



2015 Governmental GAAP Update

January 21, 2015
Webinar

Presented in association with



Presented by:



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Session Outline

- Newly issued standards
- Newly effective standards
- Upcoming standards
- Exposure drafts and preliminary views

Newly Issued Standards

- GASB Pronouncements issued in 2014: **zero**
 - That hasn't happened since 1985

Newly Effective Standards

- GASB Pronouncements effective in 2014:
 - GASB 67: Pension Plans
 - GASB 69: Government Combinations/Disposals
 - GASB 70: Nonexchange Financial Guarantees
- GASB Pronouncements effective in 2015:
 - GASB 68/71: Pensions

GASB Statement 67/68

The New Pension Standards

- GASB 67
 - Applies to the financial statements of **pension plans** (pension trust funds)
 - Effective 06/30/2014
- GASB 68 (as amended by GASB 71)
 - Applies to the financial statements of **employers** providing pension benefits
 - Effective 06/30/2015

GASB Statement 67/68

Defining Pension & OPEB

- Pensions
 - Retirement income and benefits (other than healthcare) provided through a pension plan
- Other postemployment benefits (OPEB)
 - All postemployment healthcare benefits
 - Postemployment benefits other than retirement income not administered by a pension plan

GASB Statement 67/68

Defining Pension & OPEB

- Two broad types of pension plans:
 - Defined benefit (DB)
 - Benefits are defined by plan terms (either a specific dollar amount, or calculated based on age, years of service, compensation, etc.)
 - No individual accounts by plan member
 - Primary focus of GASB 67/68

GASB Statement 67/68

Defining Pension & OPEB

- Two broad types of pension plans:
 - **Defined contribution (DC)**
 - Individual account for each plan member
 - Identify the employer contributions to be made in each period of service
 - Benefits are limited to contributions made and the earnings thereon
 - Little changed by GASB 67/68

GASB Statement 67/68

Defining Pension & OPEB

- Three types of defined benefit plans:
 - **Single-employer** pension plan
 - A primary government and its component units may be considered to be one employer
 - **Agent multiple-employer** pension plan
 - Assets are pooled, but each employer's share is legally available to pay the benefits of only its employees

GASB Statement 67/68

Defining Pension & OPEB

- Three types of defined benefit plans:
 - Cost-sharing multiple-employer pension plan
 - Assets are pooled, and may be used to pay benefits of the employees of any participating employer

GASB Statement 67/68

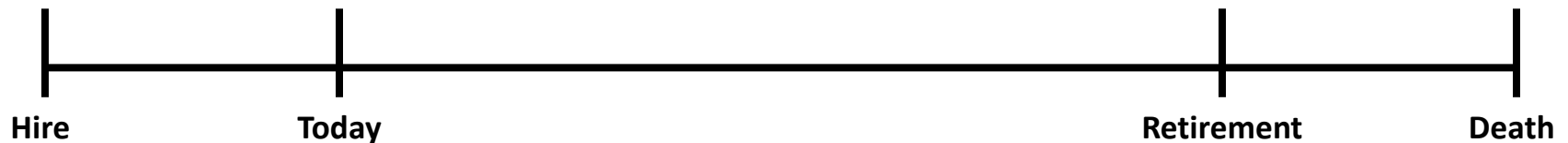
Net Pension Liability

- Recorded by the employer (not the plan)
- Equal to the actuarially determined **total pension liability**, less the **net position** of the pension trust fund
- Recorded in full accrual financial statements (certain portions are deferred and amortized)

GASB Statement 67/68

Total Pension Liability

- Calculated by the actuary:
 - Project future benefits
 - Discount to present value
 - Attribute present value to specific periods



