

2016 GASB UPDATE

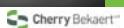
The GASB has
been VERY busy

June 21, 2016



Course Objectives

- Describe the accounting and financial reporting of recently issued GASB standards effective in the current and upcoming years
- Describe the projects currently being assessed by GASB and the potential implications for your organization



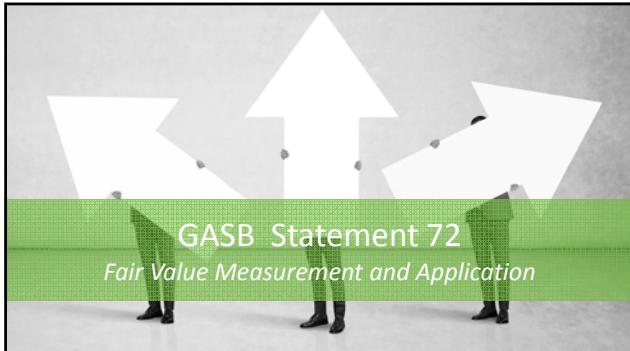
GASB Effective Dates

- ▶ **Periods beginning after June 15, 2015**
 - GASB 72: Fair Value Measurement and Application
 - GASB 76: Hierarchy of GAAP for State and Local Governments
 - GASB 79: Certain External Investment Pools
- ▶ **Periods beginning after December 15, 2015**
 - GASB 77: Tax Abatement Disclosures
 - GASB 78: Pensions Provided through Certain Multi Employer Defined Benefit Pension Plans



GASB Effective Dates

- ▶ **Periods beginning after June 15, 2016**
 - GASB 73: Pensions and Related Assets not within GASB68
 - GASB 74: Financial Reporting for OPEB Plans
 - GASB 80: Blending Requirement for Certain Component Units
 - GASB 82: Pension Issues
- ▶ **Periods beginning after December 15, 2016**
 - GASB 81 Irrevocable Split-Interest Agreements
- ▶ **Periods beginning after June 15, 2017**
 - GASB 75: Accounting & Financial Reporting for OPEB



Overview

Effective for periods beginning after June 15, 2015 (FY2016)

Purpose:

- Improve financial reporting by clarifying the definition of fair value
- Establish principles for measuring FV and application guidance
- Enhances disclosures about FV measurement

NO. 947 | FEBRUARY 2015

Governmental Accounting Standards Series

Statement No. 72 of the Governmental Accounting Standards Board

Fair Value Measurement and Application

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Definitions

Investments are a security or other asset that:

- ▶ 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.

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Definitions

Fair value is the “price received for an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date”

Fair value is an ~~exit~~ price at the measurement date

Measurement depends on the **unit of account** of the asset or liability

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Market

- ▶ Assumes a transaction to sell (asset) or transfer (liability) takes place in a:
 - Principal market or
 - Government's most advantageous market, in the absence of a principal market
- ▶ Search need not be exhaustive, but should be reasonable
- ▶ Consider characteristics that distinguish market participants

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Which Costs Should be Included?

Measurement Date

- ▶ The date as of which the fair value of an asset or liability is determined
- ▶ GASB modified the definition of fair value by substituting "measurement date" for "current transaction" emphasizing that the measurement date can be based on either an event or transaction or the financial statement reporting date





- ▶ A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities.
- ▶ It is not a forced transaction
- ▶ GASB provides some indicators that a transaction is not orderly (i.e. the seller is in or near bankruptcy)



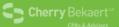
Valuation

- ▶ The unit of account is the level at which an asset or liability is aggregated/disaggregated for measurement, recognition or disclosure purposes
- ▶ Valuation techniques
 - Market Approach
 - Cost Approach
 - Income Approach

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Unit of Account

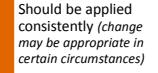
- ▶ The particular asset or liability might be either:
 - a single asset or liability (i.e. a financial instrument)
 - a group of assets, liabilities, or a group of assets and liabilities (i.e. a partnership)
- ▶ Determines the level of aggregation or disaggregation
- ▶ Once established, relevant measurement attribute and disclosures can be applied

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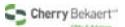
Valuation Techniques

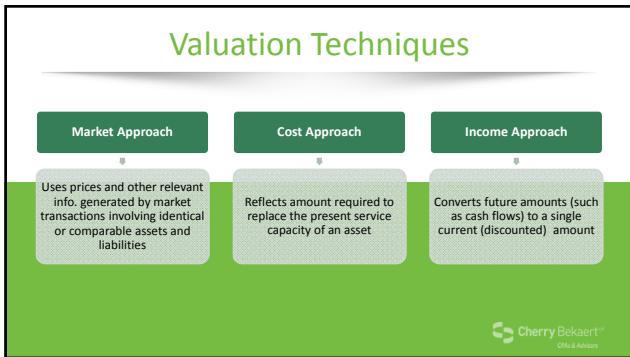
 **Maximize the use of relevant **observable** inputs and minimize the use of **unobservable** inputs**

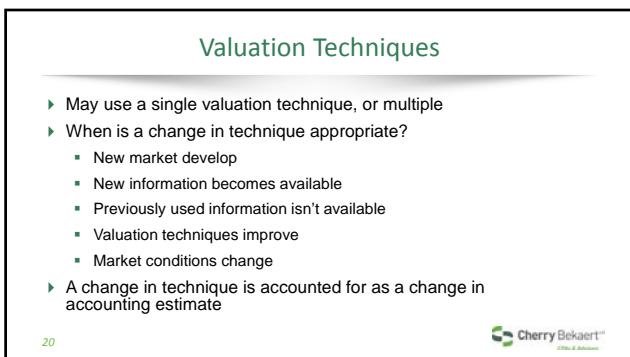
 **Should be applied consistently (change may be appropriate in certain circumstances)**

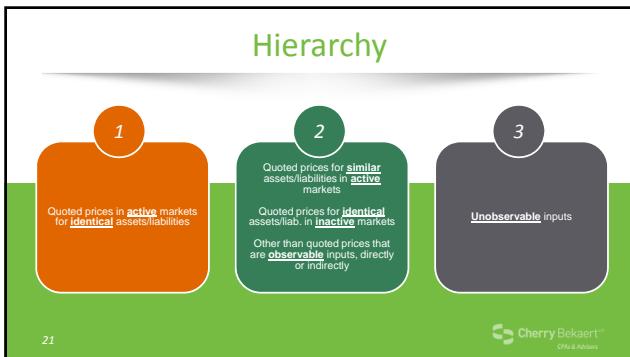
 **Assumes highest and best use:**

- Physically possible
- Legally permissible
- Financially feasible

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Level 1

- ▶ **Active** market and **identical**!
- ▶ Quoted price is the most reliable evidence
- ▶ Examples: exchange markets, dealer market, brokered market, and principal-to-principal market
- ▶ Available for many **financial** assets and liabilities

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Level 2

- ▶ Quoted price for:
 - **Similar** asset or liability, in **active** market
 - **Identical** asset or liability, but in an **inactive** market
- ▶ Other than quoted prices, but **observable**
 - Interest rate and yield curves, implied volatilities, credit spreads
- ▶ Market-corroborated inputs
- ▶ Adjustments for
 - Condition or location of asset
 - Extent to which inputs relate to items that are comparable
- ▶ Volume or level of activity in the market

