Recognition and Reporting
Specific Issues

Pension Obligations
OPEB Obligations
Revenue Recognition
Leases
Other Pending Recognition Issues
Learning Objectives

• Comprehend the reporting and recognition guidance for new and pending GAAP for public institutions
• Identify the primary issues and concerns for the recognition and reporting of updated guidance
• Understand the display for reporting updated GAAP guidance
Pension Reporting
GASB Pension Reporting

- Employers record (a proportionate share) in their financial statements
  - Net pension liability
  - Pension expense
  - Deferred inflows and deferred outflows
  - Expanded footnote disclosures
  - New required supplementary tables
Pension Accounting and Financial Reporting Changes

- Moves from a funding approach to an accounting approach - Remember the ARC?
- Requires immediate recognition of overall pension obligation
- Net pension liability = overall pension obligation – pension assets
- Measurement of liability will be determined on funding status. Discount rate? Measure as a debt or investment?
- New footnotes and required supplementary information
Background

- The institution sponsors a single defined benefit pension plan.
  - Institution fiscal year end = 6/30
  - Plan fiscal year end = 3/31
    - GASB 67 requires the plan to perform a valuation as of the plan’s fiscal year end
    - Because the plan performs an annual valuation, the simplest approach is to also use the valuation date as the measurement date
- The plan has elected *not* to record initial deferred outflows and deferred inflows of resources
Assumptions: contributions

- Total employer contributions
  - For FYE 6/30/14 = $3,000,000
  - For FYE 6/30/15 = $3,100,000
- Contributions made between plan and employer fiscal year ends*
  - 3/31/14 - 6/30/14 = $750,000 ($3.0 million/4)
  - 3/31/15 - 6/30/15 = $775,000 ($3.1 million/4)

*Need to defer to synchronize with measurement year
Assumptions: actuarial gains/losses

- Measurement year ending 3/31/15
  - Loss due to change in plan terms = $600,000
    - Immediate recognition required
  - Gain due to investment return in excess of assumption = $500,000
    - Amortization required over five years ($500,000/5 years = $100,000/year)
  - Other losses (actual vs. assumption) = $720,000
    - Amortization required over average estimated remaining service life which actuary determined as 6 years ($720,000/6 years = $120,000/year)
Assumptions: balances

• Net Pension Obligation (NPO) reported per old GASB 27
  – 6/30/15 = $1,100,000

• Net Pension Liability (NPL) to be reported per GASB 68
  – 3/31/14 = $4,000,000
  – 3/31/15 = $5,000,000
Prior period adjustment

• Part 1: Eliminate NPO (GASB 27)
  Net pension obligation $1,100,000
  Net position $1,100,000

• Part 2: Record beginning NPL (GASB 68)
  Net position (starting) $4,000,000
  Net pension liability $4,000,000

• Part 3: Record deferred outflow for contributions made subsequent to the measurement date (GASB 71)
  Deferred outflow – post measurement date contributions $750,000
  Net position $750,000

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Preparing the 2015 entry (1/3)

- A change in plan terms is recognized in the period and reflected in the final NPL
  - No effect on journal entry
- Gains and losses on investments are amortized over 5 years

\[
\begin{align*}
\text{\$500,000} & \text{ total amount to be amortized} \\
\text{Less:} & \text{ 100,000 amortized in current year (in NPL)} \\
\text{\$400,000} & \text{ deferred inflow of resources}
\end{align*}
\]
Preparing the 2015 entry (2/3)

- Other gains and losses amortized over average remaining service life (6 years)
  
  $720,000  total amount to be amortize

  Less: 120,000  amortized in current year (NPL)

  $600,000  deferred outflow of resources
Preparing the 2015 entry (3/3)

- Deferred outflow for subsequent contributions

  $775,000  deferred outflow for 2015 amount
  Less:  750,000  recognition of 2014 deferred amount
  $  25,000  net increase in deferred outflow

Expressed another way, contributions made during the measurement year 4/1/14 to 3/31/15 = $3,075,000

  $750,000 x 1 = $  750,000
  $775,000 x 3 = $ 2,325,000
  $ 3,075,000
Entry to Record the FY 2015 Amounts

Pension Expense $3,875,000
Deferred Outflow - subsequent contributions 25,000
Deferred Outflow - assumption Losses 600,000
Deferred Inflow - Excess Investment Return $ 400,000
Net Pension Liability – increase from prior year 1,000,000
Contributions 3,100,000
Reconciliation of Pension Expense