GASB Statement 67/68

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GASB Statement 67/68

Total Pension Liability

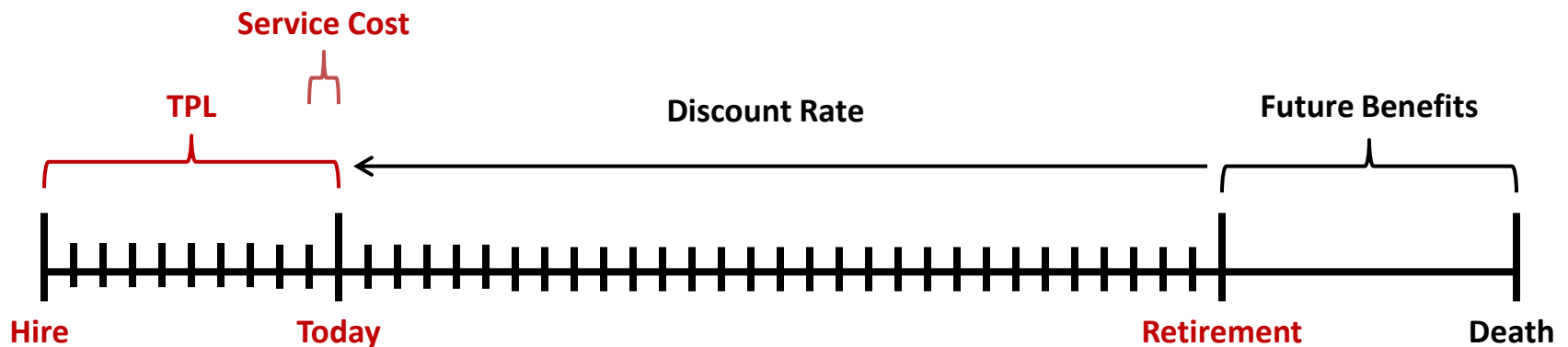
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GASB Statement 67/68

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GASB Statement 67/68

Key Actuarial Changes

- Actuarial cost method
 - GASB 25/27 allowed for use of one of six actuarial cost methods
 - GASB 67/68 requires use of the Entry Age Level % of Pay cost method
 - If currently using a method other than Entry Age Level % of Pay, the funded status of the plan will change

GASB Statement 67/68

Key Actuarial Changes

- Expected return/discount rate
 - GASB 25/27 based on current or expected long-term rates of return
 - GASB 67/68 requires calculating a single blended rate
 - Expected rate of return (sufficient assets)
 - AA 20 year muni bond rate (insufficient assets)
 - A lower discount rate produces a higher liability and vice versa

GASB Statement 67/68

Key Actuarial Changes

- Expected return/discount rate
 - Example:

	Target Allocation	Long-term Expected Real Rate of Return	Money Weighted Rate of Return
Domestic equity	46%	5.4%	2.48%
International equity	21%	5.5%	1.16%
Fixed income	26%	1.3%	0.34%
Real estate	6%	4.5%	0.27%
Cash	1%	0.0%	0.00%
	<u>100%</u>		4.25%
Inflation			<u>3.50%</u>
Investment rate of return			<u>7.75%</u>

GASB Statement 67/68

Key Actuarial Changes

- Annual Cost
 - GASB 27 required calculation of a “Annual Required Contribution (ARC)” equal to the service cost plus amortization of the unfunded actuarial liability
 - GASB 68 requires calculation of Pension Expense equal to the change in the net pension liability with adjustments for deferred recognition of some gains/losses

GASB Statement 67/68

Key Actuarial Changes

- Asset method
 - GASB 27 permitted an actuarial asset method that smoothed gains and losses
 - GASB 68 requires market value of assets

GASB Statement 67/68

Key Actuarial Changes

- Amortization of unfunded liability
 - GASB 27 permitted wide latitude in amortization periods
 - GASB 68 requires:
 - Plan changes – immediately
 - Assets returns other than expected – 5 years
 - Other actuarial liability gains and losses – average future service

GASB Statement 67/68

Key Actuarial Changes

- Assumptions used
 - Largely consistent with funding approach
 - Discount rate may differ
 - Sensitivity analysis (calculate the TPL $\pm 1\%$ of the selected discount rate)
 - Auditors may need to apply greater scrutiny

GASB Statement 67/68

Actuarial Terms (Old and New)

- Actuarial Accrued Liability vs. **Total Pension Liability**
 - The amount of money you should have in the fund (AAL)
- Actuarial Value of Assets vs. **Fiduciary Net Position**
 - The amount of assets you actually have in the fund (AVA)
- Unfunded Actuarial Accrued Liability vs. **Net Pension Liability**
 - The shortfall between the liability and the assets (UAAL)
- Funded ratio vs. **Funded Ratio**
 - How many cents you have to cover each dollar of liability, or the assets divided by the liability

GASB Statement 67/68

Actuarial Terms (Old and New)

- Normal Cost vs. **Service Cost**
 - The cost of benefits accruing during the year
- Employer Contribution vs. **Pension Expense**
 - The amount paid into the fund during the year. When done actuarially, it is the sum of the normal cost plus a payment to the unfunded actuarial accrued liability.

