

University of Vermont University Financial Services

GASB Update
Audit Committee

September 12, 2016

GASB pronouncements effective for the year ending June 30, 2016 and subsequent periods

Title

GASB 72- Fair Value Measurements and Application

GASB 74- Financial Reporting for Postemployment Benefit Plans Other than Pension Plans

GASB 75- Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB 76- The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

GASB 80- Blending Requirements for Certain Component Units

Effective date

Fiscal years beginning after June 15, 2016

Fiscal years beginning after June 30, 2017

Fiscal years beginning after June 15, 2018

Reporting periods beginning after June 15, 2016

Fiscal years beginning after June 15, 2016

GASB Statement 72, *Fair Value Measurement and Application*

Summary

- Defines “fair value” as “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.”
- Establishes a three level hierarchy of inputs to valuation techniques used to measure fair value. The guidance is very similar to existing guidance for FASB organizations:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security

- Adopted by UVM in fiscal 2016 will require restatement of fiscal year 2015.

Impact

This will impact accounting for certain investments that may have been reported at cost due to ambiguity within previous guidance. In addition, we will need to revise the existing disclosures to conform to the new disclosure requirements, which are very similar to current disclosure requirements for FASB organizations.

GASB Statement 74 and 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Summary

- GASB 74 and 75 replaces the requirements related to OPEB accounting and reporting currently provided in GASB 45
- Requires the University to calculate the liability using **prescribed assumptions** which will impact the total liability.
- Requires more extensive disclosures and required supplementary information.
- This will be adopted by UVM in fiscal year 2018.

Impact

Will significantly impact the total liabilities and net assets of the University for fiscal year 2018 and beyond.

GASB Statement 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Summary

- Reduces the U.S. GAAP hierarchy for government standards from four to two categories of authoritative GAAP:
 - The first category consists of the GASB Statements.
 - The second comprises GASB Technical Bulletins, Implementation Guides, and AICPA guidance cleared by the GASB.

Impact

Depending on what accounting policies UVM uses to report its financial transactions, existing guidance could potentially no longer be considered authoritative and could result in necessary changes in accounting as a result of adoption of this standard.

GASB Pronouncements in the Pipeline

Project	Timing
Fiduciary Responsibilities Financial Reporting Model Accounting for Leases Going Concern Disclosures Revenue recognition for Exchange and exchange-like transactions	Initial deliberations Initial deliberations In Final deliberations Pre-agenda research Pre-agenda research

GASB major project - Fiduciary Responsibilities

Summary

- New Net Position category on Balance Sheet titled Fiduciary Funds
- Will include trust funds and custodial funds, agency funds
- All revenue and expense related to these funds will need to be included on the Statement of Revenue, Expense and Net Position
- Additional Disclosure will be required for each fund that exists

Impact

Currently the University has 108 unique agency funds which will have to be analyzed

Will have potential impact on key financial ratios, debt covenants and credit rating analysis

GASB major project - Financial Reporting Model

Summary

- GASB is revisiting the reporting model established in GASB 34 and 35
- Although there is general consensus that most of the components of the financial reporting model are effective, the board determined that there is a need to update guidance related to several categories, focusing on the following:
 - MD & A
 - Government-wide financial statements
 - Major funds
 - Governmental fund financial statements
 - Proprietary fund and business-type activity financial statements
 - Fiduciary fund financial statements
 - Budgetary comparisons
- The board is in the initial deliberation stage.

Impact

Similar to the significant impact on reporting and disclosures when GASB 34 and 35 were issued, this proposed guidance could have sweeping effects on the reporting and disclosures by public colleges and universities.

GASB major project - Accounting for Leases

Summary

- An attempt by GASB to align its accounting for leases with FASB lease accounts
- All leases with a term of one year or more will now need to be capitalized
- No minimum dollar threshold for capitalization purposes
- Scheduled to be effective for fiscal year beginning after June 15, 2019

Impact

Most operating leases will now have to be recorded as a capital asset

Need to inventory and review all leasing arrangements now as those with a term of four to five years will fall under the new pronouncements beginning with fiscal year 2020

Questions?