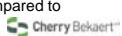
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Level 3

- ▶ Develop inputs using best information available
 - May be the government's own data
 - Adjust if something particular to that government is not available to other market participants
- ▶ Government need not undertake exhaustive efforts to obtain information about market participant assumptions
- ▶ Adjustments for risk and uncertainty
 - i.e. a significant change in volume or level of activity compared to normal

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Net Asset Value (NAV)

Government is permitted to establish FV of an investment in a nongovernmental entity that does not have a readily determinable fair value by using NAV per share (or its equivalent)

Examples: Member units or ownership interest in partners' capital to which a proportionate share of net assets is attributed



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Net Asset Value (NAV) *continued*

- Amount of net assets attributable to each share of capital stock (excluding preferred stock) outstanding at the close of the period
- Must be calculated as of the government's measurement date, in manner consistent with FASB.
 - Otherwise, must consider whether an adjustment is necessary



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NAV – Per FASB

To use NAV must meet both of the following criteria as of the reporting entity's measurement date

- The investment does not have a **readily determinable fair value**
- The investment is in an **investment company** (Topic 946) or is an investment in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements that are consistent with the measurement principles in Topic 946



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What is an Investment Company?

- ▶ An entity regulated under the Investment Company Act of 1940
 - ASU 2013-08 issued in June 2013
- ▶ Introduced a new two-tiered approach, which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics



Fundamental Characteristics

Typical Characteristics

Different Year Ends

IF NAV per share obtained from the investee is **NOT** as of the reporting entity's measurement date

OR

Not calculated in a manner consistent with the measurement principles of Topic 946

THEN

Consider whether an adjustment to the most recent NAV per share is necessary.

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FV Hierarchy & NAV

GASB believed that categorizing investments at NAV according to the FV hierarchy would be difficult & produce inconsistent disclosures

GASB 72 does not require categorization

FASB ASU 2015-07 removed the requirement to categorize, within the fair value hierarchy, all investments measured using the NAV practical expedient. (consistent with GASB 72)

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Quoted Prices from Third Parties

- May be used if it is determined that quoted prices are developed in accordance with the provisions of GASB 72
- Nature of quoted price should be taken into account when considering the available evidence, with more consideration given to quoted prices by 3rd parties representing binding offers

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Non-Financial Assets

Takes into account a market participant's ability to generate resources according to its highest and best use

- ▶ Use of the asset that is:
 - **Physically possible:** location and size of property
 - **Legally permissible:** restrictions should as a zoning regulation
 - **Financially feasible:** does it generate resources to produce an investment return that participant would require



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Basic Principles to Inputs



- ▶ Valuation should maximize relevant observable inputs
- ▶ Minimize unobservable inputs
- ▶ Select inputs that are consistent with the characteristics that market participants would take into account
- ▶ If use inputs from > than one level of the hierarchy, then measurement is based on the lowest level that is significant

Exceptions to Fair Value

Type of Investment	Measurement
Non-participating interest-earning investment contracts	Cost-based
Investments in unallocated insurance contracts	Interest-earning investment contracts
Money-market investments and participating interest-earning contracts maturing < 1 year	Amortized cost
Investments held by 2a7-like external investment pools	Amortized cost
Synthetic guaranteed investment contracts	Contract value
Life insurance contracts	Cash surrender value

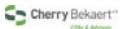
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Acquisition Value

- ▶ Price that would be paid to acquire an **asset** with equivalent service potential in an orderly market transaction at acquisition date
- ▶ Amount at which a **liability** could be liquidated with the counterparty at the acquisition date
- ▶ Applies to:
 - Donated capital assets
 - Donated works of art, historical treasures etc.
 - Capital assets received in a SCA

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Disclosure Considerations

Fair value at the end of the reporting period

Level of fair value hierarchy (1, 2 or 3)

Valuation technique, and any changes

Organize by type of asset or liability

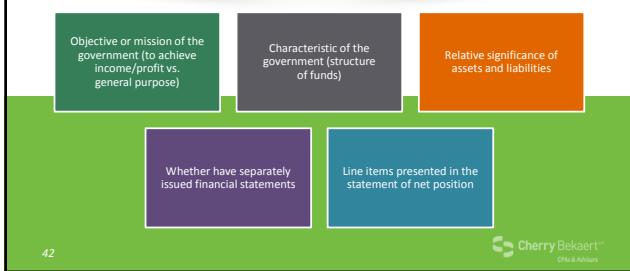
Assets and liabilities that share the same nature, characteristics or risks may be aggregated; Level 3 may require greater disaggregation

Disaggregated based on type

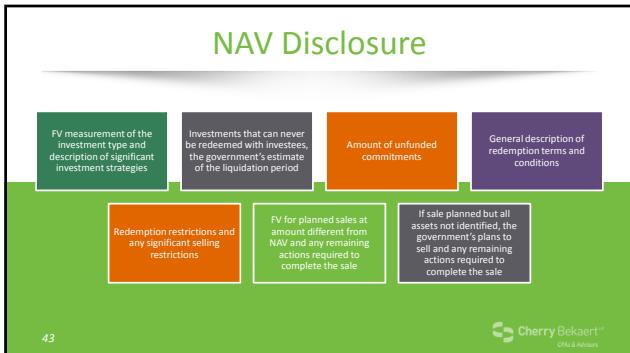
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Disclosure Considerations *Continued*