While the new terms are conceptually similar to the old terms, they should not be used interchangeably

GASB 67

Pension Plans

- Effective 06/30/2014
- Applies to stand alone pensions, as well as the pension trust funds of governments

GASB 67

Pension Plans

- Applicable to DB and DC pension plans administered through trusts
 - Contributions/earnings are irrevocable
 - Plan assets are dedicated to providing pensions (benefits) to plan members
 - Plan assets are legally protected from creditors
 - Plans not administered through trusts will continue to follow existing GAAP

GASB 67

Pension Plans

- Number of pension plans to report
 - Based on whether assets may legally be used to pay benefits to any plan members
 - If yes, present only one plan, even if separate reserves are maintained for internal accounting purposes, or separate actuarial valuations are obtained
 - Pooling of assets for investment purposes has no impact

GASB 67

Pension Plans

- Financial statements
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position

GASB 67

Pension Plans

- Statement of Fiduciary Net Position
 - Assets by major category
 - Show investments at FV by major component
 - Liabilities
 - Limited to short-term benefits due/accruals
 - Deferred inflows/outflows
 - If applicable (e.g., hedged investments)
 - Fiduciary net position
 - Net position restricted for pensions

GASB 67

Pension Plans

- Statement of Changes in Fiduciary Net Position
 - Additions
 - Contributions (employer/employee)
 - Net investment income (by component)
 - Deductions
 - Benefit payments
 - Administrative expenses
 - Net increase (decrease) in net position

GASB 67

Pension Plans

- Notes to financial statements
 - Plan description
 - Name of the pension plan
 - Who administers the plan
 - Type of plan (single-employer, agent, or cost-sharing)
 - Number of participating employers
 - Information on the plan's board and its composition
 - (cont...)

GASB 67

Pension Plans

- Notes to financial statements
 - Plan description
 - Classes of plan members
 - Number of plan members (active, inactive not yet receiving benefits, and inactive receiving benefits)
 - Disclose if the plan is closed to new members
 - Authority to establish/amend benefit terms
 - Contribution requirements (in dollars or percentages)

GASB 67

Pension Plans

- Notes to financial statements
 - Pension plan investments
 - Investment policies (including asset allocation)
 - How fair value of investments is determined
 - Concentrations > 5% (excluding US Government)
 - Annual money-weighted rate of return on investments

GASB 67

Pension Plans

- Notes to financial statements
 - Receivables
 - Terms for any long-term receivables
 - Allocated insurance contracts excluded from pension plan assets
 - Amount and brief description
 - State that risk was transferred to insurance company

GASB 67

Pension Plans

- Notes to financial statements
 - Reserves
 - If there is a policy for setting aside reserves, describe
 - Deferred retirement option program (DROP) balances
 - If offered, describe the terms and amounts held

GASB 67

Pension Plans

- Notes to financial statements

Single-employer/cost-sharing plans only:

- Components of the employer’s “net pension liability”

- Total pension liability
- Pension plan’s fiduciary net position
- Net pension liability
- Net position as a percent of the total pension liability

GASB 67

Pension Plans

- Notes to financial statements

Single-employer/cost-sharing plans only:

- Significant assumptions and other inputs used to measure the net pension liability
- The date of the actuarial valuation on which the net pension liability is based

GASB 67

Pension Plans

- Notes to financial statements

Single-employer/cost-sharing plans only:

– Disclosures about the discount rate:

- Rate used (note if changed from prior year)
- Assumptions about future cash flows (in/out)
- Long-term expected rate of return on pension investments and how determined
- If the discount rate includes a municipal bond rate, specify which one was used

continued...

