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GASB / Technical Update

MTAW Fall Conference
September 22, 2016
2:00 – 3:00 p.m.

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Presenter


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Elisa Gilbertson, Manager

6+ years external audit; 2+ years school district finance administration

- > Experience in managing governmental accounting/reporting and performing financial and single audits
- > Leads financial and compliance-related audits of local governmental units including cities, towns, villages, counties and school districts
- > Provides recommendations and accounting assistance to clients on a variety of topics including internal controls, policies/procedures to increase efficiency/effectiveness based on first-hand knowledge

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What We Will Cover


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- > The Past – You have implemented GASB 68 related to Pensions – now what?
- > The Present – Accounting Standards affecting State & Local Governments
- > The Future – Accounting Standards on the Horizon
- > Resources Available

High level review of the accounting landscape to help you understand your financial statements.

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THE PAST

INTERPRETING YOUR FINANCIAL STATEMENTS POST GASB 68

Interpreting GASB 68 / 71

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Interpreting Your Financial Statements




- > Now that your financial statements reflect the new pension requirements of GASB Statement No. 68, what has changed and how do you interpret this new information?
- > In summary, GASB Statement No.68 requires government entities participating in the Wisconsin Retirement System (WRS) to report their proportionate share of the plan's activity and the net pension asset.

Interpreting GASB 68 / 71 (cont.)


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WRS Financial Results




- > As of the December 31, 2014 measurement date used for your 2015 financial statements, WRS reported total resources available to provide pension benefits of \$92.1 billion.
- > They also reported a total liability for pensions of \$89.7 billion.
- > This resulted in a net pension asset of \$2.4 billion.

Interpreting GASB 68 / 71 (cont.)



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Your Share of the Net Pension Asset



- > Your share of the net pension asset or liability will fluctuate from year to year.
- > The asset is not something that is convertible to cash or available to spend on other activities.
- > Reported as a restricted long-term or non-current asset and is also reflected as restricted net position.


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Interpreting GASB 68 / 71 (cont.)



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Deferred Outflows / Inflows



- > The most prominent and volatile of these amounts is the difference between the projected earnings of the investments to the actual earnings of the investments.
- > Depending upon market conditions, actual earnings on investments, which include changes in the market value of those investments, can change significantly from one year to the next.
- > In order to smooth out the effects of these differences, these amounts reported as deferred outflows or inflows of resources are amortized to pension expense over a period of time (approximately 5 years).

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Interpreting GASB 68 / 71 (cont.)




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Deferred Outflows / Inflows


- > Any pension contributions (employer amounts and employee amounts paid by the employer) attributable to periods after the Measurement Date (December 31, 2014) are to be removed from the current year's pension expense and applied to the following year's pension expense on the Statement of Activities.
- > Amounts reported as deferred outflows of resources increase your reported unrestricted net position and total net position.

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Interpreting GASB 68 / 71 (cont.)




Fund Financial Statements




- > All of these changes affect the government-wide financial statements and any proprietary fund financial statement that have pensionable wages but **do not** affect your governmental fund financial statements.

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Interpreting GASB 68 / 71 (cont.)



Pension Funding



- > Nor does the implementation of this new standard affect how the entity funds or pays for its pension contributions to the WRS
 - > However, be aware the rate will increase on Jan. 1, 2017 from 13.2% to 13.6% (6.8% EE/ER)
- > The process of funding and paying these pension benefits remains unchanged.


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THE PRESENT
CURRENT ACCOUNTING STANDARDS

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New Effective GASB Statements




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- > **GASB 72** – Fair Value Measurement and Application – effective for reporting periods beginning after June 15, 2015 (**June 30, 2016 & December 31, 2016 year ends**)
- > **GASB 73** – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 - effective for fiscal years beginning after June 15, 2016 (**June 30, 2017 & December 31, 2017 year ends**)
- > **GASB 74** – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans – effective for fiscal years beginning after June 15, 2016 (**June 30, 2017 & December 31, 2017 year ends**)
- > **GASB 75** – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – effective for fiscal years beginning after June 15, 2017 (**June 30, 2018 & December 31, 2018 year ends**)

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New Effective GASB Statements (cont.)