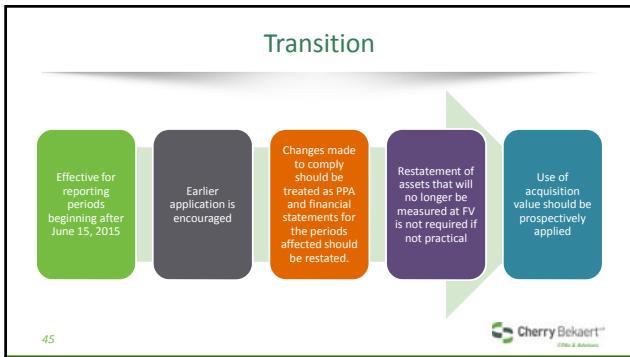


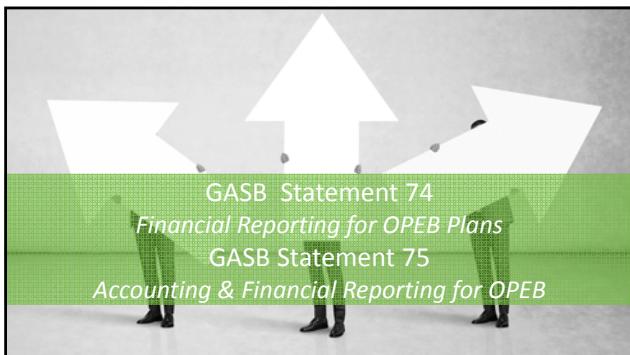
NAV Disclosure

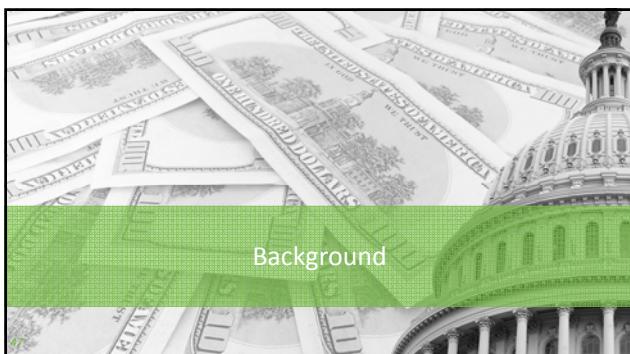


Example

Investments and Derivative Instruments Measured at Fair Value (in millions)		Fair Value Measurements Using Quoted Prices in Markets Active Mark-to-Market Method (Level 1)			
		Significant Firmly Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Significant Firmly Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level					
U.S. Treasury securities	\$ 85	\$ 85	\$ 45	\$ 45	5
Corporate debt securities	45	45	5	5	5
Collateralized debt obligations	30	30	5	5	125
Repurchase agreement securities	15	15	5	5	15
Corporate bonds	65	5	54	54	—
Total debt securities	420	15	188	188	—
Financial instruments held in the investment industry	150	150	—	—	—
Equity securities held in the investment industry	110	110	—	—	—
Total equity securities	260	260	—	—	—
Venture capital investments	225	225	—	—	—
Equity securities held in the venture capital investments	55	55	—	—	—
Direct venture capital—energy	20	20	—	—	—
Direct venture capital—healthcare	35	35	—	—	—
Total venture capital investments	45	45	—	—	—
Private equity investments	43	43	—	—	—
Total investment in fair value held in the investment industry	810	\$ 360	\$ 188	\$ 203	—
Investments measured at fair value (NAV)					
Equity long-term hedge funds	55	—	—	—	—
Global opportunities hedge funds	35	—	—	—	—
Real estate funds	47	—	—	—	—
Total investments measured at fair value (NAV)	137	—	—	—	—
Investment derivative instruments					
Interest rate swaps	\$ 57	—	\$ 57	—	—
Forward rate agreements, (notional)	450	450	—	—	—
Total investment derivative instruments	\$ 497	—	\$ 14	—	—







Type of Plan

- ▶ Benefit after separation is defined by benefit terms
- ▶ May be stated as a dollar amount or a calculated amount based on other factors (age, years of service, salary) or a type or level of coverage such as prescription drug coverage or a percentage of health insurance premiums



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Type of Plan

- ▶ Individual account for each plan member
- ▶ Define contributions employer is required to make
- ▶ Benefits received by plan member depends only on the contributions, earnings on investments, and effects of forfeitures



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Type of Plan

Single-Employer Plans

Benefits are provided to employees of one employer (primary government and component units)

Multiple-Employer Plans

Plan that is used to provide OPEB to the employees of more than one employer

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The diagram consists of two side-by-side boxes. The left box is titled 'Agent Plans' and contains two green-bordered boxes: one stating 'Plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer' and another stating 'Employer's share is legally available to pay the benefits of only its employees'. The right box is titled 'Cost-Sharing Plans' and contains one green-bordered box stating 'OPEB obligations to employees of more than one employer are pooled'. Below the right box is another green-bordered box stating 'Assets can be used to pay benefits of employees of any employer in the plan'.

Types of Multi-Employer Plans

Agent Plans	Cost-Sharing Plans
Plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer	OPEB obligations to employees of more than one employer are pooled
Employer's share is legally available to pay the benefits of only its employees	Assets can be used to pay benefits of employees of any employer in the plan



GASB 74

Plan Financial Statements

- ▶ A statement of fiduciary net position
- ▶ A statement of changes in fiduciary net position

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Statement of Fiduciary Net Position

Statement of Fiduciary Net Position

Assets

Plus: Deferred Outflows of Resources

Less: Liabilities

Less: Deferred Inflows of Resources

Fiduciary Net Position (Net Position Restricted for OPEBs)

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Statement of Changes in Fiduciary Net Position

Statement of Changes in Fiduciary Net Position

Additions

Contributions

Net investment income (investment income & investment expense)

Less: Deductions

Net Increase (Decrease) in Fiduciary Net Position

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Notes to Financial Statements

Descriptive Information About The Plan

The types of OPEB provided, the classes of plan members covered, and the composition of the OPEB plan's board

Information About OPEB Plan Investments

Including the OPEB plan's investments in securities, concentrations of investments with individual organizations equaling or exceeding 5% of the OPEB plan's fiduciary net position, and the annual money weighted rate of return on OPEB plan investments

For Single-Employer and Cost-Sharing OPEB Plans

Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability. Significant assumptions and other inputs used to measure the total OPEB liability, and information about the sensitivity of the measure of the net OPEB liability to changes in the discount rate, the rate of increase in healthcare cost trend rate

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RSI

A schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on OPEB plan investments for each year

For single-employer and cost-sharing OPEB plans for each of the 10 most recent fiscal years:

Sources of changes in the net OPEB liability

For single-employer and cost-sharing OPEB plans for each of the 10 most recent fiscal years:

Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll

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No Trust

Assets Accumulated for Purposes of Providing OPEB through Defined Benefit OPEB Plans That Are Not Administered through Trusts

- ▶ Any assets accumulated for OPEB purposes are required to be reported as assets of the employer or nonemployer contributing entity
 - No netting

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GASB 75

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Issued: June 2015

Effective: for fiscal years beginning after June 15, 2017

Addresses the Employer's reporting

- Addresses both OPEBs with a trust as well as those that are not

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Employer Financial Statements

Single or agent employers without a special funding situation recognize a liability equal to the net OPEB liability

Single or agent plans with special funding situations and cost-sharing plans recognize proportionate share of the collective net OPEB liability

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Employer Net OPEB Liability

- ▶ Total OPEB Liability = **present value** of **projected** benefit payments to be provided to current active and inactive employees that is **attributed** to those employees' past periods of service

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Net OPEB Liability

- ▶ NET OPEB liability = Total OPEB Liability less the OPEB plan's fiduciary net position which was determined under GASB 74

Net OPEB Liability
Total OPEB liability
Less: Plan's fiduciary net position
Net OPEB Liability

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Employer Net OPEB Liability

Net OPEB liability is required to be measured no earlier than end of employer's prior fiscal year-end, consistently applied

- ▶ AKA the measurement date

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Valuations

Actuarial valuations are required to be performed at least every two years, with more frequent valuations encouraged

- ▶ If not performed as of the measurement date, liability would be based on update procedures to roll forward amounts from an earlier calculation

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Alternative Measurement Method

- ▶ For plans with fewer than 100 employees (active & inactive), can use an alternative measurement method in place of an actuarial valuation to determine Total OPEB Liability
 - Approach includes the same broad measurement steps as an actuarial valuation
 - Projecting benefit payments,
 - discounting projected benefit payments to a present value and
 - attributing the PV of projected benefit payments to periods
 - It permits simplification of certain assumptions

