CACUBO – GASB Update
What’s new and what’s next?

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Assurance ▪ Tax ▪ Consulting

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Today’s Presenters

McGladrey LLP

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Learning Objectives

- After completing this program, you should
  - Have a better understanding of recent accounting and reporting developments and issues impacting state and local governments
    - To address applicable standards in the preparation of the financial statements of a state or local government reporting entity
    - To prepare for implementation of applicable standards with future effective dates

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Agenda and Topics

- Accounting and reporting standards – GASB update
  - Recently issued and effective for period ending in 2015
  - GASB technical agenda projects

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GASB 67 and 68 – Accounting and Financial Reporting for Pensions and Plans

- GASB 67 - Plans – Effective for fiscal years beginning after June 15, 2013
  - No significant changes to the Plan Financial Statements
  - Expanded footnote disclosures and RSI
  - Many of the disclosures also required in employer Financial Statements
  - GASB 67 required FS/disclosures do not provide information needed by participating Cost Sharing/Agent employers
- GASB 68 – Employers - Effective for fiscal years beginning after June 15, 2014
  - Significant and material impact on Financial Statements for most employers
  - Project, discount then attribute pension amounts
  - Additional disclosures on elements of pension expense and deferred inflows/outflows of resources

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Measurement Date & Actuarial Valuation Date

- Measurement of the net pension liability should be determined as of a date (measurement date) no earlier than the end of the employer's prior fiscal year
- The measurement date should be consistently applied from period to period
- Measurement of the total pension liability is determined through:
  - An actuarial valuation performed as of the *measurement date,* or
  - The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than *30 months and 1 day* earlier than the employer's year-end
  - Use professional judgment in determining extent of update procedures when changes in plan occur between last valuation date and the measurement date
    - Consider whether new actuarial valuation is needed

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Measurement Date & Actuarial Valuation Date (Cont'd)

- The measurement date will most likely correspond to year-end of the Plan
- Implementation year – beginning and ending amounts
- Actuarial valuation of total pension liability should be performed at least biennially
  - More frequent actuarial valuations are encouraged
- Other considerations – how to choose?
  - Requirement to perform a roll-forward
  - Timing of census data testing

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Timing of Measure Date - Example

Public University participates in a cost-sharing multiple-employer defined-benefit plan sponsored by the State of Example. Public University is implementing GASB Statement 68 during the year ended June 30, 2015. The cost-sharing plan also has a fiscal year-end of June 30th and implemented the provisions of GASB Statement 67 during the year ended June 30, 2014. Public University's financial statements are a single-year presentation.

In accordance with GASB Statement 68, the measurement date for Public University must be as of a date no earlier than the end of its prior fiscal year. Since Public University and the Plan have the same year end, Public University may elect to use June 30, 2014 or June 30, 2015 as the measurement date. However, once selected, the measurement date should be consistently applied from period to period.