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in the Net Pension Liability</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Current year contributions</td>
<td>3,100,000</td>
</tr>
<tr>
<td>Flow through of Deferred Contributions</td>
<td>750,000</td>
</tr>
<tr>
<td>Deferral for subsequent contributions</td>
<td>(775,000)</td>
</tr>
<tr>
<td>Deferred Outflow - Actuarial Losses</td>
<td>(600,000)</td>
</tr>
<tr>
<td>Deferred Inflow - Excess Investment Earnings</td>
<td>400,000</td>
</tr>
<tr>
<td>Pension Expense</td>
<td>$3,875,000</td>
</tr>
</tbody>
</table>
Pension Amounts on
Statement of Net Position - 6/30/15

Deferred Outflow - subsequent contributions $775,000
Deferred Outflow - Actuarial loss 600,000
Deferred Inflow - Investment Earnings (400,000)
Net Pension Liability (5,000,000)
2016 Update

• Remaining service life of participants will vary from year to year.

• GASB 68 requires “layered amortization”
  – Each year’s amortization schedule remains intact until that year’s deferral is completely amortized.

• Deferred outflows or deferred inflows normally may not be netted
  – Exception = deferred outflows/inflows related to investment earnings

• Aggregation across years is permitted
Pension Accounting and Financial Reporting

- Expands 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
CAFR Required Supplementary Information
(Ten years of Information)

- Schedule of the Net Pension Liability
- Provide Plans and Employer’s share
- Total pension liability less market value of assets = Net pension liability, beginning and ending
- Ratio of net position to total pension liability
- Net pension liability as a percentage of covered employee payroll
- Schedule of Changes in the Net Pension Liability
- Total Pension Liability (elements of net change, beginning and ending)
- Plan Net Position (contributions, investment income, expenses and beginning and ending)
- Notes
## Plan Schedule

**EXAMPLE COST SHARING PENSION PLAN**

Schedule of Employer Allocations

6/30/20XX

<table>
<thead>
<tr>
<th>Employer/Nonemployer (special funding situation)</th>
<th>20XX Actual Employer Contributions</th>
<th>Employer Allocation Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of Example</td>
<td>$2,143,842</td>
<td>38.9%</td>
</tr>
<tr>
<td>Employer 1</td>
<td>268,425</td>
<td>4.9%</td>
</tr>
<tr>
<td>Employer 2</td>
<td>322,142</td>
<td>5.8%</td>
</tr>
<tr>
<td>Employer 3</td>
<td>483,255</td>
<td>8.8%</td>
</tr>
<tr>
<td>Employer 4</td>
<td>633,125</td>
<td>11.5%</td>
</tr>
<tr>
<td>Employer 5</td>
<td>144,288</td>
<td>2.6%</td>
</tr>
<tr>
<td>Employer 6</td>
<td>95,365</td>
<td>1.7%</td>
</tr>
<tr>
<td>Employer 7</td>
<td>94,238</td>
<td>1.7%</td>
</tr>
<tr>
<td>Employer 8</td>
<td>795,365</td>
<td>14.4%</td>
</tr>
<tr>
<td>Employer 9</td>
<td>267,468</td>
<td>4.9%</td>
</tr>
<tr>
<td>Employer 10</td>
<td>267,128</td>
<td>4.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,514,641</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
## EXAMPLE COST SHARING PENSION PLAN