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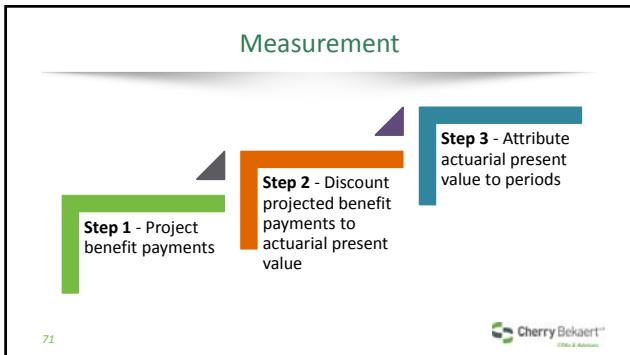


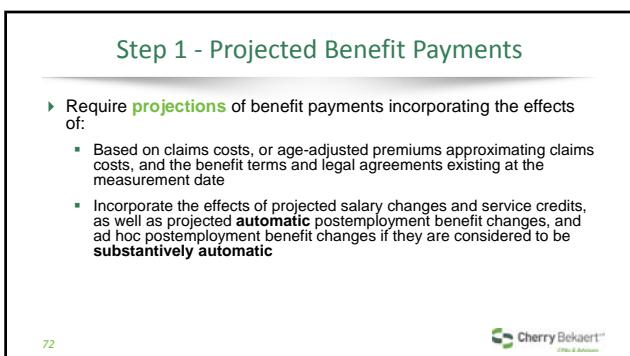
Timing

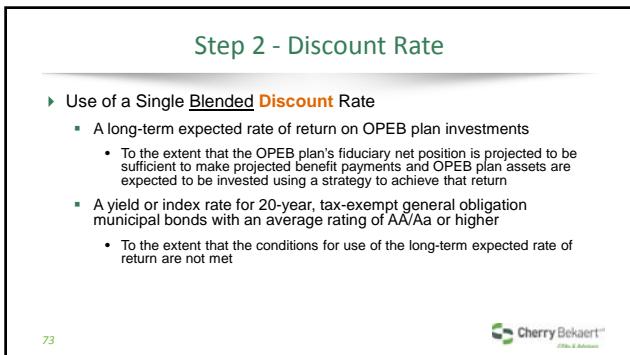
- ▶ Employer **fiscal** year-end
- ▶ **Measurement** date (Net Liability)
 - As of date no earlier than end of prior fiscal year
 - Both components (Total Liability/plan net position) as of the same date
 - If not the actuarial valuation date, TPL "rolled forward" to measurement date
- ▶ **Actuarial** valuation date (Total Liability)
 - If not measurement date, as of date no more than 30 months (+1 day) prior to FYE
 - Actuarial valuations at least every 2 years (more frequent valuations encouraged)

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Year	Projected Beginning Fiduciary Net Position	Projected Benefit Payments	"Funded" Portion of Benefit Payments	"Unfunded" Portion of Benefit Payments	
1	\$1,431,956	\$109,951	\$109,951	\$ -	
2	1,500,197	116,500	116,500	-	
3	1,565,686	123,749	123,749	-	
4	1,628,547	131,690	131,690	-	
25	758,124	318,416	318,416	-	
26	547,880	322,779	322,779	-	
27	316,985	326,326	326,326		
28	64,800	328,997	328,997		
29	-	330,678	330,678		
96	-	1	1		
97	-	-	-		
Total		\$5,778,244	\$7,924,284		
Discount rate		7.5%	4.0%		
Discounted		\$2,109,333	\$1,724,534		

- ▶ Funded Portion is discounted at the long-term expected rate of return
- ▶ Unfunded Portion is discounted at the 20-year tax-exempt municipal bond rate with rating of AA/Aa or higher
- ▶ Result is a blended discount rate of 5.29%

Step 3 - Attribution

Attribute				
Use entry age actuarial cost method	Made on an individual employee-by-employee basis	Should be level as a percentage of that employee's projected pay	Begin with the first period in which the employee provides service under the benefit terms	Attribute through all assumed ages of exit

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Proportionate Share

- ▶ Employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the OPEB plan are determined
- ▶ The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged

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The diagram illustrates the components of changes in net OPEB liability. At the top, a green box contains the title "Changes in Net OPEB Liability". Below it, a larger green box contains the instruction "Include in OPEB expense immediately". To the left of this, a green box contains the text "Changes in total OPEB liability resulting from current-period service cost and interest on total OPEB liability". To the right, another green box contains the text "Changes in benefit terms".

Changes in Net OPEB Liability

Changes in Net OPEB Liability

Defer recognition over a five-year closed period

Difference between projected earnings on plan investments and actual experience

Defer recognition for one year only

Contributions made subsequent to the measurement date of the net OPEB liability, but before the end of the reporting period

Special Funding Situations

- ▶ Special funding situations are circumstances in which a nonemployer entity is **legally responsible** for providing financial support for OPEB of the employees of another entity and either of the following criteria is met:
 - The nonemployer entity is the **only entity** with a legal obligation to provide financial support directly to an OPEB plan that is used to provide OPEB to employees of another entity
 - The amount of contributions or benefit payments for which the nonemployer entity legally is responsible is **not dependent** upon one or more events or circumstances unrelated to the OPEB

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Examples

Not Dependent

Required by statute to contribute a defined percentage of an employer's payroll

Required to pay retiree health insurance premiums as the premiums come due

Dependent

Required to make contributions to an OPEB plan based on a specified percentage of a given revenue source

Amount of benefit payments required to be made as OPEB comes due is limited by a given revenue source

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Liability Recognition (Single & Agent)

Liability should be recognized for the employer's proportionate share of the collective net OPEB liability

- ▶ Measured as the collective net OPEB liability net of the nonemployer contributing entities' total proportionate share of the collective net OPEB liability

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Revenue Recognition (Single & Agent)

- Revenue should be recognized in an amount equal to the total of:
 - The nonemployer contributing entities' total proportionate share of collective OPEB expense reduced by the total of amounts, if any, recognized by nonemployer contributing entities as reductions of expense
 - The nonemployer contributing entities' total additional expense recognized for contributions to the OPEB plan to separately finance specific liabilities of the individual governmental nonemployer contributing entity to the OPEB plan

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Liability Recognition (Cost Sharing)

A liability should be recognized for the employer's proportionate share of the collective net OPEB liability

If the effective OPEB plan terms define a specific relationship of the contribution requirements of a nonemployer contributing entity to those of the employer and other contributing entities, the employer's proportion should be established in a manner consistent with those terms

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Revenue Recognition (Cost Sharing)

- Revenue should be recognized in an amount equal to the total of:
 - The portion of the following amount that is associated with the employer: the nonemployer contributing entities' total proportionate share of the collective OPEB expense, reduced by the total of amounts, if any, recognized by nonemployer contributing entities as reductions of expense
 - The portion of the following amount that is associated with the employer, if any: the nonemployer contributing entities' total additional expense recognized for contributions to the OPEB plan to separately finance specific liabilities of the individual governmental nonemployer contributing entity to the OPEB plan

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Note Disclosures

- ▶ The source of the mortality assumptions
 - The dates of experience studies on which significant assumptions are based
- ▶ Disclose if the alternative measurement method is used
- ▶ **Sensitivity** analysis
 - Measures of the net OPEB liability calculated using a **healthcare cost trend rate** that is 1-percentage-point higher than the assumed healthcare cost trend rate and 1-percentage-point lower than the assumed healthcare cost trend rate

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Note Disclosures Cont'd

Discount rate

The discount rate used & the change in the discount rate if any	Assumptions made about projected cash flows into and out of the OPEB plan, such as contributions from the employer, nonemployer contributing entities, and employees	The long-term expected rate of return on OPEB plan investments and a brief description of how it was determined	If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate
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Note Disclosures Cont'd

- ▶ The **periods** of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate are applied in determining the discount rate
- ▶ The assumed **asset allocation** of the OPEB plan's portfolio, the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed
- ▶ **Sensitivity** Analysis
 - The net OPEB liability calculated using a **discount rate** that is 1-percentage-point higher and 1-percentage-point lower

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Sensitivity Analysis

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the City, calculated using the discount rate of 4.0 percent and healthcare cost trend rates of 3.5-5.5 percent, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current discount rate and healthcare cost trend rates that are 1-percentage-point lower (3.5-4.5 percent) or 1-percentage-point higher (10.5-6.5 percent) than the current healthcare cost trend rates.

