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# ANNUAL STATE AND LOCAL GOVERNMENT ACCOUNTING UPDATE – WHAT’S NEW AND WHAT’S NEXT?

STATE OF MAINE

May 24, 2016

# Today’s presenter

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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

# Agenda and topics

- Accounting and reporting standards – GASB update
  - Recently issued standards
  - GASB technical agenda projects

# Accounting and financial reporting for pensions

- GASB 68 – employers - effective for periods beginning after June 15, 2014
  - Significant and material impact on FS for most employers
  - Project, discount then attribute pension amounts
  - Additional disclosures on elements of pension expense and deferred inflows/outflows of resources
- GASB 71 – pension transition for contributions made subsequent to the measurement date
  An amendment of GASB Statement No. 68 - required to be implemented with GASB 68
- GASB 82 Pension Issues
  - Issued March 2016
  - Effective for periods beginning after June 15, 2016

# Polling Question #1

- On a scale of 1 to 10 how painful was the implementation of GASB 68 and 71?
- 1
- 2
- 3
- 4
- 5
- …..
- Haven't implemented yet

# Accounting and financial reporting for pensions (continued)

- 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 and 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 one 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

# Accounting and financial reporting for pensions (continued)

- The measurement date will most likely correspond to year-end of the Plan.
- Implementation year – beginning and ending amounts
- Special funding situations
- Timing of census data testing should correspond to the period covered by the measurement date