GASB 67

Pension Plans

- Notes to financial statements

Single-employer/cost-sharing plans only:

– Disclosures about the discount rate:

- Which future periods each rate was applied to
- Assumed asset allocation and the expected real rate of return for each major asset class
- Measure the NPL with a discount rate that is one-percentage-point higher/lower than rate used

GASB 67

Pension Plans

- Required Supplementary Information

All plans:

- Annual money-weighted rate of return on pension plan investments (10 years)

Single-employer/cost-sharing plans only:

- 10-year schedule of annual changes in the net pension liability

GASB 67

Pension Plans

- Required Supplementary Information

Single-employer/cost-sharing plans only:

– 10-year schedule of the following by year:

- Total pension liability
- Pension plan's fiduciary net position
- Net pension liability
- Net position as a percentage of the total pension liability
- Covered-employee payroll
- Net pension liability as a percentage of the covered-employee payroll

GASB 67

Pension Plans

- Required Supplementary Information

Single-employer/cost-sharing plans only:

– 10-year schedule of the following by year:

- Actuarially determined contribution (ADC)
- Contractually required contribution
- Amount of contributions recognized
- Difference between ADC and amounts actually contributed
- Covered-employee payroll
- Amount of contributions recognized as a percentage of covered-employee payroll

GASB 67

Pension Plans

- Notes to RSI

Single-employer/cost-sharing plans only:

- Significant methods and assumptions used in calculating actuarially determined contributions

GASB 68

Employers

- Effective 06/30/2015
- Applies to governments that participate in pension plans covered by GASB 67

GASB 68

Employers

- GASB's conceptual view of pensions
 - Pensions are a part of employee compensation (exchange transaction)
 - Pensions are earned by employees over their service life, and represent a “present obligation” of the employer, rather than the plan
 - Accordingly, employers should report a “net pension liability”

GASB 68

Employers

- Net Pension Liability
 - Total pension liability less net position of the pension trust fund
 - Single employer and agent multiple-employer plans record NPL and disclose information for the plan
 - Cost-sharing plans record pro-rata share of overall plan amounts

GASB 68

Employers

- Net Pension Liability
 - Total pension liability less net position of the pension trust fund
 - Single employer and agent multiple-employer plans record NPL and disclose information for the plan
 - Cost-sharing plans record pro-rata share of overall plan amounts

GASB 68

Employers

- Pension expense
 - Current year expense is comprised of:
 - Value of benefits earned in the current year
 - Interest on any outstanding liability
 - Changes in the total pension liability caused by changes in the terms of pension benefits
 - Changes in plan assets caused by projected investment earnings
 - Amortization of deferred inflows/outflows

GASB 68

Employers

- Pension expense
 - Bears no direct relationship to the amounts actually contributed to the plan
 - Reported in full accrual statements only
 - Modified accrual funds only report actual contributions

GASB 68

Employers

- Pension expense
 - Defer and amortize:
 - Changes in the total pension liability caused by changes in actuarial assumptions (over remaining service life)
 - Changes in the amount of plan assets due to differences between projected and actual investment earnings (over 5 years)
 - Unamortized portions presented on the balance sheet as deferred inflows and outflows

GASB 68

Employers

- Note disclosures
 - All disclosure requirements from GASB 67 (avoid unnecessary duplication)
 - Schedule of deferred inflows/outflows to be recognized in future periods (similar to long-term debt amortization)
- Required Supplementary Information
 - All disclosure requirements from GASB 67 (avoid unnecessary duplication)

GASB 68

Employers

- Single employer/agent DB plans
 - Report full amounts for the plan
- Cost sharing DB plans
 - Report the employer's proportionate share of the overall plan
 - Disclose any change in proportion from year to year and amortize over remaining service life

GASB 68

Employers

- Defined contribution plans
 - Expense = contributions
 - Liability = difference between pension expense and amounts actually contributed
 - Note disclosures
 - General description of the plan
 - Required contribution rates
 - Amount of pension expense recognized, and any outstanding pension liability

GASB 67/68

Timing Implications

- In an ideal world, everything would be measured in real time at the employer's fiscal year end
- In reality, plans and employers don't always have the same year end, and actuarial valuations take time to complete

GASB 67/68

Timing Implications

- Actuarial valuations
 - GASB 67 allows up to 24 months prior to the FYE of the pension plan
 - Use update procedures to roll forward to the pension plan's FYE
 - GASB 68 allows up to 30 months prior to the FYE of the employer
 - Use update procedures to roll forward to the measurement date