Center Height, Results.

- > **GASB 76** – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments – effective for reporting periods beginning after June 15, 2015 (**June 30, 2016 & December 31, 2016 year ends**)
- > **GASB 77** – Tax Abatement Disclosures – effective for reporting periods beginning after December 15, 2015 (**December 31, 2016 year ends**)
- > **GASB 78** – Pensions Provided through Certain Multiple-Employer Defined Benefits Pension Plans – effective for reporting periods beginning after December 15, 2015 (**December 31, 2016 year ends**)

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New Effective GASB Statements (cont.)




Center Height, Results.

- > **GASB 79** – Certain External Investment Pools and Pool Participants – effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23 - 26, and 40, which are effective for reporting periods beginning after December 15, 2015 (**June 30, 2017 or December 31, 2016 year ends**)
- > **GASB 80** – Blending requirements for Certain Component Units – an amendment of GASB 14 – effective for reporting periods beginning after June 15, 2016 (**June 30, 2017 or December 31, 2017 year ends**)
- > **GASB 81** – Irrevocable Split-Interest Agreements – effective for reporting periods beginning after December 15, 2016
- > **GASB 82** – Pension Issues – an amendment of GASB 67, 68, and 73 – effective for periods beginning after June 15, 2016

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GASB 72 – Fair Value Measurement and Application




Gender Ineq't. Results.

Overview

- >What: The Board issued Statement 72 to update the existing standards on fair value (primarily Statement 31)
- >Why: Review of existing standards found opportunities to improve the measurement of resources available to governments, and to increase comparability and accountability
- >When: Effective for fiscal years beginning after June 15, 2015

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GASB 72 – Fair Value




Gender Ineq't. Results.

Definition of Fair Value

- >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.
 - Exit Price
 - Principal Market
 - Most Advantageous Market
 - Transaction Costs are Expensed

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GASB 72 – Fair Value (cont.)




Gender Ineq't. Results.

Assets that are investments generally s/b @ fair value.
Investment definition:
A security or other asset that a government holds primarily for the purpose of income or profit AND with a present service capacity that is based solely on its ability to generate cash or be sold to generate cash.

- > Service capacity refers to a government's mission to provide services
- > Held primarily for income or profit – acquired first and foremost for future income and profit

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GASB 72 – Fair Value (cont.)



Unit of Account

- > Level at which an asset or a liability is aggregated or disaggregated
- > Examples of the Application of the Unit of Account (GASB 72, Appendix C, Illustration 1)
 - Multiple Investments
 - External Investment Pool
 - Mutual Fund
 - Limited Partnership
 - Government Acquisition


GASB 72 – Fair Value (cont.)



Generally requires all investments to be measured at fair value EXCEPT:

- > Nonparticipating interest-earning investment contracts
- > Investments in life insurance contracts
- > Money market investments
- > Investments held by and in 2a7-like external investment pools
- > Common stock meeting criteria for applying the equity method
- > Unallocated insurance contracts
- > Synthetic guaranteed investment contracts


GASB 72 – Fair Value (cont.)



What's in now that wasn't?

What's not included?

GASB 72 – Fair Value (cont.)




Certain items currently measured at fair value will now be measured at acquisition value (entry price):

- > Donated capital assets
- > Donated works of art
- > Historical treasures
- > Similar assets and capital assets received in a service concession arrangement

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GASB 72 – Fair Value (cont.)




Valuation Techniques

- > The **Market approach**: uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- > The **Cost approach**: reflects the amount that would be required to replace the present service capacity of an asset.
- > The **Income approach**: converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount.

Valuation techniques should be applied consistently, maximize the use of relevant observable inputs, and minimize the use of unobservable inputs.