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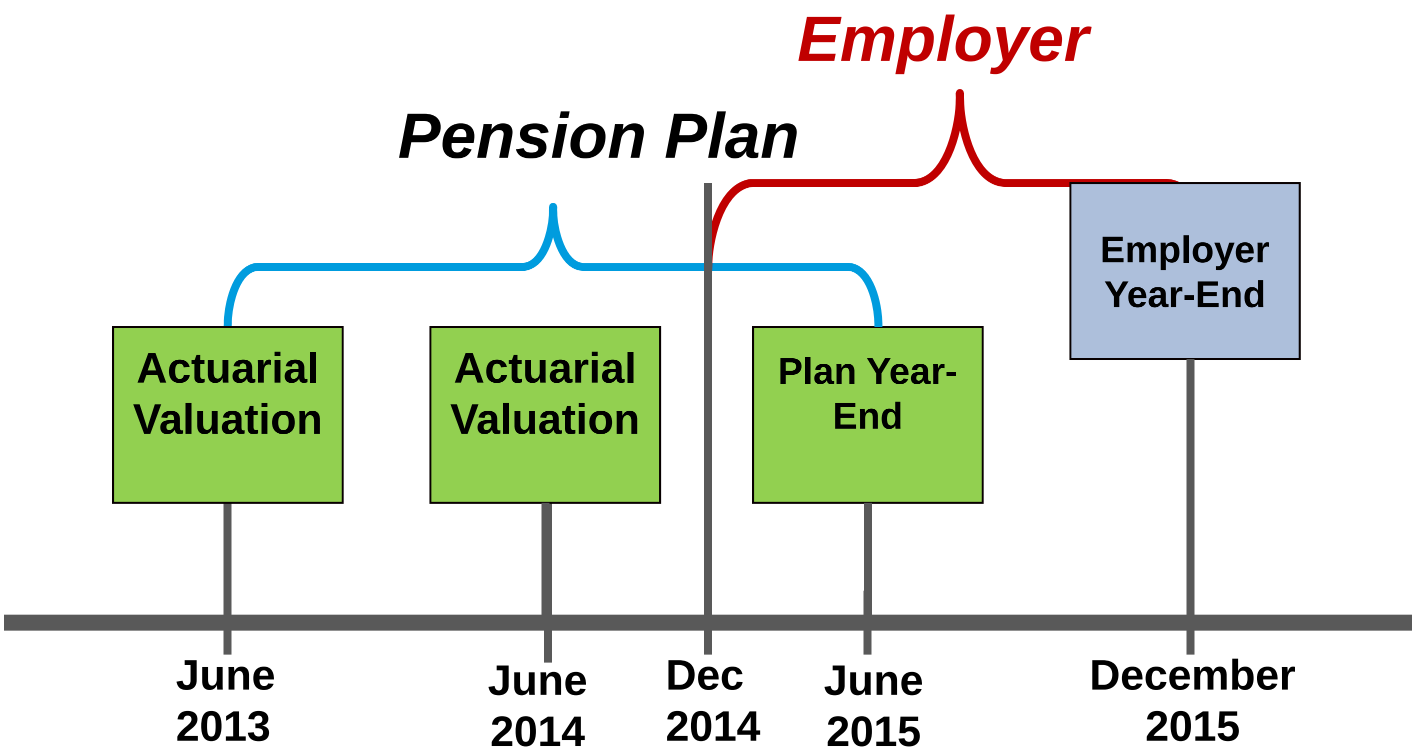
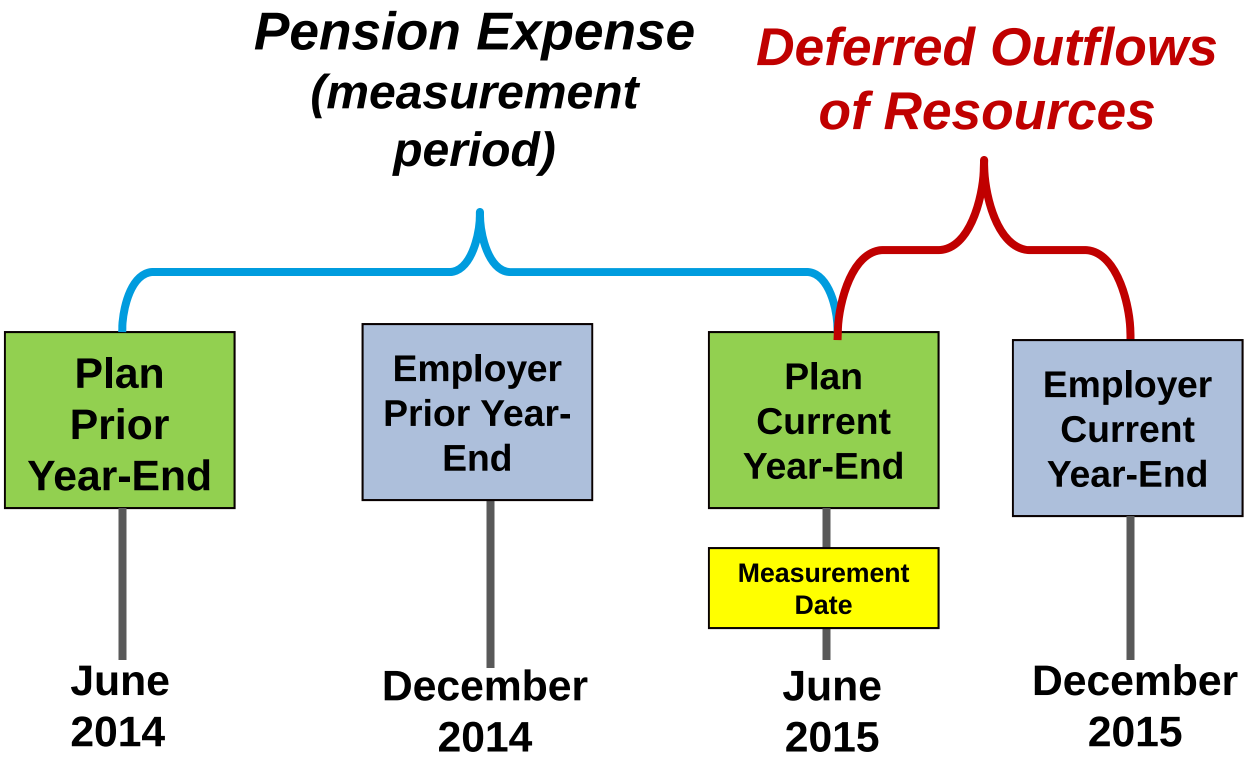
# Accounting and financial reporting for pensions (continued)




Measurement of the total pension liability in employer's financial statements must be as of a date no earlier than the end of the employer's prior fiscal year. Measurement must be based on an actuarial valuation performed within 30 months plus 1 day of the employer's year-end. If actuarial valuation not performed as of measurement date, update procedures must be performed to roll forward amounts to measurement date.

# Accounting and financial reporting for pensions (continued)




Measurement date will most likely correspond to year-end of plan. Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.

# Accounting and financial reporting for pensions (continued)

- Determine projected benefit payments
- Discount future payments to determine present value of payments
- Attribute PV of payments to employee periods of service

*Selection of all actuarial assumptions should be made in accordance with actuarial standards of practice (with consideration of specific guidance provided by the GASB)*

# Accounting and financial reporting for pensions (continued)


- 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; <u>*and*</u>
  - 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.