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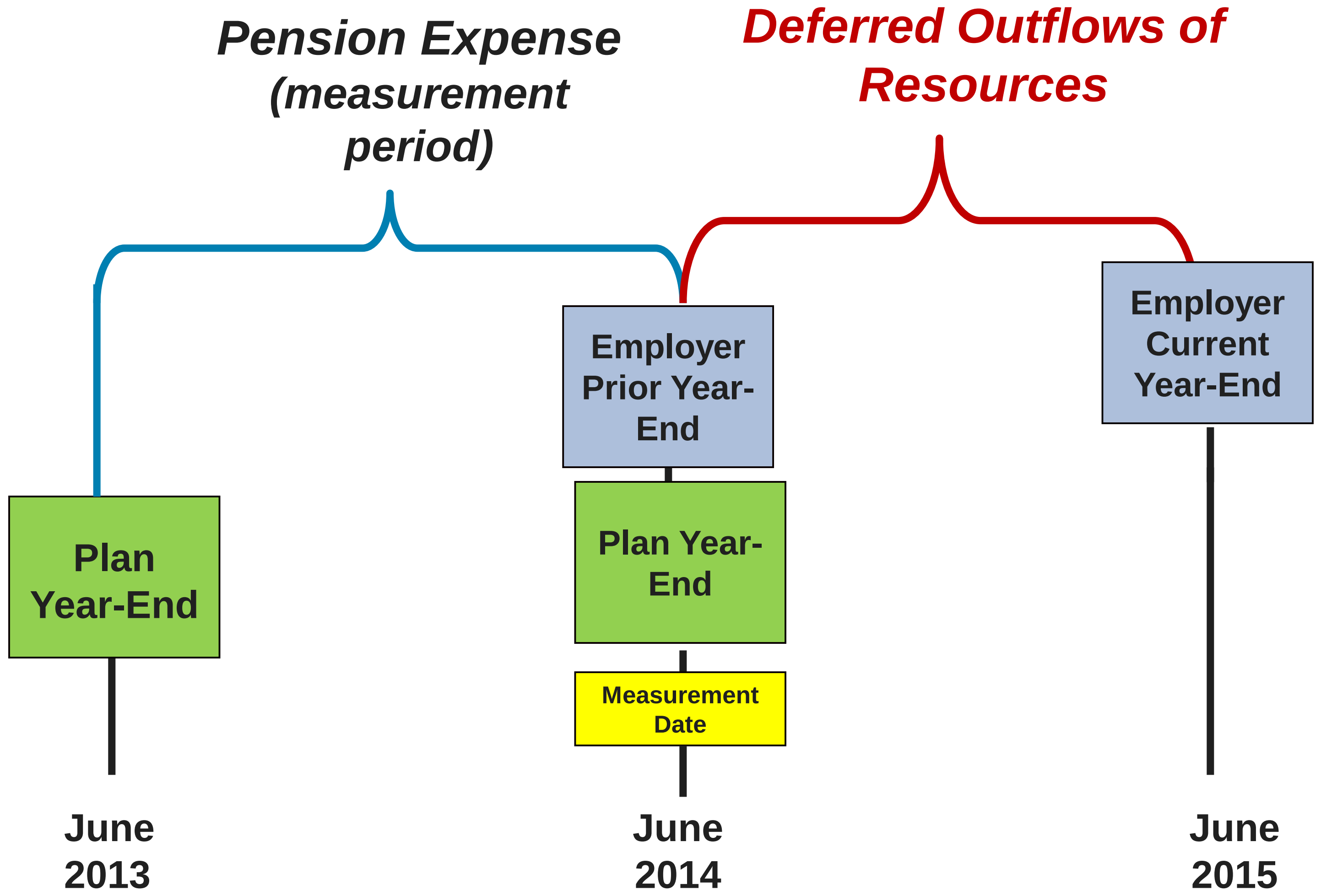
Example Public University – Impact of Using Prior Year Measurement Date



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Benefit Projections

- Benefit projections
  - The projection of pension benefit payments should include:
    - projected future salary increases and future service credits, if part of the benefits formula, as well as automatic COLAs
      - ad hoc COLAs would be incorporated into projections of pension benefit payments only if an employer's practice indicates that the COLAs are substantively automatic
    - Mortality information

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Discount Rate

- A single blended rate should be used to discount projected future benefit payments, based on:
  - The long-term expected rate of return on plan investments (net of investment expenses) that are expected to be used to finance the payment of pension benefits to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested, using a strategy to achieve that return; ***and***
  - A yield or index rate for 20-year, tax-exempt general obligation (municipal) bonds with average rating of AA or higher, to the extent that the conditions above are not met

The new standards might result in a lower discount rate for plans that are underfunded, thus increasing total pension liability.

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Measurement Defined Benefit Plan

Plan net assets:

- In calculating the employer's net pension liability, plan net position should be measured in the same way as measured in the plan's statement of plan net position, including measurement of investments at fair value.

