

Thursday December 3, 2015 10:45-11:45AM
Refresher on GASB 67, 68, & Other Regulations

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1 **Refresher on GASB 68 and an Update on Other GASB Standards Issued**

WGFOA Winter Conference
 December 3, 2015

2 **Today's Agenda**

1. GASB 68 and 71 Implementation
 - Wisconsin Retirement System (WRS)
2. GASB Standards Effective Dates
3. GASB 72 – Fair Value Measurement and Application
4. GASB 73 – Pension / Amendments to 67 / 68
5. GASB 74 and 75 – Other Post-Employment Benefits (OPEB)
6. GASB 76 – GAAP Hierarchy
7. GASB 77 – Tax Abatement
8. Resources
9. Questions

3 **GASB 68 / 71 Implementation**

Pre-GASB 68 / 71 [OLD]

- >Accounting liabilities are generally identical to the funding liabilities
- >The entity records as a liability on their books the cumulative difference between what the actuary says is the annual required contribution (ARC) versus what the entity actually contributes
 - This is typically ZERO for the majority of WRS employers because organizations contribute what is required
- >No disclosure of a net pension liability except for unfunded prior service costs, which will continue to be reported separately under the new standards
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4 **GASB 68 / 71 Implementation (cont.)**

Under GASB 68 / 71 [NEW]

- >More prominent disclosure
 - Funded status moves from footnotes to the statement of net position
 - Additional footnote and RSI disclosures
- >Move from income statement focus to statement of net position focus
 - Was “Are we making adequate ARC contributions?”
 - Now “How big is our Net Pension Liability or Asset in the case of WRS?”
- >Strictly accounting/reporting changes
 - Does not change how or the amount of the contributions
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5 **GASB 68 / 71 Implementation (cont.)**

When does GASB 68 and 71 go into effect?

>WRS employers with a June 30, 2015 year-end and beyond...

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>So basically, the answer is now!

6 **GASB 68 / 71 Implementation (cont.)**

Basic terminology changes

>Total Pension Liability (TPL)

–Actuarial present value of projected benefit payments
attributable to past periods of employee service

>Net Pension Liability (NPL)

–Total pension liability minus the pension plan's fiduciary net position
–Fiduciary net position equals market value of assets

>Pension Expense (PE)

–The difference between the NPL from the prior fiscal year to the current fiscal year, with
some adjustments

7 **GASB 68 / 71 Implementation (cont.)**

>General information regarding WRS

–WRS is a cost-sharing, multiple employer, defined benefit plan with a December 31 year-end

–Legislative Audit Bureau (LAB) audits the WRS plan

–State of WI is approximately 30 percent of WRS

–Fifteen employers have a share greater than .5 percent

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8 **GASB 68 / 71 Implementation (cont.)**

>General information regarding WRS (cont.)

–WRS has prepared and issued schedules as of and for the year ended December 31, 2014
with individual employer information as recommended by the AICPA

–WRS engaged LAB to audit the schedules and issue an opinion

–LAB has performed onsite testing of employer reporting of census data for a sample of
employers

–WRS has issued several bulletins to employers over the past year with information related
to GASB 68 and the schedules provided:

<http://etfonline.wi.gov/ETFGASBPublicWeb/gasb68.do>

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9 **Wisconsin Retirement System (cont.)**

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10 **GASB 68 / 71 Implementation (cont.)**

>Key information for WRS Employers

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* Measurement Date (MD) – date as of which TPL, FNP, NPL, PE and DI/O are determined - no earlier than previous fiscal year-end

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11 **GASB 68 / 71 Implementation (cont.)**

Restatement of beginning net position

>Applies to governmental activities, business-type activities, and full-accrual funds

>Restatement includes:

- Net pension asset as of beginning of the year
- WRS contributions made in the prior year
 - »6/30/15 year-ends: 1/1/14 – 6/30/14
 - »12/31/15 year-ends: 1/1/14 – 12/31/14

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12 **GASB 68 / 71 Implementation (cont.)**

Question: If comparative financial statements are presented, does the government have to restate prior periods?