### Schedule of Pension Amounts

**6/30/20xx**

<table>
<thead>
<tr>
<th>Employer/Nonemployer (special funding situation)</th>
<th>Net Pension Liability</th>
<th>Deferred Outflow of Resources</th>
<th>Changes in Employer contributions and differences</th>
<th>Deferred Inflows of Resources</th>
<th>Changes in Employer contributions and differences</th>
<th>Pension Expense</th>
<th>Net Amortization of Deferred amounts from Changes in Proportionate Share of Plan Pension Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of Example</td>
<td>$ 38,589,135</td>
<td>$ 428,768</td>
<td>$ 2,058,088</td>
<td>$ 1,500,690</td>
<td>$ 782,365</td>
<td>$ 1,063,285</td>
<td>$ –</td>
</tr>
<tr>
<td>Employer 1</td>
<td>4,831,647</td>
<td>53,685</td>
<td>257,688</td>
<td>187,898</td>
<td>96,633</td>
<td>133,131</td>
<td>–</td>
</tr>
<tr>
<td>Employer 2</td>
<td>5,798,553</td>
<td>64,428</td>
<td>309,256</td>
<td>225,499</td>
<td>115,971</td>
<td>159,773</td>
<td>–</td>
</tr>
<tr>
<td>Employer 3</td>
<td>8,698,585</td>
<td>96,651</td>
<td>463,925</td>
<td>338,279</td>
<td>173,972</td>
<td>239,681</td>
<td>–</td>
</tr>
<tr>
<td>Employer 4</td>
<td>11,396,244</td>
<td>126,625</td>
<td>607,800</td>
<td>443,188</td>
<td>227,925</td>
<td>314,012</td>
<td>–</td>
</tr>
<tr>
<td>Employer 5</td>
<td>2,597,183</td>
<td>28,858</td>
<td>138,516</td>
<td>101,002</td>
<td>66,040</td>
<td>131,681</td>
<td>–</td>
</tr>
<tr>
<td>Employer 6</td>
<td>1,716,569</td>
<td>19,073</td>
<td>91,550</td>
<td>66,756</td>
<td>34,331</td>
<td>71,563</td>
<td>–</td>
</tr>
<tr>
<td>Employer 7</td>
<td>1,696,283</td>
<td>18,848</td>
<td>90,468</td>
<td>65,967</td>
<td>33,926</td>
<td>67,739</td>
<td>–</td>
</tr>
<tr>
<td>Employer 8</td>
<td>14,316,562</td>
<td>188,485</td>
<td>763,550</td>
<td>556,756</td>
<td>286,486</td>
<td>394,478</td>
<td>–</td>
</tr>
<tr>
<td>Employer 9</td>
<td>4,814,241</td>
<td>53,494</td>
<td>256,769</td>
<td>187,228</td>
<td>68,325</td>
<td>132,657</td>
<td>–</td>
</tr>
<tr>
<td>Employer 10</td>
<td>4,808,301</td>
<td>53,426</td>
<td>256,443</td>
<td>186,990</td>
<td>67,528</td>
<td>132,488</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 99,263,485</td>
<td>1,102,928</td>
<td>5,294,055</td>
<td>3,860,249</td>
<td>1,939,406</td>
<td>4,832,655</td>
<td>–</td>
</tr>
</tbody>
</table>
Application Exercise
Overview of OPEB Standards

Statement No. 74 – OPEB Plan FY 17
Statement No. 75 – OPEB Obligations FY 18
OPEB Obligations

• Reporting OPEB plan FY Yr after 6.15.16
  – Funds held

• Reporting OPEB liabilities FY Yr after 6.15.17
  – Measures the OPEB liability
  – Reports changes in Total (net) OPEB liability
  – Discloses notes and required supplementary information
Statement No. 74  OPEB Plans

- Recognition, measurement and presentation to the financial statement amounts generally similar to current guidance GASB 43.
- Note disclosures to current with addition of information investment policies and actual rate of return
- Certain information required for only single employer and cost-sharing plans
- Requirements re measurement of net OPEB liability (assets) are similar to requirements for employers (Net OPEB liability (assets) not recognized by plans.
Statement No. 74 OPEB Plans

• When institution holds and administers plan, the activities reported as fiduciary net position (not institution’s resources rather held for others) – for public institutions this would be rare.

• When institution holds and administers plan, typical fiduciary reports and notes disclosure required.
  – Net position = Net position restricted for OPEB
  – Changes include additions and deletions including administrative expenses
  – Notes include plan description, investment activities, reserves, and any allocated contracts excluded from plan assets.
Statement No. 75 Liabilities

- Reporting for obligations for OPEB other than pensions on face of F/S
- Changes applied retroactively by restating financial statements for all periods presented
- Divided into two sections
  - OPEB provided via plans administered as trusts or equivalent arrangements
  - OPEB provided thru plans not administered as trusts
  - Defined contribution OPEB plans are ‘pay as you go’ basis
**OPEB Liabilities**

- **Definition**
  - Postemployment healthcare benefits
  - Other postemployment benefits when provided separately from a pension plan
    - Can get fuzzy per presidential and senior administrator contracts
- **Public institutions must determine who admin the plan - system or third party**
  - System of third party report actuarial data for reporting similar to current pension reporting
OPEB Liabilities

- Recognition similar to that used for pension obligations.
  - Liability recognized as employees earn OPEB benefits by providing services
- Measurement period can be one year before reporting date or biannual but period must be used consistently

•
OPEB Liability Measurement

• Actuarial valuation performed as of the measurement date, or
• Use 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 occur between last valuation date and measurement date
Measurement Illustration

- Measurement Date
  - OPEB Expense (Measurement Period)
  - Deferred Outflows of Resources