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
1% Decrease (8.5%-4.5%)	\$ (12,963)	\$ (61,284)	\$ (104,773)
Healthcare Cost Trend Rates (3.5%-5.5%)	\$ 54,687	\$ 6,366	\$ (51,620)
1% Increase (10.5%-6.5%)	\$ 165,825	\$ 88,512	\$ 20,862

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued SCERS financial report. [If significant changes had occurred that indicate that the disclosures included in the OPEB plan's financial report generally did not reflect the facts and circumstances at the measurement date, the City should disclose additional information, as required by paragraph 52 of this Statement.]

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Note Disclosures Cont'd

A schedule of changes in the net OPEB liability

The effects during the period of the following items

Service cost, interest on the total OPEB liability	Changes of benefit terms, assumptions	Differences between expected and actual experience in measurement of the total OPEB liability	Contributions from the employer, nonemployer contributing entities	Contributions from active employees and inactive employees not yet receiving benefit payments	OPEB plan net investment income, administrative expense	Benefit payments

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Changes in the Net OPEB Liability

	Increase (Decrease)	
	Total OPEB Liability [<i>1</i>]	Plan Fiduciary Net Position [<i>2</i>] Net OPEB Liability [<i>1</i> - <i>2</i>]
Balances at 6/30/08	\$ 421,472	\$ 11,264
Changes for the year:		
Service cost	19,801	19,801
Interest	30,663	30,663
Differences between expected and actual experience	8,525	8,525
Contributions—employer	22,438	(22,438)
Net investment income	44,215	(44,215)
Benefit payments	(7,898)	(7,898)
Administrative expense	—	—
Net changes	52,747	(148)
Balances at 6/30/09	\$ 461,212	\$ 10,156

[If there had been a change of assumption or other input or a change of benefit terms that affected the measurement of the total OPEB liability since the prior measurement date, the City should disclose information required by paragraph 54c or 54d of this Statement, as applicable. If benefit payments in the measurement period included amounts for the purchase of allocated insurance contracts, the City should disclose information required by paragraph 54e of this Statement.]

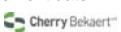
Changes in the Net OPEB Liability

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Note Disclosures Cont'd

- ▶ The measurement **date** of the net OPEB liability; the **date** of the actuarial valuation or alternative measurement method calculation; and, if applicable, the fact that update procedures were used to roll forward the total OPEB liability to the measurement date
- ▶ If the **alternative measurement method** is used, the fact that this alternative method was used
- ▶ If the employer has a special funding situation, the **employer's proportion (%)**, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date

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Note Disclosures Cont'd

A brief description of **changes of assumptions** or other inputs that affected measurement of the total OPEB liability since the prior measurement date

A brief description of **changes of benefit terms** that affected measurement of the total OPEB liability since the prior measurement date

A schedule for each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of **deferred outflows of resources** and **deferred inflows of resources** that will be recognized in the employer's OPEB expense

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Note Disclosures Cont'd

- ▶ The amount of benefit payments in the measurement period attributable to the purchase of **allocated insurance contracts**
- ▶ A brief description of the **benefits** for which allocated insurance contracts were purchased in the measurement period
- ▶ The fact that the **obligation** for the payment of benefits covered by allocated insurance contracts has been **transferred** from the employer to one or more insurance companies

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Note Disclosures Cont'd

The employer's balances of **deferred outflows** of resources and **deferred inflows** of resources:

Differences between expected and actual experience in the measurement of the total OPEB liability	Changes of assumptions or other inputs	Difference between projected & actual earnings on investments	Special funding situation - changes in the employer's proportion & differences between employee contributions & employer's proportionate share of certain contributions	The employer's contributions to the OPEB plan subsequent to the measurement date of the net OPEB liability
---	--	---	---	--

97



RSI

10 year schedule of **changes in the net OPEB liability**

The total OPEB liability	The OPEB plan's fiduciary net position	The net OPEB liability	The OPEB plan's fiduciary net position as a percentage of the total OPEB liability	The covered-employee payroll	The net OPEB liability as a percentage of covered-employee payroll
--------------------------	--	-------------------------------	--	------------------------------	--

98



RSI

► If an **actuarially** determined contribution is calculated

- The actuarially determined contribution of the employer
- The amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution
- The difference between the actuarially determined contribution of the employer and the amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution
- The covered-employee payroll
- The amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution of the employer as a percentage of covered-employee payroll

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OPEB Plans Not Administered Through Trusts

Provide **insured benefits**—defined benefit OPEB

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

Recognition of OPEB expense/expenditures equal to the annual contributions or premiums

Disclosures - brief description of the benefits provided through the arrangement

100



Not Administered Through Trusts

- ▶ **Not** through insured benefits

- Measurement of OPEB liability, expense, etc. parallel to that required for those provided through trusts
- Essentially similar note disclosures and RSI
- Modification to reflect the absence of OPEB plan assets
 - Recognize Total OPEB Liability

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Note Disclosures

- ▶ The name of the OPEB plan, identification of the entity that administers the OPEB plan, and identification of the OPEB plan as a single-employer or agent OPEB plan
- ▶ If the OPEB plan is closed to new entrants, that fact should be disclosed
- ▶ The number of employees covered by the benefit terms, separately identifying numbers of the following:
 - Inactive employees currently receiving benefit payments
 - Inactive employees entitled but not yet receiving benefit payment
 - Active employees

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Note Disclosures Cont'd

- ▶ A brief description of the **benefit terms**, including
 - the classes of employees covered;
 - the types of benefits;
 - the key elements of the OPEB formulas;
 - the terms or policies, if any, with respect to automatic postemployment benefit changes, ad hoc postemployment benefit changes, and the sharing of benefit-related costs with inactive employees;
 - the authority under which benefit terms are established or may be amended

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Note Disclosures Cont'd

- ▶ A brief description of **contribution requirements**, including
 - the basis for determining the employer's contributions
 - Identification of the authority under which contribution requirements of the employer, nonemployer contributing entities, and employees are established or may be amended;
 - legal or contractual maximum contribution rates;
 - the contribution rates of the employer, nonemployer contributing entities, if any, and employees for the reporting period