GASB 67/68

Timing Implications

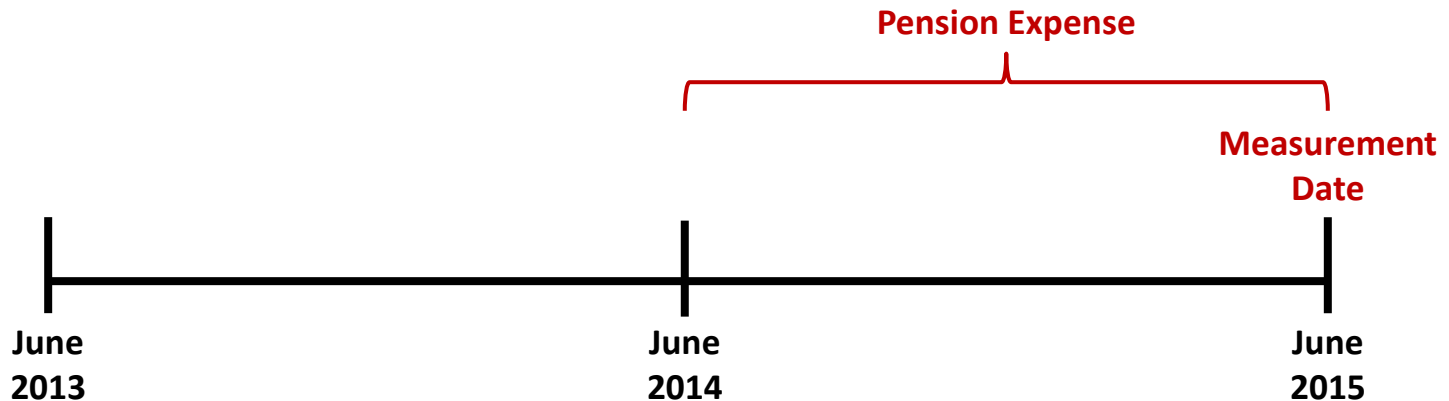
- Measurement date
 - Date at which the NPL is measured
 - May be up to one year prior to the employer's FYE
 - Pension contributions made after the measurement date are reported as deferred outflows of resources