Pension expense: (next slide)

- Immediate
- Deferred

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Expense recognition

- Immediate
  - Pension benefits earned during the reporting period (service cost or normal cost)
  - Interest cost on the total pension liability
  - Changes in benefit terms that affect the total pension liability
- Deferred
  - Expense would be deferred and recognized over a period equal to the average remaining service periods of active and inactive (including retirees) employees for:
    - Differences between expected and actual changes in economic and demographic factors
    - Changes in assumptions about economic and demographic factors
  - Differences between actual and projected earnings on plan investments would be deferred and recognized as pension expense over a five-year, closed period

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Special Funding Situations

- Special funding situations for DBPs
  - Under certain conditions both governmental non-employer contributing entities and governmental employers will recognize a proportionate share of the collective net pension liability

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Required Disclosures

- General information
  - Name of the plan through which benefits are provided
  - Identification of the public employee retirement system or other entity that administers the plan
  - Identification of the plan
  - A brief description of the benefit provisions
  - The number of employees covered by the plan
  - Whether the pension plan issues a stand-alone financial report, or is included in the report of a public employee retirement system or another entity, and, if so, how to obtain the report

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Required Disclosures (Cont'd)

- Actuarial information
  - Assumptions used in measurement
  - Discount rate
    - Assumptions
    - Expected rate of return
    - Municipal bond rate
    - Sensitivity analysis
- Also
  - Changes in net pension liability
  - Deferred inflows and outflows

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Required Supplementary Information (RSI)

- 10-year schedules for all governments, regardless of type of plan (plus notes):
  - Changes in the net pension liability by source
    - Collective level for cost-sharing employers
  - Components of the net pension liability and ratios: plan net position ÷ total pension liability; net pension liability ÷ covered-employee payroll
    - Collective and individual level for cost-sharing
  - Contribution information, if a government has an actuarially determined contribution: actuarially calculated contribution – actual contributions; contributions ÷ payroll

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RSI for Cost-Sharing Employer's DBPs

- 10-year schedules
  - Changes in the net pension liability (cost-sharing at collective level only)
  - Cost-sharing at both collective level and employer level with employer proportionate share percentage
    - Total pension liability, plan net position, net pension liability, and
      1. Plan net position as a percentage of the total pension liability
      2. Net pension liability as a percentage of covered-employee payroll
    - Actuarially calculated employer contributions needed, actual contributions made, the difference between them, and contributions made as a percentage of covered-employee payroll

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GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date

An amendment of GASB Statement No. 68

- Issued November 2013
- Effective simultaneously with the implementation of the provisions of GASB 68
- Address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*
  - The issue relates to amounts associated with contributions, if any, made by a state or local government's employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability

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GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date
An amendment of GASB Statement No. 68 (Cont'd)

- Amends paragraph 137 of Statement 68 to require that, at transition, **a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.**
- Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts

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GASB 68 – What were your pain points?

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For more information, we suggest

- All preparers read and become familiar with the text of all three GASB Standards
- Access GASB's recently published Implementation Toolkit for Governments which is available free of charge
  - *http://www.gasb.org/cs/ContentServer?c=Page&pagename=GASB%2FPage%2FGASBectionPage&cid=1176163527940*
  - The toolkit includes the following resources, among others:
    - Guide to Implementation of GASB Statement 68 on Accounting and Financial Reporting for Pensions
    - A video overview covering significant implementation issues arising from the pension standards
    - A background document and fact sheets answering FAQ
    - The executive summaries and the full texts of Statement 68 and 71
    - Eight podcasts discussing the most significant changes to accounting and financial reporting for pensions
    - An article outlining the key ways the pension standards will change how governments calculate and report pension costs and obligations
    - An article regarding common misperceptions about the pension standards
- AICPA GAQC whitepapers on multiple employer cost-sharing and agent plans
- Read McGladrey's Whitepaper
    - GASB Statement No. 68, Accounting and Financial Reporting for Pensions - A Summary of the Changes and Recommended Implementation Steps
      - GASB Statement No. 68, Accounting and Financial Reporting for Pensions

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GASB 69 – Government Combinations and Disposals of Government Operations

- Issued – January 2013
- Effective – Periods beginning after Dec. 15, 2013
  - Applied on a prospective basis

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GASB 69 – Government Combinations and Disposals of Government Operations (Cont'd)

- Included in the scope:
  - Combinations in which little or no consideration is provided
    - Government mergers
  - Transfers of operations
  - Combinations in which consideration is provided
    - Government acquisitions
  - Disposal of government operations