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GASB 72 – Fair Value (cont.)




Fair Value Hierarchy

- > Level 1 – quoted prices in active markets for identical assets or liabilities.
- > Level 2 – observable inputs, either directly or indirectly, including the following:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in markets that are not active;
 - Other inputs, such as interest rates, yield curves, implied volatilities, or credit spreads; or
 - Market corroborated inputs.
- > Level 3 – unobservable inputs, such as management assumptions.

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GASB 72 – Fair Value (cont.)




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Fair Value – Investment Disclosures

- > Disclosures should be organized by type of asset or liability, and include:
 - Fair value measurement at end of the reporting period
 - The level of the fair value hierarchy
 - Description of valuation techniques
 - Any significant changes in the valuation techniques
 - Reason for nonrecurring fair value measurements
 - Additional disclosures for investment in certain entities that calculate net asset value (NAV) per share

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GASB 72 – Fair Value (cont.)



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Planning

Common 72 Implementation Issues

- > Year 1 – Determination upon acquisition
- > Identifying assets (or liabilities) where fair value application is required?
- > Identifying investments where fair value application is NOT required?
- > Is the unit of account appropriate?
- > Determined valuation technique? Does this maximize observable inputs and minimize unobservable inputs? Considered the consistent application?
- > Determined audit approach for testing fair value?

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GASB 73 – Overview



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Overview

- > What: The Board Issued Statement 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- > Why: To provide guidance on untrusted pension plans and to amend certain portions of 67 / 68.
- > When: *Effective for fiscal years beginning after June 15, 2016*
 - Part 1 – Pensions Not Administered through Trusts – effective fiscal years ending after 6/30/17
 - Part 2 – Technical Amendments for Plans and Employers – effective fiscal year ending after 6/30/16



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GASB 73 – Pensions not within scope of 68



Part 1 – Untrusted Pensions: Employer

- > The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary.
- > Requires that information similar to that required by Statement 68 be included in notes to the financial statements and required supplementary information.
- > Any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should continue to be reported as assets of the employer.
 - If those assets are held by the government in a fiduciary capacity, it should be reported as an agency fund.


GASB 73 – Technical Amendments



Part 2 – Technical Amendments for Plans and Employers

- > Notes to Schedules of RSI
 - Original Requirement – Investment-related factors that significantly affect trends in the amounts reported
 - Clarifying Amendment – Limited to those factors over which the participating governments or pension plan has influence (for example, changes in investment policies)


GASB 74 and 75 – Other Postemployment Benefits (OPEB)



Overview of GASB 74 and 75

- > What: The Board issued Statements 74 (plans) and 75 (employers), making OPEB accounting and financial reporting consistent with pension standards in Statements 67 and 68
- > Why: Pension and OPEB standards were updated subsequent to a review of the effectiveness of the standards – objective was to establish a consistent set of standards for all postemployment benefits, providing more transparent reporting of the liability (asset) and more useful information about the liability and costs of benefits
- > When: Effective for periods beginning after June 15, 2016 (plans) and June 15, 2017 (employers)

GASB 74 and 75 – OPEB (cont.)




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- >GASB 74: OPEB Plans
 - Effective for periods beginning after June 15, 2016 (Y/E 6/30/17 or 12/31/17)
- >GASB 75: OPEB Employer Reporting
 - Effective for periods beginning after June 15, 2017 (Y/E 6/30/18 or 12/31/18)

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GASB 74 & 75 – Accounting for OPEBs




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- > Establishes new accounting and financial reporting requirements for OPEB plans (Parallel to Pension)
 - The Scope – OPEB plans - defined benefit and defined contribution – Administered through Trusts
 - Addresses Financial Reporting for Asset Accumulated providing defined benefit OPEB through OPEB plans that are Not Administered through Trusts
 - Requires a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position
 - Measurement of the Net OPEB Liability
 - Alternative Measurement Method for Small Employers
 - Retains a requirement to consider an implicit rate subsidy
 - Notes to Financial Statements
 - Required Supplementary Information

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GASB 74 & 75 – Accounting for OPEBs (cont.)