GASB 67/68

Timing Implications

- Examples

- Plan FYE = June 30
- Employer FYE = June 30
- Measurement date = June 30, 2015

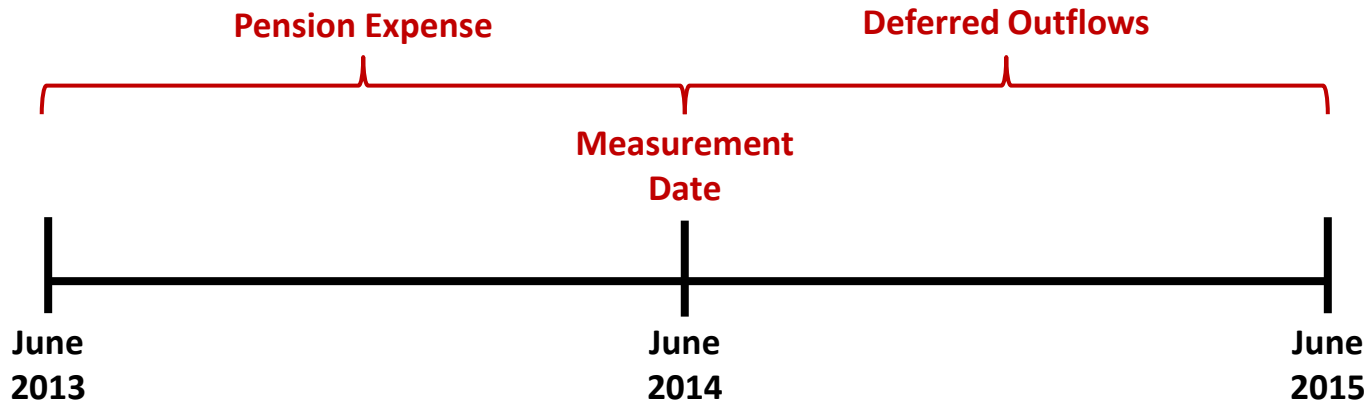


GASB 67/68

Timing Implications

- Examples

- Plan FYE = June 30
- Employer FYE = June 30
- Measurement date = June 30, 2014

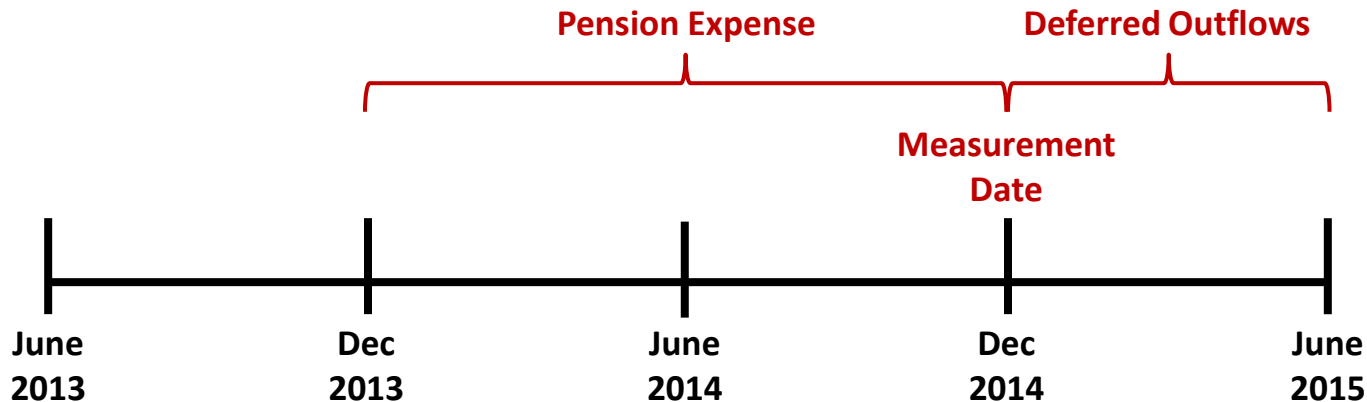


GASB 67/68

Timing Implications

- Examples

- Plan FYE = December 31
- Employer FYE = June 30
- Measurement date = December 31, 2014



GASB 67/68

Auditing Implications

- AICPA White Papers
- Audit Guide: State and Local Governments

GASB Statement 69

Government Combinations / Disposals of Operations

- Effective 12/31/2014
- Establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations

GASB Statement 69

Government Combinations / Disposals of Operations

- Definitions
 - An **operation** is an integrated set of activities conducted and managed for the purpose of providing identifiable services with associated assets or liabilities
 - May be less than an entire legally separate entity

GASB Statement 69

Government Combinations / Disposals of Operations

- Definitions
 - A **government merger** is a combination of legally separate entities
 - No significant consideration is exchanged
 - Either form a new government ($A+B=C$) or one government absorbs another ($A+B=A$)

GASB Statement 69

Government Combinations / Disposals of Operations

- Definitions
 - A **government acquisition** is a combination in which a government acquires another entity, or the operations of another entity, in exchange for significant consideration
 - The acquired entity/operation becomes part of the acquiring government's legally separate entity ($A+B=A$)

GASB Statement 69

Government Combinations / Disposals of Operations

- Definitions
 - A **transfer of operations** is a combination involving the operations of an entity, rather than a combination of legally separate entities
 - No significant consideration is exchanged

GASB Statement 69

Government Combinations / Disposals of Operations

- Mergers
 - New governments
 - Recognize all assets, liabilities and deferred inflows/outflows of the merging entities at their respective carrying values
 - May adjust values for consistency with GAAP and/or to align accounting policies
 - Initial reporting period begins on merger date

GASB Statement 69

Government Combinations / Disposals of Operations

- Mergers
 - Continuing governments
 - Recognize all assets, liabilities and deferred inflows/outflows of the merging entities at their respective carrying values
 - May adjust values for consistency with GAAP and/or to align accounting policies
 - Treat as if the merger occurred at the start of the continuing government's FY
 - Eliminate inter-entity transactions

GASB Statement 69

Government Combinations / Disposals of Operations

- Acquisitions

- Acquisition date is when control of assets or obligation for operations occurs

- Assets, liabilities, and deferred inflows/outflows should generally be recorded at **acquisition value** (market)
 - If consideration exceeds acquisition value, record a deferred outflow and amortize over the period benefiting from the acquisition

GASB Statement 69

Government Combinations / Disposals of Operations

- Transfers of operations
 - Effective transfer date is when control of assets or obligation for operations occurs
 - Recognize all assets, liabilities and deferred inflows/outflows of the transferred operation at their respective carrying values
 - May adjust values for consistency with GAAP and/or to align accounting policies
 - Recognize net position as a special item

GASB Statement 69

Government Combinations / Disposals of Operations

- Disposals of government operations
 - Recognize a gain/loss on the disposal as a special item as of the transfer date or date of sale