- Not included in the scope:
  - Assets and liabilities comprising less than an operation
  - Obtaining control of another organization that remains a legally separate entity (already addressed in GASB 14)
  - Acquisition of equity interest (already addressed in GASB 14)

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GASB 69 – Government Combinations and Disposals of Government Operations (Cont'd)

- Standards for government combinations and disposals
  - Government merger - combination of legally separate entities in which no significant consideration is exchanged and either:
    - Two or more governments (or one or more governments and one or more nongovernmental entities) cease to exist as legally separate entities and are combined to form one or more new governments
    - One or more legally separate governments or nongovernmental entities cease to exist and their operations are absorbed into, and provided by, one or more continuing governments

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GASB 69 – Government Combinations and Disposals of Government Operations (Cont'd)

- Government acquisition – government combination in which a **government acquires** another entity, or the operations of another entity, **in exchange for significant consideration**.
  - The consideration provided should be significant in relation to the assets and liabilities acquired
  - The acquired entity or operation becomes part of the acquiring government's legally separate entity

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GASB 69 – Government Combinations and Disposals of Government Operations (Cont'd)

- Transfer of operations – government combination involving the operations of a government or nongovernmental entity, rather than a combination of legally separate entities, in which no significant consideration is exchanged.
  - Operations may be transferred to another existing entity or to a new entity.
  - Examples
    - Reorganizations
    - Redistricting
    - Annexations
    - New shared service arrangements

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GASB 69 – Government Combinations and Disposals of Government Operations – Merger

- Merger date begins initial reporting period
  - Date combined assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities should be recognized and measured
  - Generally, measure the assets, deferred outflows of resources, liabilities, or deferred inflows of resources as of the merger date at the carrying values as reported in the separate financial statements of the merging entities
  - Consider impairments
- For a continuing government merger described in paragraph 10b of this Statement, the merger date is the beginning of the reporting period in which the combination occurs, regardless of the actual date of the merger
- Transactions between the merging entities that occur before the combination should generally be eliminated in the combination process

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GASB 69 – Government Combinations and Disposals of Government Operations – Acquisitions

- Date on which the acquiring government obtains control of the assets and becomes obligated for the liabilities of an acquiree entity or its operations is the acquisition date
  - Acquired assets, deferred outflows of resources, liabilities, or deferred inflows of resources, are measured at acquisition value which is a market-based entry price.
    - An entry price is assumed to be based on an orderly transaction entered into on the acquisition date.
    - Acquisition value represents the price that would be paid for acquiring similar assets, having similar service capacity, or discharging the liabilities assumed as of the acquisition date.
  - Statement also addresses
    - Consideration
    - Acquisition costs
    - Intra-entity government acquisitions
    - Reporting on a provisional basis
    - Reporting in governmental fund F/S

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GASB 69 – Government Combinations and Disposals of Government Operations – Transfers of Operations

- Effective transfer date is the date the transferee government obtains control of the assets and becomes obligated for the liabilities of the operation transferred
  - A continuing government should report a transfer of operations as a transaction in its financial statements for the reporting period in which it occurs
  - If transfer of operations results in the formation of a new government, the new government's initial reporting period begins at the effective transfer date
- Generally transferee government recognizes the carrying values of assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the operations of the transferor government or nongovernmental entity as of the effective transfer date

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GASB 69 – Government Combinations and Disposals of Government Operations – Disposals of Government Operations

- Disposing government should recognize a gain or loss on the disposal of operations, if applicable.
  - Gains or losses on the disposal of operations should be reported as a special item in the period in which the disposal occurs, based on either the effective transfer date of a transfer of operations, or the date of sale for operations that are sold
  - Special provision for certain costs

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GASB 69 – Government Combinations and Disposals of Government Operations

- General and transaction specific disclosure requirements
- Statement also includes
  - Illustrations
    - Government merger
    - Government Acquisition with Excess Consideration Provided
    - Government Acquisition with Excess Net Position Received
    - Transfer of Operations

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GASB 72 - Fair Value Measurement and Application

- Issued – February 2015
- Effective – Periods beginning after June 15, 2015.
  - Earlier application is encouraged
- Objective – Improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements