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- > The Scope – OPEB plans – Defined Benefit and Defined Contribution – Administered through Trusts
 - Contributions from employers and nonemployers contributing entities to the OPEB plan and earnings are irrevocable
 - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with benefit terms
 - Plan assets legally protected from creditors
- > Addresses Financial Reporting for Assets that are Not Administered through Trusts
 - Any assets accumulated for OPEB purposes should continue to be reported as assets of the employer or nonemployer entity
 - A government that hold assets accumulated for OPEB purposes in a fiduciary capacity should report the assets in an agency fund

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GASB 74 & 75 – Accounting for OPEBs (cont.)




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- > Requires a Statement of Fiduciary Net Position
 - Includes information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, as applicable, as of the end of the OPEB plan's reporting period
- > Requires Statement of Changes in Fiduciary Net Position
 - Includes information about the additions to, deductions from, and net increase (or decrease) in fiduciary net position for the OPEB plan's reporting period

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GASB 74 & 75 – Accounting for OPEBs (cont.)




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- > Measurement of the Net OPEB Liability
 - Net OPEB Liability should be measured as the:
 - Total OPEB Liability (the portion of the Actuarial Present Value of Project Benefit Payments),
 - Net of the OPEB Plan's Fiduciary Position.
- > Alternative Measurement Method
 - If there are fewer than 100 plan members (active and inactive) as of the beginning of the OPEB plan's Fiscal Year the measurement approach includes:
 - The same board measurement steps as an actuarial valuation, however, it permits simplification of certain assumptions, the method potentially could be applied by nonspecialists

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GASB 74 & 75 – Accounting for OPEBs (cont.)




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- > Tips for preparers *(Source: Ken Tysiac, Journal of Accountancy)*
 - When relevant, ensure OPEB actuary uses the assumptions used in the pension accounting (i.e. mortality tables)
 - Know your plan and provide the most up-to-date and accurate plan information to the actuary
 - Prepare the financial statement users for the increased liabilities to be reported in the statement of net position
 - Increased questions/review procedures from the auditors (specifics to be determined)

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GASB 76 – GAAP Hierarchy



Overview of GASB 76

- >What: In June 2015, the Board issued Statement 76 and cleared a revised Comprehensive Implementation Guide
- >Why: The GAAP hierarchy was incorporated (by Statement 55) from auditing literature essentially “as is” – this project simplifies the hierarchy and explains how to identify the relevant literature within the hierarchy
- >When: Effective for periods beginning after June 15, 2015

GASB 76 – GAAP Hierarchy (cont.)




- >This statement supersedes GASB Statement No. 55 (Hierarchy) and amends GASB Statement No. 62 (Codification of pre-1989 Pronouncements)
- >Category A GAAP:
 - GASB Statements
 - GASB Interpretations, issued and currently in effect
- >Category B GAAP:
 - GASB Technical Bulletins
 - GASB Implementation Guides
 - Literature of the AICPA that has been specifically cleared by GASB (e.g. citations in SLG Guide)

GASB 76 – GAAP Hierarchy (cont.)



- >If it's not in CATEGORIES A or B, then what?
 - Consider CATEGORY A and CATEGORY B treatment for a “similar transaction”
 - Be aware of certain prohibitions of applying “similar GAAP”
 - Consider non-authoritative accounting literature from other sources that does not conflict with or contradict authoritative GAAP. Sources of these items:
 - GASB Concepts Statements
 - FASB
 - FASAB (federal)
 - International Public Sector Accounting Standards Board
 - International Accounting Standards Board
 - AICPA, literature not specifically cleared by GASB
 - Prevalent practices that are widely-recognized in state and local governments
 - Literature of other professional associations or regulatory agencies
 - Accounting textbooks, handbooks, and articles