>Answer:

- Technically: YES
- Realistically (WRS only): NO, because information is not available to restate prior year
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13 **GASB 68 / 71 Implementation (cont.)**

Question: What if appropriate information is not available to restate earliest period presented?

Answer:

- Maintain the reporting in the prior year following GASB 27. Which results in the need to show two separate footnote disclosures, GASB 27 for the prior year and GASB 68 for the current year. The cumulative effect would show as a change in beginning net position for the current year.
- Eliminate the comparative year for the year of implementation.
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14 **GASB 68 / 71 Implementation (cont.)**

What are deferred outflows / inflows of resources?

- >Differences between expected and actual experience with economic and demographic factors
 - Mortality
 - Payroll increases
- >Effect of changes in actuarial assumptions about future economic and demographic factors
 - Discount rate
 - Mortality tables
 - Future payroll increases
- >Differences between actual and projected earnings on plan investments
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15 **GASB 68 / 71 Implementation (cont.)**

What are deferred outflows / inflows of resources (cont.)?

- >Change in proportionate share of net pension asset
- >Current year pension contributions (deferred outflow only)
 - For 6/30/15 year-ends: 1/1/15 – 6/30/15 contributions
 - For 12/31/15 year-ends: 1/1/15 – 12/31/15 contributions
- >All deferred inflows/outflows information is provided by WRS in the online reports except for the current year contributions
- >Deferred inflows/outflows will be amortized over a period of approximately 5 years except for the current year contributions which reverse in the subsequent year
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16 **GASB 68 / 71 Implementation (cont.)**

Allocation of pension related amounts

Question: Do pension amounts have to be allocated to funds or departments?

Answer: Yes.....

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17 **GASB 68 / 71 Implementation (cont.)**

Allocation to funds – per GASB 68 Implementation Guide

>Q – What guidance does Statement 68 provide regarding recognizing a cost-sharing employer’s proportionate share of the collective net pension liability if a portion of the liability will be paid from an enterprise, internal service, or fiduciary fund?

>A – Except for blended component units, which are discussed in Question 34 and 35, Statement 68 does not establish specific requirement for allocation of the employer’s proportionate share of the collective net pension liability or other pension related measures to individual funds. However, for proprietary and fiduciary funds, consideration should be given to NCGA statement 1, Governmental Accounting, and Financial Reporting Principles, paragraph 42, as amended, which requires that long-term liabilities that are “directly related to and expected to be paid from” those funds be reported in the statement of net position or statement of fiduciary net position, respectively.

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18 **GASB 68 / 71 Implementation (cont.)**

Allocation of pension related amounts (cont.)

>Methods to allocate pension related amounts to funds

–Contributions to WRS (recommended method)

–Covered payroll

–Number of employees

–Method used to allocate OPEB obligation

>How to accomplish the allocation

–Contributions expense reports from the general ledger subtotaled by full-accrual fund, department, or function

–If aggregated, determine method to allocate to full-accrual fund, department, or function

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19 **GASB 68 / 71 Implementation (cont.)**

Allocation of pension related amounts (cont.)

>Financial impact of allocations

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* Need to consider impact on customer rates and debt coverage ratios

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20 **GASB 68 / 71 Implementation (cont.)**

Financial reporting

Question: The employers proportionate share of the cost-sharing plan is a net pension asset, what impact does this have on statement of net position?

Answer:

- »The net pension asset should be presented as a restricted asset
- »Net position should be restricted for an amount equal to the sum of the net pension asset and pension related deferred outflows less pension related deferred inflows
- »Deferred inflows and outflows related to pensions are generally not netted

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21 **GASB 68 / 71 Implementation (cont.)**

Financial reporting (cont.)

>Required supplementary information is expanded – Cost-sharing employers

- RSI will require 10 years of information
- Employer’s proportion percent
- Proportionate share / amount of Net Pension Asset / Liability
- Covered employee payroll
- Proportionate share as a percent of covered payroll
- Pension plan’s net position as percent of TPL
- Statutory or contractual contribution

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22 **GASB 68 / 71 Implementation (cont.)**

So, in a nutshell...