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GASB 72 - Fair Value Measurement and Application (continued)

- 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 market or the government's most advantageous market

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GASB 72 - Fair Value Measurement and Application (continued)

- 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 discounted amount

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GASB 72 - Fair Value Measurement and Application (continued)

- Hierarchy of Inputs
  - Level 1: quoted prices in active markets for identical asset or liabilities that the government can access at the measurement date
  - Level 2: inputs, other than quoted market 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

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GASB 72 - Fair Value Measurement and Application (continued)

- 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 has a present service capacity 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; an indirect versus direct relationship to the services
    - Held primarily for income or profit
      - Acquired first and foremost for future income and profit
      - Evidence can be found based on the fund holding the asset

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GASB 72 - Fair Value Measurement and Application (continued)

- 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, other than external investment pools
  - Investment in 2a7-like external investment 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
  - Life insurance contracts

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GASB 72 - Fair Value Measurement and Application (continued)

- 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

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GASB 72 - Fair Value Measurement and Application (continued)

- 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 hierarchy
    - Description of the valuation techniques 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

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GASB 73 – Accounting and Financial Reporting for Pensions and Related Assets Outside the Scope of 68 and Amendments to GASB 67 and 68

- Issued – June 2015
- Effective for fiscal years beginning after June 15, 2016
- Effective for the portions of the standard related to the assets effective fiscal years beginning after June 15, 2015
- Amendments to GASB 67 & 68 effective for fiscal years beginning after June 15, 2015
- Extend the accounting and financial reporting to pensions (including defined contribution plans) to those plans that were not included in the scope of GASB 68

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GASB 73 – Accounting and Financial Reporting for Pensions and Related Assets Outside the Scope of 68 and Amendments to GASB 67 and 68 (Cont'd)

- Extend the accounting and financial reporting to all pensions (including defined contribution plans). Covers those plans that were not included in the scope of GASB 68
- Amendments
  - Investment related information that affect trends presented as RSI
  - Separately financed specific liabilities of employers
  - Revenue recognition of employers from nonparticipating entities that do not qualify as special funding situations

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GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions

- Issued – June 2015
- Effective for fiscal years beginning after June 15, 2016
- Replaces GASB 43 and replaces GASB 25 (specifically as it relates to defined contribution plans)
- Scope – OPEB Plans that meeting the following criteria:
  - Contributions made into the plan are irrevocable
  - Assets are dedicated to plan members for benefits outlined in the plan
  - Assets are legally protected from employer and plan member creditors

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GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions (Cont'd)

- Financial Statements
  - Statement of Fiduciary Net Position
  - Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements
  - Type of benefits provided
  - Eligibility of plan members
  - Composition of the board
  - Plan investment information
  - Contributions, reserves and allocated insurance contracts
  - Additional items required for single-employer and cost sharing plans

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GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions (Cont'd)

- Required Supplementary Information – 10 years
  - Weighted average rate of return on investments
  - Actuarially determined contributions
  - Contributions made
  - Significant assumptions
  - Additional items required for single-employer and cost sharing plans
  - Factors that significantly affect trends

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GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions (Cont'd)

- Measurement of OPEB Liability
  - Total OPEB liability net plan assets
    - Actuarially calculated
      - Performed at least every 2 years
      - Roll forward of liability required if actuarial valuation isn't as of the Plan's yearend.
    - Alternative method – less than 100 plan members both active and inactive

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GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions (Cont'd)

- Projected Plan Benefits
  - Claims costs or age-adjusted premiums based approximating claims costs
  - Plan benefits provided through plan document and past practice
  - Legal or contractual agreements and caps
  - Projected salary changes including COLA
  - Taxes and assessments imposed on benefit payments

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GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions (Cont'd)

- Discounted to Actuarial Present Value
  - Same method used as required in GASB 67/68
    - Long term rate of return
    - Tax-exempt high quality municipal rate when conditions for using the long term rate aren't met

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

- Issued – June 2015
- Effective for fiscal years beginning after June 15, 2017
- Replaces GASB 45 and replaces GASB 57
- This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures
- Single employer, agent employer, cost-sharing employer