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Note Disclosures Cont'd

- ▶ Does OPEB plan issues a stand-alone financial report
 - Is OPEB plan included in the report of another government
- ▶ Significant **assumptions and other inputs** used, including assumptions about
 - inflation,
 - healthcare cost trend rates,
 - salary changes,
 - ad hoc postemployment benefit changes
 - the sharing of costs with inactive employees

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RSI

- ▶ If the employer has a **special funding situation**
 - The total OPEB liability
 - The OPEB plan's fiduciary net position
 - The collective net OPEB liability
 - The nonemployer contributing entities' total proportionate share (amount) and employer's proportionate share (amount) of the collective net OPEB liability
 - The covered-employee payroll
 - The employer's proportionate share (amount) of the collective net OPEB liability and the OPEB plan's fiduciary net position as a percentage of the total OPEB liability

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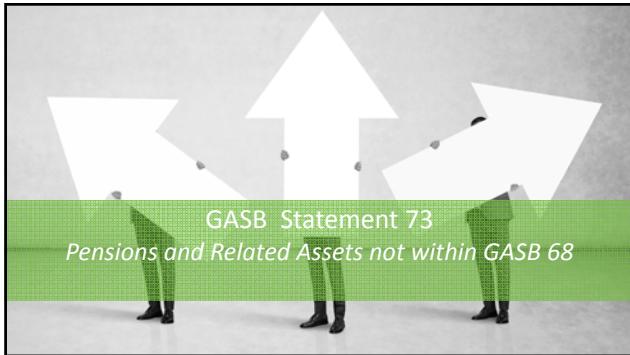


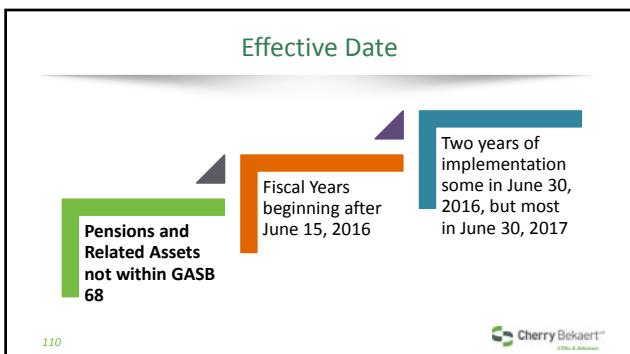
RSI

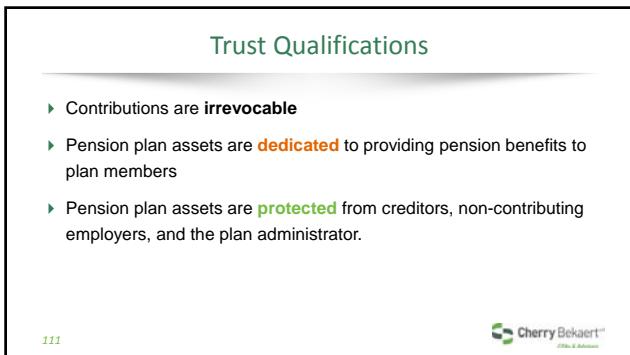
- ▶ **Statutorily or contractually** established contribution
 - The statutorily or contractually required employer contribution
 - The amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution
 - The difference between the statutorily or contractually required employer contribution & the amount of contributions recognized by the OPEB plan in relation to the required employer contribution
 - The amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution as a percentage of covered-employee payroll
 - The covered-employee payroll

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Pensions Administered Without a Trust

- ▶ **Does not** include postemployment healthcare or termination benefits
- ▶ Could be a defined benefit or defined contribution plan
- ▶ Could have a special funding situation

112



Pensions Administered Without a Trust

▶ At June 30, 2016:

- Any assets accumulated for pensions that not administered through trusts should not be accounted for as pension plan assets, but **assets of the employer**.
- **No longer** can they be reported as assets of a **pension trust fund**, need to go in the general fund or other fund in which they are more in line with
- **Committed Fund Balance** for fund financial statements

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Pensions Administered Without a Trust

	Supplemental Money Purchase Pension Plan	Law Enforcement Officers Special Separation Allowance	Other Post Employment Benefits Trust	Total
ASSETS				
Cash and cash equivalents	\$ 48,459,632	\$ 3,005,811	\$ 26,642,111	\$ 78,187,554
Accrued interest receivable	-	16,474	37,216	53,690
Due from other funds	-	-	273,164	273,164
Total assets	48,459,632	3,102,285	26,952,491	78,514,408
LIABILITIES				
Claims payable	-	-	914,000	914,000
Accounts payable	-	-	13,759	13,759
Total liabilities	-	-	927,759	927,759
NET POSITION				
Held in trust for employees' retirement and other post-employment benefits	\$ 48,459,632	\$ 3,102,285	\$ 26,024,732	\$ 77,586,649

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Pensions Administered Without a Trust

► For Fiscal Year 2017:

- Continue to report the assets accumulated for pensions that are not in a trust as **assets of the employer**
- Recognize a **liability** for the total pension liability(TPL) provided from the actuary report
- Recognize **pension expense** for the annual change in TPL
- Information similar to that required by Statement 67 or Statement 68 should be included in notes to financial statements and required supplementary information
- If special funding situation – there are different requirements for reporting

115



Total Pension Liability (TPL)

- **Project** the benefit payments using actuarial assumptions
- **Discount** to present value
- **Attribute** PV to past, present and future years

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Pension Expense

- Work from current employees
- Interest on the TPL
- Changes in the TPL from:
 - Actual economic & demographic changes that differed from actuarial assumptions
 - Changes in economic and demographic assumptions
 - Changes in terms of pension benefits

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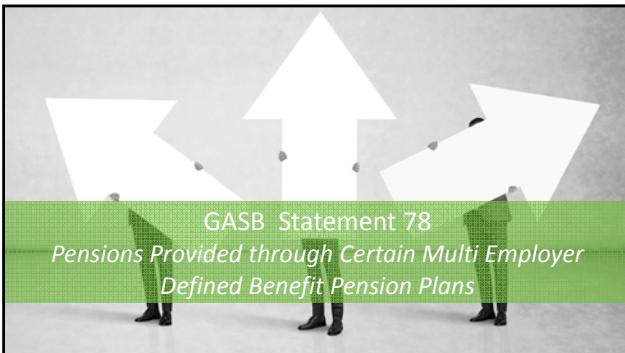


Amendments to GASB67 & 68

- Information in the notes to the RSI for the 10 yr schedules about investment-related factors that significantly affect trends in amounts reported
- Addresses separately-financed specific liabilities of individual employers or nonemployer contributing entities
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

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Effective Date

Pensions Provided
through Certain
Multi Employer
Defined Benefit
Pension Plans

Fiscal Years
beginning after
December 15,
2015

First year of
implementation
would be June 30,
2017



120

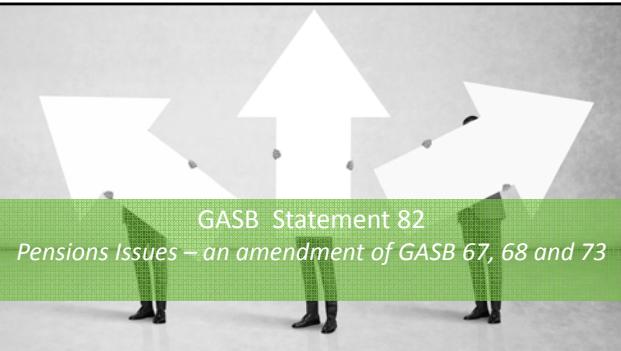
Plans Excluded from GASB 68 by this GASB

► **Must be a cost-sharing multiple-employer defined benefit pension plan that:**

- is not a state or local governmental pension plan
- 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
- 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).

