



GASB Technical Update

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Presentation Overview

- New GASB pronouncements effective for FY 14-15 and future years
- Ongoing Board projects

New GASB Statements

- Effective for FY 14-15
 - Statement 68 - Accounting and Financial Reporting for Pensions
 - Statement 69 – Government Combinations and Disposals of Government Operations
 - Statement 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68

New GASB Statements

- Effective for FY 15-16
 - Statement 72 – Fair Value Measurement
 - Statement 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

New GASB Statements

- Effective for FY 16-17
 - 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
 - Statement 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

New GASB Statements

- Effective for FY 17-18
 - Statement 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB 68 and 71 Financial Reporting and Audit Considerations

Financial Reporting

STATEMENT OF NET POSITION

	<u>Before GASB 68</u>	<u>After GASB 68</u>
ASSETS		
Cash	15,000,000	15,000,000
Receivables	10,000,000	10,000,000
Capital Assets	100,000,000	100,000,000
DEFERRED OUTFLOWS OF RESOURCES	12,000,000	15,000,000
LIABILITIES		
Accounts Payable	2,500,000	2,500,000
Long-term Liabilities	40,000,000	40,000,000
Net Pension Liability	-	50,000,000
DEFERRED INFLOWS OF RESOURCES	8,000,000	10,000,000
NET POSITION	<u><u>86,500,000</u></u>	<u><u>37,500,000</u></u>

Note: For governmental Funds, GASB 68 adjustments are made in the government-wide financial statements.

Financial Reporting

- Net Pension Liability (NPL)
 - The liability of employers and non-employer contributing entities to employees for benefits provided through a defined benefit pension plan.
 - Total pension liability minus Plan Fiduciary Net Position
 - This maybe a negative liability (net pension asset)

Financial Reporting

- Deferred outflows/inflows of resources
 - Changes in NPL requiring deferred recognition
 - Experience gains and losses
 - Assumption changes
 - Difference between projected and actual earnings on pension plan investments
 - Changes in the employer's proportion of the collective NPL
 - Difference between actual employer contributions and the employer's proportionate share of the total contributions from all employers
 - Employer's contributions made subsequent to the measurement date and before the end of the reporting period.

Financial Reporting

- Pension Expense – changes in the NPL from one measurement date to the next:

Service Cost

- + Interest on the TPL
- +/- Changes in the NPL arising from plan amendments
- Employee contributions
- Expected earnings on plan investments
- + Administrative expenses
- Recognition of deferred inflows
- + Recognition of deferred outflows

Financial Reporting – Journal Entries

	Source: Actuarial Valuation Report	Debit	Credit
ENTRY 1			
<i>Prior period adjustment</i>			
Beginning Net Position Balance	Page 7	24,335,194	
Deferred outflows - contributions		1,823,737	
Net pension liability			26,158,931
ENTRY 2			
<i>Reclassify 2014 contributions</i>			
Net pension liability	page 7	1,823,737	
Deferred outflows - contributions			1,823,737
ENTRY 3			
<i>Reclassify 2015 contributions</i>			
Deferred outflows - contribution	Employer's Records	2,224,109	
Pension expense (by function)			2,224,109
ENTRY 4			
<i>Changes in net pension liability current year</i>			
Deferred outflows - actuarial		-	
Pension expense (by function)	page 7 and B-1	2,814,195	
Net pension liability		2,538,552	
Deferred Inflows - actuarial	page A-6		5,352,747
ENTRY 5			
<i>Changes in the deferred outflows and deferred inflows (amortization)</i>			
Deferred inflows -actuarial	page 10	1,070,549	
Pension expense (by function)			1,070,549
Ending Balance of Deferred Inflows	Page 9		(4,282,198)
Ending balance of Deferred outflows	2015 Contributions		2,224,109
Pension Expense - 2015 Financials	B-2		1,743,646
Net Pension Liability	page 7		(21,796,642)

Financial Reporting

	Increase (Decrease)			
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)	
Balance at: 6/30/2013 (VD) ¹	\$ 80,878,575	\$ 54,719,644	\$ 26,158,931	ENTRY 1
Changes Recognized for the Measurement Period:				
• Service Cost	1,448,697		1,448,697	ENTRY 4 PENSION EXPENSE
• Interest on the Total Pension Liability	5,995,447		5,995,447	
• Changes of Benefit Terms	0		0	
• Differences between Expected and Actual Experience	0		0	ENTRY 4 DEFERRED OUTFLOWS
• Changes of Assumptions	0		0	
• Contributions from the Employer		1,823,737	(1,823,737)	ENTRY 1 DEFERRED OUTFLOWS
• Contributions from Employees		601,654	(601,654)	ENTRY 4 PENSION EXPENSE
• Net Investment Income ²		9,381,042	(9,381,042)	
• Benefit Payments, including Refunds of Employee Contributions	(3,327,245)	(3,327,245)	0	
Net Changes during 2013-14	\$ 4,116,899	\$ 8,479,188	\$ (4,362,289)	
Balance at: 6/30/2014 (MD) ¹	\$ 84,995,474	\$ 63,198,832	\$ 21,796,642	