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GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Cont'd)

- Measurement of OPEB Liability
  - Measurement date same as GASB 68
  - Total OPEB liability net plan assets
    - Actuarially calculated
      - Performed at least every 2 years
      - Roll forward of liability required if actuarial valuation isn't as of the Plan's year end.
    - Alternative method – less than 100 plan members both active and inactive

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GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Cont'd)

- Projected Plan Benefits
  - Claims costs or age-adjusted premiums based approximating claims costs
  - Plan benefits provided through plan document and past practice
  - Legal or contractual agreements and caps
  - Projected salary changes including COLA
  - Taxes and assessments imposed on benefit payments

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

- Issued – July 2015
- Effective – Periods beginning after June 15, 2015
  - Early adoption is permitted

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GASB 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Cont'd)

- Reduces from four levels of current authoritative literatures to two levels
  - Category A – Statements
    - Includes interpretations issued and currently in effect until amended or superseded by subsequent GASB pronouncement
  - Category B – Guidance formally cleared by GASB
    - GASB Technical Bulletins
    - GASB Implementation Guides
    - Literature of AICPA cleared by GASB

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GASB 77 - Tax Abatement Disclosures

- Issued - August 2015
- Effective for periods beginning after December 15, 2015
- Improve financial reporting by providing users the nature and magnitude of tax abatements:
  - How abatements affect governments future ability to raise resources to meet its financial obligations
  - Impact the abatements have on a governments financial condition and economic condition

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GASB Technical Agenda Projects

- ✓ Fiduciary responsibilities – preliminary views re-deliberations
- ✓ Leases – preliminary views re-deliberations
- ✓ Asset retirement obligations – initial deliberations
- ✓ Blending requirements for certain business-type activities – exposure draft comment period
- ✓ External investment pools – just completed exposure draft comment period
- ✓ Irrevocable charitable trusts – exposure draft comment period

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Fiduciary Responsibilities

- Status and next steps
  - Preliminary Views issued in November
  - Comment deadline – March 6, 2015
  - Field test – being conducted during due process period
  - Public hearings – April 2015
  - Exposure draft – September 2015
  - Final July 2016

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Fiduciary Responsibilities (continued)

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

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Fiduciary Responsibilities (continued)

- Fiduciary Responsibilities – Description
  - A government is a fiduciary when it controls assets in any of the following ways:
    - From a pass-through grant for which the government does *not* have administrative or direct involvement
    - In accordance with a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary
    - For the benefit of individuals that are *not* required to be part of the citizenry, or
    - For the benefit of organizations or other governments that are *not* part of the financial reporting entity
  - Legal structure (direct, trustee, legally separate entity)
  - Responsibility for administering the exchange of assets

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Fiduciary Responsibilities (continued)

- Custodial Funds
  - An expanded fund type would be established that includes any fiduciary arrangement that is not governed by a formal trust agreement or equivalent arrangement – CUSTODIAL FUNDS
    - Funds previously reported 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 would be reported in the financial statements
  - A commitment would be recognized and reported as a liability only when the event giving rise to the liability has occurred
    - Otherwise…….the commitment would be recognized and reported as net position restricted for beneficiaries for ALL FIDUCIARY FUNDS

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Leases

- Status and next steps
  - Preliminary Views issued November 2014
  - Comment deadline – March 2015
  - Field Test – being conducted during due process period
  - Public hearings – April 2015
  - Exposure draft – January 2016
  - Final – November 2016

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Leases (continued)

- Based on a joint FASB/IASB project
  - Revised FAB exposure draft released in May 2013
- The core principal of this proposal is that an entity should recognize assets and liabilities arising from a lease

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Leases (continued)

- Leases – Tentative Decisions
  - Single approach – right of use
    - No classification of leases into operating/capital or other categories
    - Underlying assumptions that leases are financing activities
  - Practicality exception – short-term lease
    - Lease that, at the beginning of the lease, has maximum possible term under the contract, including any options to extend, of 12 months or less
  - Lessor – symmetry with lessee accounting

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Pre-Agenda Research

- Financial Reporting Model Reexamination
- Debt extinguishments

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