# Accounting and financial reporting for pensions (continued)

- 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

# Accounting and financial reporting for pensions (continued)

- Required disclosures
  - General information
  - Actuarial information
  - Changes in net pension liability
  - Deferred inflows and outflows
- Required supplemental schedules - 10-year schedules for all governments, regardless of type of plan (plus notes)

# GASB 82 - Pension issues

- Amends GASB Statement No. 67, 68 and 73
- Address practice issues that have been raised as a result of implementation of 67, 68 and 73:
  - Presentation of payroll related matters in RSI
  - Selection of assumptions and deviations from guidance in Actuarial Standards of Practice
  - Classification of payments made by employers to satisfy the employee's required contribution

# GASB 82 - Pension issues (continued)

- Presentation of payroll-related measures in RSI
  - The measure of payroll that is required by paragraph 32 of Statement 67 and paragraphs 46 and 81 of Statement 68  to be presented in RSI should be covered payroll
    - Covered payroll - the portion of compensation paid to active employees on which contributions to a pension plan are based
  - Covered payroll should also be used in the ratios required to be presented

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# GASB 82 - Pension issues (continued)

- Selection of assumptions - the selection of assumptions used in determining the total pension liability, a *deviation,* as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice should not be considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73

# GASB 82 - Pension issues (continued)

- Classification of employer-paid member contributions – payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements
  - Statement 67 – these should be classified as plan member contributions; would not be considered a part of the employer’s contribution when computing employer‘s proportionate share of the NPL
  - Statement 68 – these should be classified as employee contributions; reported as expense in the period the payment is made; disclosure of the arrangement



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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
  - Standard **does not** change the measurement requirements for account balances and transaction not reported at fair value





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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)

- 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 <u>indirect</u> 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

# 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 – quoted market prices, market multiples technique and matrix pricing techniques
    - 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 – present value, option pricing model and multi-period excess earnings technique




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# GASB 72 - Fair value measurement and application (continued)

- Net asset value (NAV) - A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the NAV per share (or its equivalent) in a manner consistent with measurement principles for investment companies as outlined by FASB.
  - Should be measured at the measurements date; if not provided the adjustment of the value may be necessary
  - Should not be applied if the government will sell the investment for an amount different from NAV



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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 (amortized cost)
  - Investment held by 2a7-like external investment pools (amortized cost)
  - Investment in 2a7-like external investment pools (NAV (or its equivalent) as determined by the pool)
  - Investments in common stock that meet the criteria for applying the equity method





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# GASB 72 - Fair value measurement and application (continued)

- Investment exceptions (continued)
  - Non-participating interest-earning investment contracts (cost based measure)
  - Unallocated insurance contracts (cost based measure)
  - Synthetic guaranteed investment contracts that are fully benefit responsive
  - Life insurance contracts (cash surrender value)
  - Investments reported under the equity method





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# GASB 72 - Fair value measurement and application (continued)

- Acquisition value – price paid to acquire an asset with equivalent service potential or liquidate a liability in an orderly market transaction at the acquisition date is referred to acquisition value. The following items which were previously required to be measured at fair value should be measured at acquisition value:
  - Donated capital assets
  - Donated works of art, historical treasures, and similar assets
  - Capital assets received through a service concession arrangement

# GASB 72 - Fair value measurement and application (continued)

- Hierarchy of <u>inputs</u>
  - Level 1: quoted prices in active markets for identical asset or liabilities that can be accessed 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/liabilities in active or inactive markets
    - Interest rates and yield curves that are observable at commonly quoted intervals
    - Market corroborated inputs
  - 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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# Polling Question #2

- How many of you have investments or liabilities that you believe will be disclosed as level 3?

# Polling Question #3

- True or False  Level 1 investments are “better” than investments reported as Level 3?