¹ The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. As described on Page 6, this may differ from the plan assets reported in the funding actuarial valuation report.

² Net of administrative expenses. For details, see note in Appendix B-2.

Projected Earnings on Pension Plan Investments (from B-1)	(4,028,295)	Entry 4 Pension Expense
Difference between Projected & Actual Earning (from A-6)	(5,352,747)	Entry 4 Deferred Inflows
Total	(9,381,042)	

Audit Considerations

Employer's Responsibilities

- Establishing financial reporting processes and controls over the measurement of its specific pension amounts.
 - Have processes and controls in place to determine that complete and accurate information is reported to the plan and plan actuary
 - Test, validate and reconcile census data file on an annual basis and review rollforward of the census data
- Evaluate the information used to recognize and disclose pension amounts in the financial statements.
- Support the assumptions with appropriate, reliable, and verifiable information.
- Adopt a methodology for allocating pension liabilities and related costs to different funds and activities.

Types of Plans

- Single-Employer Plans
 - Supplemental plans (e.g.PARS)
- Cost-sharing Multiple-Employer Plans
 - For CalPERS, active plan participants of fewer than 100; shares risk between employers
- Agent Multiple-Employer Plans
 - For CalPERS, plans with at least 100 active plan members

Audit Considerations and Procedures

Audit Considerations/Procedures	Type of Plan		
	Single	Cost sharing	Agent
Employer Auditor (V&Co.) would audit the census data for <u>all</u> participants	X		
CalPERS has elected Option 1 – the plan auditor will test the census data of all plan members (active, inactive and retired)		X	
V&Co. would <u>not</u> need to perform detail audit procedures on census data		X	
V&Co. would place reliance on the audited information provided by the plan auditor as set forth in the AICPA Pension White Paper		X	
The plan auditor would test and provide assurance on the completeness and accuracy of the inactive and retired members census data			X
V&Co. would test the census data of <u>active</u> participants only for completeness and accuracy			X
V&Co. would document understanding of controls over census data and reporting	X	X	X
V&Co. would document reliance on the work of other parties	X	X	X
V&Co. would review propriety of allocation of NPL and other related costs among funds (governmental and business-type)	X	X	X

Testing Census Data

- Select and test a sample of **active members** and test census data through examination of payroll records.
- Select and test a sample of **new active** members and test census data through examination of payroll records.
- Select a sample of employees from payroll records and determine whether they are properly enrolled in the plan and included in the census data file.
- Review reconciliation of aggregate census data to amounts reported in the actuarial report.
- Review rollforward of census data and reconciliation of any differences.

Audit Requirements

	Type of Plan			To be provided by		
	<u>Single</u>	<u>Cost sharing</u>	<u>Agent</u>	<u>CalPERS/ Actuary</u>	<u>Plan Auditor/ MGO</u>	<u>Employer</u>
GASB 68 Accounting Valuation Report (NPL, Fiduciary net position, pension expense, def. Outflows/Inflows)	x	x	x	x		
Plan Auditor's Examination report on management's assertions related to census data maintained by the plan			x		x	
Plan Auditor's opinion on the Schedule of changes in fiduciary net position as a whole and on each rate plan column in the schedule			x		x	
Plan Auditor's opinion on the Schedule of pension amounts by rate plan		x			x	
Actual contribution made after measurement date (contribution for FYE June 30, 2015)	x	x	x			x
GASB 68 census data file used by plan actuary	x		x	x		
census data file from employer (active member data)	x		x			x
Rollforward of census data from one year to the next	x	x	x			x
Reconciliation of any differences	x	x	x			x
Allocation of NPL and other related costs among funds and between Governmental and BTA (Methodology should be disclosed)	x	x	x			x

Other GASB Statements

Statement 69 – Government Combinations and Disposals of Government Operations

- Government mergers - Requires the use of carrying values to measure assets and liabilities in a government merger.
- Government acquisitions - Requires measurements of assets and liabilities based upon their acquisition values.
- Provides guidance for transfers of operations that do not constitute entire legally separate entity in which no significant consideration is exchanged. Measurement is based on carrying values.