- >Restatement to beginning net position
- >Record current year activities (affect full-accrual reporting only):
 - Pension expense
 - Deferred inflows/outflows
 - Reverse prior year contributions
- >Amortize deferred inflows/outflows
- >Reclassify current year contributions to deferred outflows

23 **Other GASB Standards Issued –
Effective Dates June 30**

2015
 68 – Pensions – Employers (Amendment to GASB 27)
 69 – Government Combinations/Disposals
 71 – Pension Transition (Amendment to GASB 68)
 2016
 72 – Fair Value
 73 – Pensions Amendments to 67/68
 76 – GAAP Hierarchy
 2017
 73 – Pensions – Employers o/s scope of 68
 74 – OPEB – Plan reporting
 77 – Tax Abatement
 2018
 75 – OPEB – Employers

24 **Other GASB Standards Issued –
 Effective Dates December 31**

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 2018
 75 – OPEB – Employers

25 **GASB 72 – Fair Value Measurement and Application**

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

26 **GASB 72 – Fair Value (cont.)**

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.

“an exit price”

Other characteristics of fair value:

- Market based
- Based on a government’s principal or most advantageous market

27 **GASB 72 – Fair Value (cont.)**

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

28 **GASB 72 – Fair Value (cont.)**

What’s in now that wasn’t?

What’s not included?

29 **GASB 72 – Fair Value (cont.)**

Valuation techniques and inputs

Apply valuation techniques that best represent FV in the circumstance:

- >Market, Cost or Income approaches

>Revisions due to a change in valuation technique(s) are considered a change in accounting estimate

Inputs:

- >Level 1 – quoted prices in active markets for identical items (most reliable)
- >Level 2 – quoted prices for similar items, quoted prices for identical items in nonactive markets, or other than quoted prices that are observable
- >Level 3 – unobservable inputs (least reliable)

30 **GASB 72 – Fair Value (cont.)**

Disclosures:

The following information for each class or type of asset/liability measured at fair value should be disclosed:

- >FV measurement at the end of the reporting period and for nonrecurring FV measurements, the reason for the measurement
- >The level of the FV hierarchy used
 - Level 1, Level 2, Level 3
- >A description of valuation techniques

31 **GASB 73 – Pensions/Amendments to 67/68**

GASB 73

- >Part I – Applies to pensions that are not within the scope of GASB 68
 - Plans that are not within a trust
 - Both defined benefit and defined contribution plans covered
- >Extends the approach of GASB 68 to all pensions (with some modifications)
- >Effective date for this portion = years beginning after June 15, 2016

32 **GASB 73 – Pensions/Amendments to 67/68 (cont.)**

- >Part II – Clarifies certain requirements in GASB 67 and 68
 - Notes to RSI for investment-related factors affecting trends
 - Accounting for separately financed specific liabilities (defined benefit plans)
 - Timing of recognition of revenue for support from contributing entities
- >Effective date for this part = years beginning after June 15, 2015

33 **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)

34 **GASB 74 and 75 – OPEB (cont.)**

- >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)

35 **GASB 74 and 75 – OPEB (cont.)**

- >Intended to follow reporting of pension standard changes of GASB 67 and 68
- >Establish a consistent set of standards for all postemployment benefits

36 **GASB 74 and 75 – OPEB (cont.)**

- >Plan Reporting:
 - Scope includes defined benefit and defined contribution OPEB plans administered through trusts
 - Also includes assets accumulated for purposes of providing OPEB through plans that are not trusts

37 **GASB 74 and 75 – OPEB (cont.)**

- >OPEB definition same as Statement 45
- >OPEB liability is the actuarial present value of the projected benefit payments that is attributable to past periods of employee service
 - If a trust: Net OPEB Liability (total liability minus OPEB plan fiduciary net position)
 - If no trust: Total OPEB liability