# GASB 72 - Fair value measurement and application (continued)

- Note disclosures
  - Disclosures should be organized by type or class of asset or liability; table or narrative format
  - Specific disclosures (recurring and nonrecurring)
    - Fair value measurement at the end of the reporting period
    - Level of the fair hierarchy (except those measured at NAV)
    - Description of the valuation techniques and the inputs used in the fair value measurement
    - Change in valuation technique that has a significant impact on the result and the reason for the change
  - Specific disclosures (nonrecurring)
    - Reason(s) for the measurement

# GASB 72 - Fair value measurement and application (continued)

- Note disclosures for investments in entities that meet all of the following criteria:
    - Calculate NAV
    - Do not have a readily determinable fair value
    - Measured at fair value on a recurring or nonrecurring basis
  - Description of significant investment strategies of investees
  - Investment that can never be redeemed but a government receives a distribution through the liquidation of the underlying assets of the investees
  - Unfunded commitments related to the investment type





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# GASB 72 - Fair value measurement and application (continued)

- Note disclosures: NAV and Level 3
  - Description of the terms and conditions upon which a government may redeem investments
  - Circumstances when the investment may not be redeemable i.e. lockup or gate; when the restriction may lapse and how long the restriction has been in place
  - Any other significant restriction on the ability to sell the investments at the measurement date
  - If it is probable the government will sell the investment for something other than NAV



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# GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68

- Issued – June 2015; effective as follows:
  - Employers and non-employer contributing entities - periods beginning after June 15, 2016
  - Financial reporting for assets accumulated for purpose of providing the pensions – periods beginning after June 15, 2015
  - Amendments to GASB 67 & 68 – periods beginning after June 15, 2015
- Objective – improve financial reporting by establishing a single framework for the presentation of information about pensions, enhance the comparability of pension-related information reported





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- Do you have a defined benefit pension plan that will be reported under this GASB 73?
- Yes
- No
- I don’t know

# GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Scope
  - Defined benefit ***and*** defined contribution pension plans provided to employees of state and local governments that are not within the scope of GASB 68
    - Not administered through trusts
    - Retirement income
    - Postemployment benefits other than retirement income that are provided through a pension plan such as death benefits, life insurance and disability benefits
  - Excluded: postemployment healthcare benefits or termination benefits provided separate from a pension plan

## GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Defined benefit pensions provided through plans not administered by a trust
  - Income or other benefits that the employee will receive at or after separation from employment are defined by benefit terms
    - Specific dollar amount or an amount that is calculated based on one or more factors such as age, years of service and compensation

# GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Defined contribution pensions provided through plans not administered by a trust that
  - Provide an individual account for each employee
  - Define the contributions that an employer or non-employer contributing entity is required to make to an active employee's account for periods the employee renders service
  - Provided that the pensions an employee will receive will depend only on the contributions to the employee's account, actual earnings on investments of those contributions and effects of forfeitures of contributions made for other employees and plan administrative costs that are allocated to the employee's account




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# GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Recognition and measurement in financial statement of defined benefit plans not administered through a trust; government-wide and proprietary fund financial statements:
  - Total pension liability – actuarial present value of projected benefit payments
    - Measurement date – no earlier than the end of the employer's prior fiscal year
    - Actuarial valuation as of the measurement date or an actuarial valuation that has been rolled forward to the measurement date. Actuarial valuation date should be no more than 30 months and one day earlier than the employer's most recent fiscal year end



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## GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Total pension liability (continued)
  - Assumptions should be in conformity with actuarial standards of practice
  - Projected benefit payments – should include the effects of automatic postemployment benefit changes including automatic cost-of-living adjustments (COLA), COLA if substantively automatic, projected salary changes and projected service credits
  - Discount rate – yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher

# GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Pension expenses 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 future economic and demographic factors
- Pension expense
  - Costs incurred related to the administration of the pensions
  - Change in liability other than the amounts that are amortized as outlined above





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## GASB 73 – accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Notes to the financial statements, RSI and notes to RSI requirements mirror the requirements outlined in GASB 68



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## GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Recognition and measurement in financial statement of defined benefit plans not administered through a trust; primary governments and component units that provide pensions through the same defined benefit plan:
  - Liability should be recognized for the government's (or component unit's) proportionate share of the collective total pension liability
    - Basis for the proportionate share should be consistent with the manner in which the amounts that are paid as benefits come due are determined. The use of projected payments as benefits come due over the long term as compared to the total projected payments of all entities that make benefit payments as benefits come due is encouraged.

# GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Deferred outflows of resources related to pensions should be reported for the following:
  - Amounts paid by the government for pensions as the benefits come due subsequent to the measurement date of the collective total pension liability
  - Amounts incurred by the government for pension administrative expenses subsequent to the measurement date of the collective total pension liability

## GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Defined contribution pension amounts to be reported within the government wide and proprietary fund financial statements
  - Pension expense equal to the amount of credits to employees accounts that are defined by the benefit terms as attributable to employees services in the period net of forfeited amounts
  - A change in pension liability equal to the difference between amounts recognized as pension expense and amounts paid by the employer as the benefits come due during the fiscal year
- Disclosures similar to disclosures required for defined benefit pension plans
- Special funding situations

# GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts
  - Any asset accumulated for pension purposes should continue to be reported as assets of the employer or non-employer contributing entity
  - Assets accumulated for pension purposes in a fiduciary capacity should report the assets in an agency fund

## GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

- Amendments to GASB 67 & 68
  - Notes to RSI
    - Information about investment related factors that significantly affect trends in the amounts reported should be limited to those factors over which the pension plan or participating government have influence i.e. changes in investment policies
  - Payables to defined benefit pension plans
    - Separately financed specific liability is a specific contractual liability for a one-time assessment to an individual employer
    - Information presented in RSI for contributions, should exclude amounts specific contractual liabilities





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# GASB 74 – Financial reporting for postemployment benefit plans other than pensions

- Issued – June 2015
- Effective for periods beginning after June 15, 2016
- Replaces GASB 43 and 25 (specifically as it relates to defined contribution plans)
- Scope – OPEB **plans** (defined benefit and defined contribution) that meeting the following criteria:
  - Contributions made into the plan are irrevocable
  - Assets are dedicated to plan members for benefits
  - Assets are legally protected from employer and plan member creditors
- Requirements to address reporting for assets accumulated that are not administered through a trust

# GASB 74 – Financial reporting for postemployment benefit plans other than pensions (continued)

- OPEB as defined by the standard includes the following:
  - Postemployment healthcare benefits include medical, dental, vision, hearing and other health-related benefits whether provided separately from or through a pension plan
  - Other forms such as death benefits, life insurance, disability and LT care when provided separately from a pension plan



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# GASB 74 – Financial reporting for postemployment benefit plans other than pensions (continued)

- The following are excluded
  - Insured plans - the requirements of this Statement are not applicable to defined benefit OPEB Plans in which benefits are financed through an arrangement whereby premiums are paid to an insurance company while employees are in active service, in return for which the insurance company unconditionally undertakes an obligation to pay the OPEB of those employees as defined in the OPEB plan terms.
  - Termination benefits or termination payments for sick leave

# GASB 74 – Financial reporting for postemployment benefit plans other than pensions (continued)

- 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; policies, concentration of investments equaling or exceeding 5% and annual money-weighed rate of return
  - Contributions, reserves and allocated insurance contracts
  - Additional items required for single-employer and cost sharing plans

# GASB 74 – Financial reporting for postemployment benefit plans other than pensions (continued)

- Required supplementary information – 10 years
  - Weighted average rate of return on investments
  - Sources of changes in net OPEB liability
  - Components of the net OPEB liability and related ratios
  - Actuarially determined contributions, contributions made, related ratios
  - Significant assumptions
  - Factors that significantly affect trends
- Notes to RSI
  - Significant methods and assumptions used to calculate the contributions, factors that significantly affect trends in the amounts reported

# GASB 75 – Accounting and financial reporting for postemployment benefits other than pensions

- Issued – June 2015
- Effective – periods 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 (proportionate share)
- Special funding situations



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# GASB 74 & 75 – Financial reporting for postemployment benefit plans other than pensions

- 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 year-end.
      - In accordance with Actuarial Standards of Practice issued by the Actuarial Standards Board; *deviations* will not be considered in conformity with the requirements of the standard
    - Alternative method – less than 100 plan members (both active and inactive)

# GASB 74 & 75 – Financial reporting for postemployment benefit plans other than pensions (continued)

- 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 and service credits including COLA
  - Taxes and assessments imposed on benefit payments
- Discounted to actuarial present value
  - Long term rate of return
  - Tax-exempt high quality municipal rate when conditions for using the long term rate aren't met

# GASB 74 & 75 – Financial reporting for postemployment benefit plans other than pensions (continued)

- OPEB expense - immediate
  - CY service cost
  - Interest on the liability
  - Changes in benefit terms
- OPEB expense - deferred
  - Changes of economic and demographic assumptions or of other inputs
  - Differences between expected and actual experience are
  - Differences between actual and expected earnings on plan assets
  - Employer contributions subsequent to measurement date
  - Changes in proportionate share for cost sharing employer plans