- Dates:
  - 6/30/16
  - 12/31/16
  - 6/30/16
  - 12/31/17
  - 6/30/18

- Labels:
  - Employer FYE
  - Plan FYE
Determining Total OPEB Liability

- Project benefit payments – include COLA est, salary changes, project service credits exclude administrative costs
- Discount using a yield or index rate for 20-year, tax exempt GO municipal bond with AA/Aa or higher rating
- Attribute the present value of the projected future benefit payments to a specific period based on actuarial method employed
Components of OPEB Expense

- Service cost
- Employee contribution
- Interest on total OPEB liability
- Changes in benefit terms
- Plan administrative costs
- Projected earnings on plan investment
- Reconciliation deferred outflow/inflow
  - Changes in assumptions, differences in projected vs actual earnings, changes in proportion, changes in contributions, changes in expected vs actual experiences
  - Increase
  - Decrease
  - Increase
  - Increase
  - + or –
  - Increase
  - Decrease
  - + or -
Application Exercise
New LEASE GAAP

Both Leasee and Leasor guidance
Lease Guidance

• GASB has proposed revisions to existing standards on lease accounting and financial reporting (primarily NCGA Statement 5 and GASB Statement 13)
• Existing standards have been in effect for decades without review to determine if they remain appropriate and continue to result in useful information
• GASB elected to not employ FASB lease types
• Leases of 12 months or less exempted
• Record right to use intangible asset
• Record lease liability
• Leases considered to be financing
• PV issued 11/14, Comment 3/15, ED expected first QTR of 2016, 120 days for comments
Application Exercise
Revenue Recognition

FASB Guidance issued
GASB following FASB lead – long term project
Revenue Recognition

• Why should we be concerned?
• Public institutions contract with for-profit entities that will be following FASB GAAP in 2017
• THUS, by default public entities must be aware of the process.
The 5-Step Revenue Recognition Model

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when or as the company satisfies a performance obligation.
Applicable Contracts

• A company should only apply the revenue recognition standard to contracts that meet all of the following criteria:
  – All of the parties to the contract approve the contract (in writing, orally, or by implication) and commit to performing their obligations.
  – The company is able to identify each party’s rights regarding the goods or services to be transferred.
  – The company is able to identify the payment terms for the goods or services to be transferred, but does not imply that the transaction price has to be fixed or explicitly stated.
  – The contract has commercial substance, meaning the contract must change the timing, amount, or probability of the future cash flows.
  – It is probable that the company will collect the consideration to which it is entitled in exchange for goods or services transferred to the customer.
Contract Modification Determination

1. Does the contract modification add distinct goods and services?
   - Yes
     - Does the contract price increase by an amount that reflects the stand-alone selling price of the additional distinct goods or services?
       - Yes
         - Account for the contract modification as a new separate contract.
       - No
         - Account for the contract modification using the cumulative catch-up method.
   - No
     - Account for the contract modification using the prospective method.
Example Patrick Manufacturing agrees to sell 500 T-shirts to Public Company for $7,000 ($14 per shirt). After 400 T-shirts have been delivered, Patrick and Public modify the agreement to sell an additional 200 sweatshirts for $1,000 ($5 each), which is significantly lower than Patrick’s stand-alone selling price.

Because the selling price does not reflect the stand-alone selling price of the goods, this modification would not be considered a separate contract. Instead, Patrick should use a prospective approach because the goods are). Therefore, Patrick will account for the goods as if the original contract is terminated and new contract is created. Public would be unaware of the change. The $1,400 of revenue remaining from the original contract (100 shirts × $14) is combined with the revenue related to the modification ($1,000), and Patrick will recognize revenue of $8 per shirt.
Identifying Performance Obligations

- A **performance obligation** is a promise in a contract with a customer to transfer goods or services.
- The promise may be explicit, such that a source document details the terms of the performance obligation, or the promise may be implicit and establish a **constructive obligation** in which the seller creates a compelling expectation that it will provide the promised goods or services based on its customary business practices, published policies, or specific statements.
- In addition, performance obligations do not have to be legally enforceable (example: customer loyalty programs).
- This provision will impact public institution’s construction contracts.
Examples of Performance Obligations

- Building, designing, manufacturing, or creating an asset on behalf of a customer
- Transferring produced goods or reselling purchased goods
- Granting a right to use an intangible asset
- Standing ready to provide goods or services in the future
- Performing contractually agreed-upon tasks
- Arranging for another party to transfer goods or services
Application Exercise
Achievements

• Know the attributes of the public institution pension reporting requirements

• Understand changes for reporting OPEB benefits

• Understand the need for understanding revised revenue recognition criteria for the for-profit organizations

• Appreciate the need to monitor new lease GAAP reporting development
Questions?
Thank you!