Statement 72 – Fair Value Measurement

- Fair Value Definition –
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).
- Characteristics
 - Market-based
 - Based on government's principal or most advantageous market.

Statement 72 – Fair Value Measurement

- Valuation techniques
 - market approach
 - cost approach
 - income approach
- Hierarchy of inputs
 - Level 1 inputs
 - Level 2 inputs
 - Level 3 inputs

Statement 72 – Fair Value Measurement

- Assets that meet the definition of an investment generally should be measured at fair value.
 - Exceptions are money market investments and investments in 2a7-like pools
- Investment is 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 to be sold to generate cash.

Statement 72 – Fair Value Measurement

- Disclosure Requirements
 - The fair value measurement and the reasons for the measurement
 - The level of the fair value hierarchy
 - Description of the valuation technique

Statement 76 – GAAP Hierarchy for State and Local Governments

- Sources of Authoritative GAAP – in order of priority
 - Category A - GASB Statements
 - Category B - GASB Technical Bulletins and Implementation Guides; AICPA literature specifically cleared by GASB

Statement 76 – GAAP Hierarchy for State and Local Governments

- If not in Category A & B, consider similar accounting principles for similar transactions
- Non-authoritative accounting literature – GASB Statement of Concepts, FASB pronouncements, International Accounting Standards Board, etc.

GASB Proposed Standards and Ongoing Projects

Accounting and Financial Reporting for Certain External Investment Pools (ED)

- Establishes specific criteria that permit external investment pools to determine consistently if all of their investments can be measured for financial reporting purposes at amortized cost
 - Maturity
 - Quality
 - Diversification
 - Shadow price
- If specified criteria is met, the pool would be able to elect measurement at amortized cost and change its election in the future
- An external investment pool that elects to measure its investments in accordance with other Statements would not be allowed to reverse that election.

Blending Requirements for Certain Component Units (ED)

- Establishes an additional blending criterion for the financial statement presentation of component units of all state and local governments
 - require blending of component units incorporated as not-for-profit corporations when the primary government is the sole corporate member of the corporation.

Accounting and Financial Reporting for Irrevocable Split-Interest Agreements (ED)

- Split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments
 - charitable lead trusts, charitable remainder trusts, charitable annuity gifts, and life interests in real estate.

Accounting and Financial Reporting for Irrevocable Split-Interest Agreements

- Would provide recognition and measurement guidance for circumstances in which a government is a beneficiary of the agreement.
- Would require that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources.
- Would require that a government recognize as assets beneficial interests in irrevocable split-interest agreements that are administered by a third party, if those beneficial interests are under the control of the government and embody present service capacity.

Tax Abatement Disclosures (ED)

- Tax abatement defined - as resulting from an agreement between a government and a taxpayer in which the government promises to forgo tax revenues and the taxpayer promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens
- This proposed Statement would require governments that are subject to tax abatement agreements to disclose the following:
 - General descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
 - The number of tax abatement agreements entered into during the reporting period and the total number in effect as of the end of the period
 - The dollar amount of taxes abated during the period
 - Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Preliminary Views on Leases

- Revisions to existing standards on lease accounting and financial reporting
- Comparability and consistency with FASB and IASB
- Single approach applied to accounting for all leases (except short-term leases)

Preliminary Views on Leases

- Lessees would recognize a lease liability and an intangible lease asset at the beginning of a lease, unless it is a short-term lease.
- Lessors would recognize a lease receivable and a deferred inflow of resources at the beginning of a lease, unless it is a short-term.

Preliminary Views on Financial Reporting for Fiduciary Responsibilities

- Would enhance the consistency and comparability of the reporting of fiduciary activities by:
 - clarifying when a government has a fiduciary responsibility for financial reporting,
 - describing individual fiduciary fund types,
 - clarifying the financial reporting requirements for BTAs that also are engaged in fiduciary activities, and
 - requiring a financial flows statement for all fiduciary fund types.

Preliminary Views on Financial Reporting for Fiduciary Responsibilities

- A government is a fiduciary if it controls assets:
 - (1) from a pass-through grant for which the government does not have administrative or direct financial involvement,
 - (2) in accordance with a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, or
 - (3) for the benefit of individuals that are not required to be part of the citizenry as a condition of being a beneficiary, or organizations or other governments that are not part of the financial reporting entity.

Questions?