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Effective Date

Pensions Issues
– and amend of
GASB 67, 68
and 73

Fiscal Years
beginning after
June 15, 2016

First year
implementation
would be June
30, 2017



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Pension Issues

- ▶ Amends GASBs 67, 68 and 73
- ▶ Covers the following issues:
 - the presentation of payroll-related measures in required supplementary information
 - the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standards of Practice for financial reporting purposes
 - the classification of payments made by employers to satisfy employee (plan member) contribution requirements

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Pension Issues

Presentation of Payroll-Related Measures in RSI

Old: Presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that incorporate that measure.

New: Presentation of covered payroll, which is the portion of compensation paid to active employees on which contributions to a pension plan are based, and ratios based on that measure.

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Pension Issues

Selection of Assumptions

Clarifies that 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 is **not considered to be in conformity** with the requirements of Statement 67, Statement 68, or Statement 73 **for the selection of assumptions** in determining the total pension liability.

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Pension Issues

Classification of Employer-Paid Member Contributions

Clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as **plan member** contribution requirements should be classified as **plan member** contributions for purposes of Statement 67 and as **employee** contributions for purposes of Statement 68.

Requires that an employer's expense and expenditures for those amounts be included in salaries and wages of the period for which the contribution is assessed.

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GASB Statement 76

Hierarchy of GAAP for State and Local Governments



Supersedes



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GAAP Hierarchy

► Hierarchy in the Past

- GASBs and Interpretations
- GASB Technical Bulletins and AICPA Audit Guides and SOPs if specifically made applicable to state and local government and cleared by GASB
- AICPA Practice Bulletins cleared by GASB
- Implementation Guides and general practice



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GAAP Hierarchy Cont'd

► Changes in Structure

- Fewer levels, reducing to two authoritative and one nonauthoritative
- Category A - would require formal GASB approval and exposed to public comment (statements and interpretations)
- Category B - GASB technical bulletins, GASB implementation guides and AICPA pronouncements cleared by GASB
- Nonauthoritative- FASB Codification, GASB Concepts Statements and other accounting literature

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Effective Date

Hierarchy of GAAP for State and Local Governments

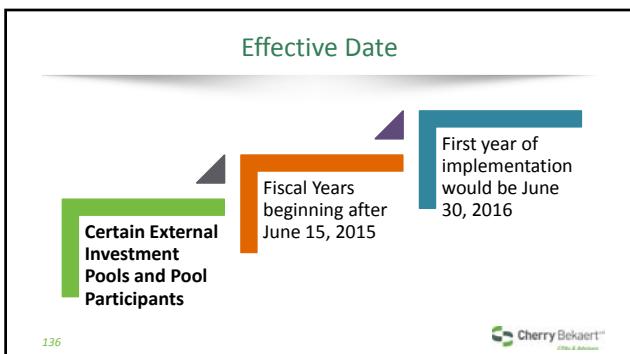
Fiscal Years
beginning after
June 15, 2015

First year of implementation would be June 30, 2016

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Criteria to Measure at Amortized Cost

- ▶ Transactions must be conducted at a stable net asset value per share
- ▶ Requirements for portfolio maturity, quality, diversification and liquidity
- ▶ Calculation & Requirements of a shadow pricing
- ▶ If a Pool uses amortized cost so should that Pool's Participants

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What if it Doesn't Meet the Criteria?

- ▶ If the Pool cannot **significantly** comply then the pool **cannot** measure all of its investments at **amortized cost**
- ▶ Use **professional judgement** in determination of whether significantly complying
- ▶ The Plan apply the guidance in paragraph 16 of GASB31
- ▶ The Plan Participants apply the guidance in paragraph 11 of GASB31 instead

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Additional Disclosures

- ▶ Disclosures required for Fair Value Measurements in GASB72
- ▶ Need to include information about limitations or restrictions on participant withdrawals
 - Both the Pool and the Participant of the Pool

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Effective Date

Tax Abatement Disclosures

Fiscal Years beginning after December 15, 2015

First year of implementation would be June 30, 2017

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Tax Abatements

- Defined - 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.
- Includes:
 - The government **own** tax abatement agreements
 - Those that are **entered into by other** governments and that **reduce** the reporting government's tax revenues

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GASB 77

Tax Abatements

▶ Disclosures

- General descriptive information (tax being abated, authority, eligibility criteria etc.)
- Number of tax abatement agreements
- **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.



Effective Date

Blending Requirement for Certain Component Units

Fiscal Years
beginning after
June 15, 2016

First year of
Implementation
is June 30, 2017



Blending Requirement

- Criteria of blending a component unit **now includes** a NFP corporation in which the primary government is the **sole corporate member**.
- This statement is **ONLY** amending paragraph 53 of GASB 14, which says they should be discretely presented
- If already determined through GASB 39 then this statement doesn't apply.

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GASB Statement 81 *Irrevocable Split-Interest Agreements*

Effective Date

**Irrevocable
Split-Interest
Agreements**

Fiscal years
beginning after
December 15,
2015



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Irrevocable Split-Interest Agreements

- ▶ Donor places resources into a trust for the benefit of **two or more** parties and it is **irrevocable**.
 - One of the parties is likely the donor himself
 - So likely donor gets the benefits of the trust until he/she passes and then the second party gets the balance.
- ▶ **Not common for general purpose governments, but is common for special purpose governments.**

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Irrevocable Split-Interest Agreements

- ▶ An Intermediary is who typically administers the trust
- ▶ Can be a government or a third party
 - If Government they record an **asset** for the resources, **liability** for the portion to be distributed to other beneficiaries and a **deferred inflow** for the portion that is to their benefit.
 - If third party they record **asset** at fair value and **deferred inflow** of resources as soon as sufficient information is **available** for fair value.

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Implementation Guide No. 2016-1

New Implementation Guide 2016-1

- ▶ This is the update to the first one that was issued in 2015
- ▶ Will continue to be updated annually to include new questions and answers that are in the comprehensive implementation guide
- ▶ Was just recently approved for issuance (March 7, 2016)

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Implementation Guide:

The Details of the Changes

- ▶ **New Questions and Answers for the following topics:**
 - Disclosures related to deposits with financial institutions, investments and reserve repurchase agreements
 - Cash Flow Reporting
 - The Financial Reporting Entity
 - Pensions – Employer and Plan Accounting and Reporting
 - Accounting and Financial Reporting for Certain Investments for External Investment Pools
 - Basic Financial Statements and MD&A
 - Postemployment Benefits Other than Pensions
 - Derivatives Instruments

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Implementation Guide:

