount rate.
 - Remeasure annually, changes go to deferred inflow of resources
 - Reduced by payments to the beneficiaries
- Deferred inflow of resources for the government's unconditional remainder interest - Recognize as revenue at the end

GASB Statement No. 81

Government is the Intermediary and Beneficiary

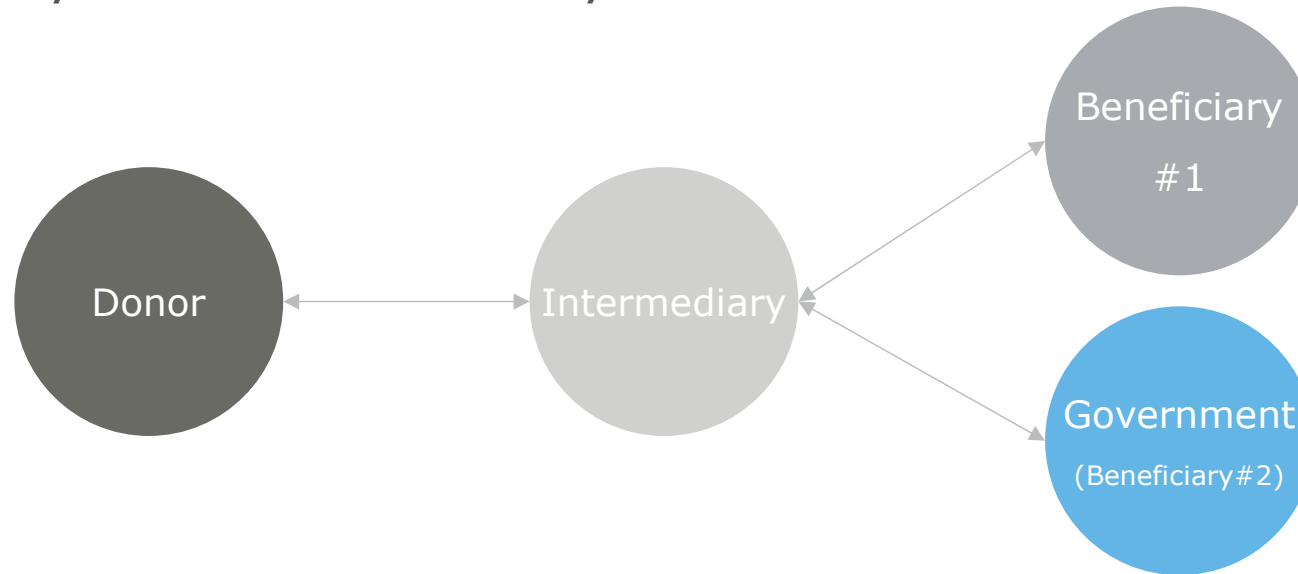
Life-Interest in Real Estate



- Recognize asset (either capital asset or investment)
 - Changes in value (either changes in fair value or depreciation) should flow through the deferred inflow of resources
- Recognize liability for any legal obligations to sacrifice resources (insurance, maintenance, repairs)
- Deferred inflow of resources for the difference between the asset and liability
 - At termination of the agreement, revenue should be recognized for the deferred inflow or resources and any remaining portion of the liability

GASB Statement No. 81

Third Party is the Intermediary



- Beneficial interest – Right to a portion of the benefits from donated resources pursuant to a split-interest agreement in which the donor enters into a trust or other legally enforceable agreement with characteristics that are equivalent to a split-interest agreement and transfers the resources to an intermediary
- Recognize an asset and a deferred inflow of resources when aware of the agreement and **ALL** of the following criteria are met:
 - The government is specified by name as beneficiary in the legal document
 - The donation is irrevocable and the donor has not given the intermediary variance power
 - The donor does not control the intermediary
 - The agreement establishes a legally enforceable right for the government’s benefit (unconditional)

GASB Statement No. 81

Things to Watch Out For During Transition



Beneficial interests

- The government may not be aware of all of these. You are not required to do an exhaustive search, only record when you are aware; however, consider establishing some communication procedures to allow these to be properly communicated to the finance and accounting group



Government is the intermediary

- It's possible that these are currently being treated as agency funds
- It's also possible that donations are recognized as assets, a liability has been recorded to the beneficiary, but revenue was recognized at the time of the donation. This statement changes the guidance that was in Question 7.72.11



The standard is required to be retroactively applied. Be mindful of the time it will take to:

- Accumulate the information from many unique agreements
- Perform estimations necessary to record balances for the lead interests or fair value of life-interest
- Many of these agreements, especially beneficial interests, may not be easy to locate
- Consider materiality when working on implementation. Each one of these agreements requires significant effort to estimate and might even require an external specialist to aid in valuation.

Other Relevant Standards

The Cliff Notes

Other Relevant Standards

Upcoming Standards Relevant to Higher Education

Statement No. 73 Amendments to Pensions

- Guidance for pension plans NOT in the scope of Statements 67 and 68
- Some amendments to Statement 68 – Clarification on notes to RSI, definition of and accounting for separately financed liabilities, timing of recognition for non-special funding situation nonemployer support

Statement No. 82 Amendments to Pension

- Some amendments to Statement 68 – Amends covered-employee payroll measure to covered payroll, clarifies the implications of deviations from actuarial standards, and classification of employer-paid member contributions
- Consider implementing early

Statement No. 76 GAAP Hierarchy

- Revises GAAP hierarchy and reduces to two levels
- Promotes the authoritative status of the Implementation Guide and increases the due process involved in publishing the Q&As

Current GASB Projects

The Exposure Drafts

Current GASB Projects

Exposure Drafts – What GASB is currently talking about

Fiduciary Activities

Activities meeting the refined definition of a fiduciary activity will be required to be presented in fiduciary funds, with some exceptions

Debt Extinguishments

Creating guidance for debt defeased with existing funds and expanding disclosures for all defeased debt

Leases

All leases, with the exception of certain short-term leases, will be on the balance sheet

Asset Retirement Obligations

Recognition of a liability for legal obligations to perform future asset retirement activities related to tangible assets

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Questions?



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