GASB 78 – Accounting for Certain Multi-Employer Pension Plans



GASB 78 – Pensions Provided through Certain Multiple-Employer Defined Benefits Pension Plans – periods beginning after December 15, 2015

- > This statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of State and local governmental employers through cost-sharing employer defined benefit pension plan in certain circumstances.
- > Limited applicability for WI local governments


GASB 79 – External Investment Pools



GASB 79 – Certain External Investment Pools and Pool Participants – periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23 - 26, and 40, which are effective for periods beginning after December 15, 2015

- > Addresses accounting and financial reporting for certain external investment pools and pool participants
 - Specifically, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes
- > Provides consistency of measurement of the investment pools and their participants


GASB 80 – Blending for Component Unit



GASB 80 – Blending Requirements for Certain Component Units – an amendment of GASB 14 – periods beginning after June 15, 2016.

- > Amends the blending requirements for the financial statement presentation of component units of all state and local governments
- > Blending is the appropriate presentation of a component unit that is a not-for-profit corporation in which the primary government is the sole corporate member


GASB 81 – Irrevocable Split-Interest Agreements



GASB 81 – Irrevocable Split-Interest Agreements – periods beginning after December 15, 2016.

- > Accounting for irrevocable charitable trusts held for the benefit of governmental entities
- > Only significant to certain types of governments that receive private contributions such as public colleges and universities, public hospitals, etc.

GASB 82 – Amendment to Pension Standards



GASB 82 – Pension Issues – an amendment of GASB 67, 68, and 73 – periods beginning after June 15, 2016, except for assumptions, effective in the first reporting date on or after June 15, 2017.

- > Presentation of payroll in RSI
 - Defines covered payroll as payroll on which contributions to a pension plan are based, and ratios that use this measure
- > Selection of Assumptions
 - A deviation from actuarial standards should not be considered to be in conformity with the requirements
- > Classification of Employer-Paid Member Contributions (GASB 82)

Payments made by the employer to satisfy contribution requirements that are identified as plan member contribution requirements.

Plan Reporting: Classify as plan member contributions
 Employer Reporting: Classify as employee contributions

On the Horizon




GASB Active Agenda

- > Certain Asset Retirement Obligations
- > Fiduciary Activities
- > Leases
- > Certain Debt Extinguishments
- > Financial Reporting Model
- > OPEB Q & A

} **Current Exposure Drafts**

Other Agenda Items



Conceptual Framework: Recognition

- > Whether or when information should be reported in financial statements
- > Was on hold since 2012, recently deliberations commenced 10/15, current schedule shows ED issued in 2019

Financial Reporting Model – Reexamination of Statements 34, 35, 37, 42 and 46 and Interpretation 6


- > Objective to make improvements to current financial reporting model
- > Initial deliberations stage – began 2015

Revenue and Expense Recognition – Reexamination of Statements 33, 36, and 62

- > Objective to develop a comprehensive application model for the recognition of revenues and expenses that arise from nonexchange, exchange, and exchange-like transactions
- > Initial deliberations stage – began 2016

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Other Agenda Items (cont.)



Practice Issues

- > Debt Extinguishments – Reexamination of Statements 7, 23, and 62
- > Implementation Guidance - Update
- > Implementation Guide for Statements 74 and 75 on Other Postemployment Benefits

Pre-Agenda – Research

- > Debt disclosures, including Direct Borrowing – Reexamination of statements 24, 38, and 62
- > Going Concern Disclosures – Reexamination of Statement 56
- > Equity Interest Ownership Issues
- > Note Disclosures Reexamination

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Implementation Reminders



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Implementation Reminders (cont.)



The Implementation Process

- > Stay current
- > Communicate with your auditors
- > Establish an implementation timeline
- > Perform a post-implementation review


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RESOURCES

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GASB Resources



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- Podcasts
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Thank you




Thank You!

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