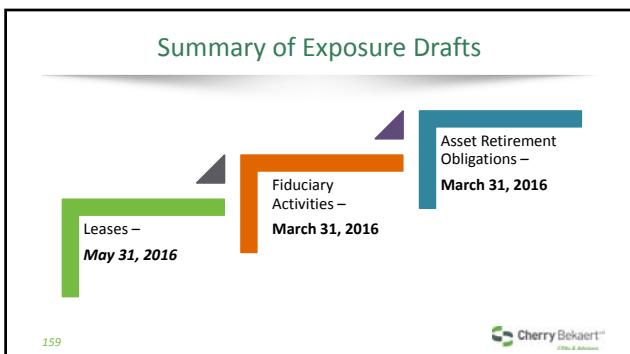
The Details of the Changes

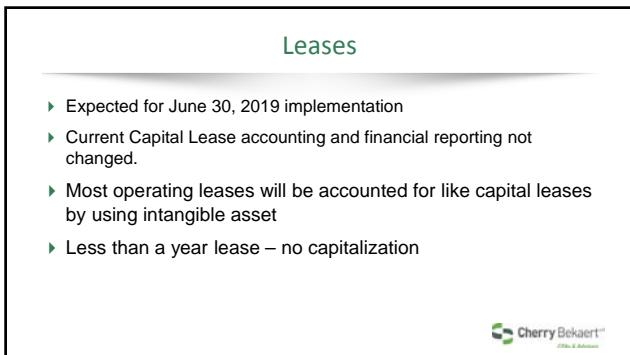
- ▶ **Other Implementation Guidance**
 - Related to GASB Statements 32, 33, 51, 54, 60, 65, 70, and 77
 - Amendments to Questions and answers from the 2015-1 Implementation Guide
- ▶ **Appendix C is Illustrations**
 - Related to GASB Statement 44 – Statistical Section for a Government Engaged Only in Fiduciary Activities (Retirement System)

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Leases (Cont.)

▶ Lessees

- Recognize a lease liability and an intangible lease asset
 - Measured at the present value of certain lease payments
 - Recognize interest expense
- Lease asset would be measured at the value of the lease liability plus any prepayments and certain initial direct costs
 - Amortization expense on the lease asset



Leases (Cont.)

▶ Lessors

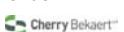
- Recognize a lease receivable
 - Measured at the present value of certain lease payments to be received over the lease term
 - Recognize interest revenue
- Recognize a deferred inflow of resources
 - Measured at the value of the lease receivable plus the amount of any payments received at or prior to the beginning of the lease that relate to future periods
 - Recognize revenue
- Would not derecognize the underlying asset in the lease



Leases (Cont.)

▶ Short-term lease exception

- A lease that, at the beginning of the lease, has a maximum possible term under the contract, including any options to extend, of 12 months or less.
- Does not follow the regular accounting for leases
 - Lessees - Recognize lease payments as expenses or expenditures
 - Lessors - Recognize lease payments as revenue



Fiduciary Responsibilities

- ▶ **Expected for June 30, 2018 Implementation**
- ▶ **Purpose - 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
 - Requiring a financial flows statement for all fiduciary fund types



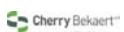
Fiduciary Definition

- ▶ **A government that controls assets through one of the following four conditions:**
 - from a pass-through grant for which the government does not have administrative or direct financial involvement
 - in accordance with a trust agreement or equivalent arrangement in which the government itself is not a beneficiary
 - for the benefit of individuals that are not required to be residents or recipients of services
 - Assets used for the benefit of organizations/other governments that are not part of the financial reporting entity.



Fiduciary Guidance

- ▶ **Pension trust funds, private-purpose trust, and investment trust funds continue to be reported in the basic financial statements**
 - All are evidenced by trust agreements
- ▶ **Agency Fund eliminated and replaced with a custodial fund**
 - Fiduciary activities with no trust agreement
 - Resources held for short duration of time
 - Continue to also be reported in basic financial statements



Asset Retirement Obligations

► **What does this project NOT cover?**

- Landfill closure/post closure care (GASB 18)
- Pollution Remediation (GASB 49)

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Asset Retirement Obligations

► **What DOES it cover?**

- Other types of significant asset retirements such as nuclear power plants, coal-fired plants and sewerage treatment facilities.

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Asset Retirement Obligations

Addresses:

- Definition of a "retirement" in this context
- General approach to recognition and measurement
- Note disclosure requirements

Anticipated Implementation for June 30, 2019

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Other Projects and Practice Issues

- ▶ Financial Reporting Model
- ▶ Certain Debt Extinguishments Using Existing Resources
- ▶ Implementation Guide for OPEB
- ▶ User Guides – Update



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Financial Reporting Model

- ▶ Purpose to make improvements to GASB 34, 35, 37, 41 and 46 and interpretation 6
- ▶ So far:
 - GASB34 basic remains valid, questioning the meaning of "current financial resources" and "short-term" – they will be reconsidered
 - Near-Term, working capital and total financial resources approaches will be further developed
 - Two presentation alternatives for resources flows will be further developed
 - Two alternatives for the Statement of Activities will be explored
 - Exploration of a governmental funds statement of cash flows



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Debt Extinguishments with Existing Resources

- ▶ Considering improvements to the existing guidance related to debt extinguishments using existing resources (GASB 7 and 23 and some of GASB 62).
- ▶ Does not include debt extinguishments connected with troubled debt restructurings and bankruptcy, which are addressed in other pronouncements.

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Debt Extinguishment - Scope

- ▶ Whether the use of solely existing resources placed into an irrevocable trust to retire a bond warrants defeasance accounting as provided in GASB 7.
- ▶ The deferral treatment of the difference between the reacquisition price and the net carrying amount of the debt when existing resources are used in conjunction with refunding bond proceeds and when only existing resources are placed into an irrevocable trust to retire a bond.
- ▶ Disclosure requirements related to items above
- ▶ The treatment of prepaid insurance related to a refunded bond

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Debt Extinguishment: *What They Are Proposing So Far*

- ▶ In-substance defeasance of debt treatment be applied when only existing resources are placed with an escrow in a trust for the purpose of extinguishing debt in accordance with paragraph 4 of Statement No. 7
- ▶ The prepaid bond insurance related to debt that is refunded be included in the net carrying amount of the old debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the old debt under Statement No. 23

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Implementation Guide for OPEB

A MUST!
Yes PLEASE!
AMEN!
(Fingers Crossed)



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User Guides

- ▶ Will update the GASB's User Guide Series to encompass major pronouncements issued and implemented since the Guides were last updated in 2011–2012, which carried them through GASB 63 deferred inflows and outflows
- ▶ Doesn't have to be approved or cleared by the GASB Board
- ▶ Expected to be out summer of 2016

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User Guides will include...

- ▶ Text and illustration revisions to reflect the effects of Statement No. 65, Items Previously Reported as Assets and Liabilities
- ▶ The new guidance for measuring and reporting the liabilities and expenses related to pensions and OPEB, as well as the new notes and supplementary schedules
- ▶ Update the existing references to fair value and discussion of the new notes on fair value
- ▶ Brief discussions of the new standards on government combinations, nonexchange financial guarantees, and tax abatements, and the related notes
- ▶ Revisions to reflect the changes in the GAAP hierarchy

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What else is GASB Looking into?

► Pre-Agenda Research:

- Debt Disclosures
- Going Concern Disclosures
- Revenue Recognition for Exchange and Exchange Like Transactions

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Questions & Comments?

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