GASB Statement 69

Government Combinations / Disposals of Operations

- Note disclosures
 - Brief description, effective date, and primary reasons for the combination
 - Amounts recognized/deferred
 - Description of any consideration involved
 - Revenues/expenses of any disposed operations

GASB Statement 70

Nonexchange Financial Guarantees

- Effective 06/30/2014
- Establishes accounting and financial reporting standards for governments that extend financial guarantees for the obligations of another entity

GASB Statement 70

Nonexchange Financial Guarantees

- Definition:
 - a guarantee of an obligation of a legally separate entity or individual, (including a component unit)
 - which requires the guarantor to indemnify a third-party obligation holder under specified conditions
 - without receiving equal or approximately equal value in return

GASB Statement 70

Nonexchange Financial Guarantees

- Governments that make nonexchange financial guarantees should consider the likelihood of being required to make a payment in relation to the guarantee:
 - Initiation of bankruptcy or financial reorganization
 - Breach in debt contract/covenant
 - Indicators of significant financial difficulty

GASB Statement 70

Nonexchange Financial Guarantees

- If it is “more likely than not” (more than a 50% chance) that a government will be required to make a payment:
 - Recognize a liability and expense (in full accrual statements)
 - Based on best estimate of future outflows
 - Discounted to present value
 - Only record when due and payable (in modified accrual statements)

GASB Statement 70

Nonexchange Financial Guarantees

- Governments whose obligations were guaranteed should continue to report a liability until discharged
 - Reclassify to whom the liability is owed if a guarantor makes payments
 - Recognize revenue if legally released from the obligation

GASB Statement 70

Nonexchange Financial Guarantees

- Intra-entity guarantees
 - When a PG and blended CU are the parties to a guarantee, both sides of the transaction (recording the obligation and recognizing revenue) should be recorded in the same period

GASB Statement 70

Nonexchange Financial Guarantees

- Disclosure requirements
 - When extending a guarantee:
 - Description of the guarantee
 - Total amount extended and outstanding
 - When recognizing a liability:
 - Roll-forward of guarantee activity
 - Cumulative payments made
 - Amounts expected to be recovered

GASB Statement 70

Nonexchange Financial Guarantees

- Disclosure requirements
 - When receiving a guarantee:
 - Description of the guarantee
 - Total amount paid in the current period and cumulatively
 - Description of amounts required to be repaid to the guarantor and amounts released

Upcoming Standards

- GASB Pronouncements expected in 2015:
 - The GAAP Hierarchy
 - Comprehensive Implementation Guide
 - Fair Value Measurement and Application
 - Other Postemployment Benefits (OPEB)
 - Tax Abatement Disclosures

The GAAP Hierarchy

- Would revise the GAAP Hierarchy from the current four levels to two:
 - Level A: GASB Statements
 - Level B: GASB Implementation Guides, Technical Bulletins, and GASB-cleared AICPA guidance
- Final standard expected 2Q15

Comprehensive Implementation Guide

- Exposed the entire Comprehensive Implementation Guide (1600+ pages) to formal deliberation and public comment
- Codified as Level B GAAP
- No substantive changes anticipated
- Final standard expected 2Q15

Fair Value Measurement/Application

- Defines **fair value** as a market exit price (price received at sale)
- Follows the FASB fair value hierarchy:
 - Level 1 – Observable inputs in active markets
 - Level 2 – Observable inputs for similar items
 - Level 3 – Unobservable inputs
- Only changes **how** to apply fair value, not **when**
- Final standard expected 1Q15

Other Postemployment Benefits (OPEB)

- GASB 67/68 only apply to pensions
- Would apply similar guidance to other postemployment benefits (i.e., retiree healthcare)
- Final standards expected 2Q15

Tax Abatement Disclosures

- Exposure draft currently outstanding
 - Comment period ends 01/30/2015
- Would require governments to disclose the details of tax abatements in the notes
- As written, also applies to abatements issued by other governments
- Final standard possible by 3Q15

Looking Further Ahead

- Other GASB projects:
 - Blending Business-type Activities (ED 2Q15)
 - External Investment Pools (ED 2Q15)
 - Irrevocable Charitable Trusts (ED 2Q15)
 - Asset Retirement Obligations (ED 4Q15)
 - Fiduciary Responsibilities (ED 4Q15)
 - Leases (ED 1Q16)

Questions?



For more information...



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