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# GASB 74 & 75 – Financial reporting for postemployment benefit plans other than pensions (continued)

- Assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are not administered through trusts
  - Any asset accumulated for OPEB purposes should continue to be reported as assets of the employer or non-employer contributing entity
  - Assets accumulated for OPEB purposes in a fiduciary capacity should report the assets in an agency fund

# GASB 74 & 75 – Financial reporting for postemployment benefit plans other than pensions (continued)

- Disclosures required for a defined contribution OPEB plan that is administered through a trust:
  - Identification of an OPEB plan as a defined contribution plan
  - Authority under which the plan was created and can be amended
  - Classes of plan members covered
  - Number of plan members, participating employers and non-employer contributing entities

# GASB 76 – The hierarchy of generally accepted accounting principles for state and local governments

- Issued – June 2015
- Effective – periods beginning after June 15, 2015
  - This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

# GASB 76 – The hierarchy of generally accepted accounting principles for state and local governments

- Category A - Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements
  - When codified retains it's status
- Category B –
  - GASB Technical Bulletins
  - GASB Implementation Guides
  - Literature of the AICPA cleared by the GASB

# GASB 76 – The hierarchy of generally accepted accounting principles for state and local governments

- Nonauthoritative accounting literature include
  - GASB Concepts Statements;
  - Pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board
  - AICPA literature not cleared by the GASB
  - Practices that are widely recognized and prevalent in state and local government
  - Literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles. (Blue Book)

# GASB 77 - Tax abatement disclosures

- Issued – August 2015
- Effective – periods beginning after December 15, 2015
- Assist users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services, (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time




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# GASB 77 - Tax abatement disclosures

- Tax abatement defined -
  - A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.



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# GASB 77 - Tax abatement disclosures

- Note disclosures:
  - General information regarding the abatements
  - Amounts related to the tax abatement agreements
  - General and financial information of other governments impacted by an agreement
  - Detailed information related to the disclosure requirements can be found in the standard





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# GASB 78 – Pensions provided through certain multiple employer defined benefit pension plans

- Issued – December 2015
- Effective – periods beginning after December 15, 2015
- Amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan)

# GASB 78 – Pensions provided through certain multiple employer defined benefit pension plans

- Government-wide and proprietary - pension expense should be recognized equal to the employer's required contributions to the pension plan for the reporting period, and a payable should be reported for unpaid required contributions at the end of the reporting period.
- Governmental fund – pension expense recognized for contributions made based on pay periods in the reporting period, and a payable should only be recognized to the extent it is due and payable
- Note disclosure and RSI requirements

# GASB 79 – Certain external investment pools and pool participants

- Issued – December 2015
- Effective – periods beginning after June 15, 2015 except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015
- 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.

# Polling Question

- How many of you participant in an external investment pool?
- Yes
- No
- I don’t know

# GASB 79 – Certain external investment pools and pool participants

- External investment pool - an arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity

# GASB 79 – Certain external investment pools and pool participants

- An external investment pool may elect to measure for financial reporting purposes all of its investments at amortized cost if it meets all of the following criteria:
  - Transacts with its participants at a stable net asset value per share (for example, all contributions and redemptions are transacted at $1.00 net asset value per share)
  - Meets the portfolio maturity requirements
  - Meets the portfolio quality requirements
  - Meets the portfolio diversification requirements
  - Meets the portfolio liquidity requirements
  - Meets the shadow pricing requirements

# GASB 79 – Certain external investment pools and pool participants

- Participants in an external investment pool should value its investment in the pool as follows:
  - Amortized cost if the pool meets all of the criteria outlined in the standard
  - Fair value if it does not meet the criteria outlined in the standard.
- Note disclosures for pools valued at amortized cost should include any redemption restrictions, maximum transaction amounts and authority to impose liquidation fees or gates

# GASB 80 – Blending requirements for certain component units

- Issued – January 2016
- Effective – periods beginning after June 15, 2016
- Establishes an additional blending requirement for the financial statement presentation of component units
- Applies to component units that are organized as not-for- profit corporations in which the primary government is the sole corporate member

# GASB 80 – Blending requirements for certain component units

- A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provisions in paragraphs 21−37 of Statement 14, as amended

# GASB 81 – Irrevocable split interest agreements

- Issued – March 2016
- Effective – periods beginning after December 15, 2016 applied retroactively
- Improve accounting and financial reporting by establishing recognition and measurement requirements for **irrevocable split-interest agreements**
- Enhance the transparency and decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying resources that are available to a government