38 **GASB 74 and 75 – OPEB (cont.)**

- >Steps to measure the total liability:
 - Projected benefit payments
 - Discount benefit payments to actuarial present value
 - Attribute actuarial present value to periods
- >Assumptions are in conformity with Actuarial Standards of Practice

39 **GASB 74 and 75 – OPEB (cont.)**

- >Alternative Measurement Method
 - Similar to GASB 45, if fewer than 100 employees in plan at beginning of measurement period, qualify for AMM

40 **GASB 74 and 75 – OPEB (cont.)**

- >Single employer plan measurement date can be as of a date no earlier than the end of the

employer's prior fiscal year and no later than the end of the employer's current fiscal year, consistently applied from period to period

- Similar to pension, choice of a measurement date is important to avoid timing challenges in finalizing the financial statements.

41 **GASB 74 and 75 – OPEB (cont.)**

Recording OPEB expense

>Most changes in the net OPEB liability will flow through expense in the period of the change

- Current-period service costs
- Interest on the OPEB liability
- Changes in benefit terms

42 **GASB 74 and 75 – OPEB (cont.)**

Recording OPEB expense:

>Some components of a change in the net OPEB liability due to results of an actuarial valuation will flow through deferred inflows of resources and deferred outflows of resources

- Changes in economic and demographic assumptions
- Differences between expected and actual experience
- These are expensed over expected remaining service life of all employees, similar to pension

43 **GASB 74 and 75 – OPEB (cont.)**

Notes and RSI

>Notes similar to pensions

>10 Year RSI data

44 **GASB 76 – GAAP Hierarchy**

Overview of GASB 76

>What: In June, 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

45 **GASB 76 – GAAP Hierarchy (cont.)**

Category A: Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements

Category B: GASB Technical Bulletins; GASB Implementation Guides (Q&A); and AICPA literature cleared by the GASB

46 **GASB 77 – Tax Abatement**

GASB 77 applies only to transactions meeting this definition:

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 of the 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.

47 **GASB 77 – Tax Abatement (cont.)**

- >The tax abatement disclosure requirements include:
 - The purpose of the tax abatement program
 - The tax being abated
 - Dollar amount of taxes abated
 - Provisions for recapturing abated taxes
 - The types of commitments made by tax abatement recipients

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48 **GASB 77 – Tax Abatement (cont.)**

- >The tax abatement disclosure requirements include: (cont.)
 - Other commitments made by a government in tax abatement agreements, such as to build infrastructure assets.
 - The guidance addresses tax abatements resulting from agreements entered into by the reporting government, as well as those initiated by other governments that reduce the reporting government's tax revenues.

49 **GASB 77 – Tax Abatement (cont.)**

- >Effective Date
 - Effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
 - Applies to notes to the financial statements for all periods presented.
 - If application for prior periods presented is not practical, the reason for not applying this Statement to prior periods presented should be disclosed.

50 **GASB Website Resources**

- >Free download of Statements, Interpretations, Concepts and Statements and other Pronouncements
- >Up-to-date information on current projects
- >Articles and Fact Sheets about proposed and final pronouncements
- >Form for submitting technical questions
- >Educations materials, including podcasts
- >Electronic newsletter and other resources for users

Go to: gasb.org

51 **Pension Resources – GASB**

- >GASB 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25

- >GASB 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27
- >Guide to Implementation of GASB Statement No. 67 on Financial Reporting for Pension Plans
- >Guide to Implementation of GASB Statement No. 68 on Accounting and Financial Reporting for Pensions
- >GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68
- >Available on gasb.org

52 Pension Resources – AICPA

- >Whitepaper – [Governmental Employer Participation in Cost Sharing Multiple Employer Plans: Issues Related to Information for Employer Reporting](#)
- >Whitepaper – [Single Employer and Cost Sharing Multiple Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements](#)
- >Whitepaper – [Governmental Employer Participation in Agent Multiple Employer Plans: Issues Related to Information for Employer Reporting](#)
- >The defined benefit pension plans chapter (chapter 13) from the S&LG Audit Guide
- >GAQC archived web events on pensions

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55 Disclosures

The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought.

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