# Polling question

- How many of you are glad you now have a basis to report these types of agreements?
- Yes
- No
- I don’t know

# GASB 81 – Irrevocable split interest agreements

- Irrevocable split-interest agreements created through trusts—or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements—in which a donor irrevocably transfers resources to an **intermediary.** The intermediary administers these resources for the **unconditional benefit** of a government and at least one other beneficiary

# GASB 81 – Irrevocable split interest agreements

- A typical irrevocable split-interest agreement has two components: a **lead interest** and a **remainder interest.**
  - Lead interest **-** provide resources to a government throughout the term of the agreement in the form of periodic disbursements. The amount of the disbursement can be a pre-established amount or a variable amount, for example, a specific percentage of the fair value of the assets measured at the disbursement date (a unitrust)
  - Remainder interest – provide resources to a government as a final disbursement at the termination of the agreement.

# GASB 81 – Irrevocable split interest agreements

- If a government is *both* the intermediary and the remainder interest beneficiary of an irrevocable split-interest agreement, the government should recognize the following:
  - Assets for resources received or receivable
  - A liability for the lead interest that is assigned to other beneficiaries
    - Measured based on a settlement amount (the stream of payments that is expected to be provided to other beneficiaries).
    - Re-measured at each financial reporting date, based on changes in the assumptions used to determine the settlement amount. The change resulting from the re-measurement of the amount recognized as the liability should be recognized as an increase or a decrease in the related deferred inflow of resources
  - A deferred inflow of resources for the government's unconditional remainder interest.
    - Changes in assets recognized pursuant to irrevocable split-interest agreements—such as those resulting from interest, dividends, and changes in fair value—should be recognized as an increase or a decrease in the related deferred inflow of resources

# GASB 81 – Irrevocable split interest agreements

- If a government is *both* the intermediary and the lead interest beneficiary of an irrevocable-split interest agreement, the government should recognize the following:
  - Assets for resources received or receivable
  - A deferred inflow of resources for the government's unconditional lead interest
    - Measured based on a settlement amount (the stream of payments that is expected to be provided to the government beneficiary)
    - Benefit payments received during the period should be recognized as revenue and decrease the deferred inflow
    - Amount reported as a deferred inflow of resources should be re-measured at each financial reporting date
  - A liability for the remainder interest that is assigned to other beneficiaries.
    - Changes in assets such as those resulting from interest, dividends, and changes in fair value should be recognized as an increase or a decrease in the related liability

# GASB 81 – Irrevocable split interest agreements

- If a third party is the intermediary of an irrevocable split-interest agreement, assets should be recognized for beneficial interests that meet *all* of the following criteria:
  - The government is specified by name as beneficiary in the legal document underlying the donation.
  - The donation agreement is irrevocable
  - The donor has not granted **variance power** to the intermediary with respect to the donated resources.
  - The donor does not control the intermediary
  - The irrevocable split-interest agreement establishes a legally enforceable right for the government's benefit (an unconditional beneficial interest)

# GASB 81 – Irrevocable split interest agreements

- The beneficial interest asset initially should be measured at fair value and re-measured at fair value at each financial reporting date. Changes in the fair value of the beneficial interest asset also should be recognized as an increase or a decrease in the related deferred inflow of resources
  - Lead interest beneficiary - the government should recognize revenue for the beneficial interest applicable to the reporting period as stipulated in the irrevocable split-interest agreement
  - Remainder interest beneficiary - the government should recognize revenue for the beneficial interest at the termination of the agreement, as stipulated in the irrevocable split-interest agreement

# GASB - Technical agenda projects

- Major projects
  - Asset retirement obligations
  - Fiduciary responsibilities
  - Financial reporting model re-examination
  - Leases
- Practice issues
  - Certain debt extinguishments using existing resources
  - Implementation guidance
  - Implementation guide for statements 74 and 75
  - User guides update
- Conceptual framework
  - Recognition

# GASB - Pre-agenda research

- Debt disclosures, including direct borrowing – re-examination of Statements 34, 38 and 62
- Going concern disclosures – re-examination of Statement 56
- Revenue recognition for exchange and exchange-like transaction – re-examination of specific statement 62 provisions

# THANK YOU FOR YOUR TIME AND ATTENTION

# QUESTIONS AND ANSWERS?





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