{Audit Update.}

Presented by Katie Thornton to MCCBOA on March 6, 2014

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Agenda

- GASB Standards Update
- GASB Agenda Items
- Federal Update

GASB Standards Update

Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
65- Items previously reported as Assets and Liabilities	6/30/14	Properly classify certain items as deferred outflows and inflows of resources	Not significant
67- Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25	6/30/14	Pension plan accounting and reporting (NOT OPEB)	Not significant to employers
68- Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27	6/30/15	Participant employers in pension plans (NOT OPEB) – recording the net pension liability (unfunded portion) and expands footnote and RSI reporting	Significant
69- Government Combinations and Disposals of Government Operations	6/30/15	Merger - Use of carrying values to measure the assets and liabilities. Acquisition - Assets acquired and liabilities assumed generally to be valued at their acquisition values.	Not significant

Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees	6/30/14	Improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.	Not significant
71 - Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68	6/30/15	Accounting for contributions made by employer to pension plan after measurement date of the plan's net pension liability (deferred outflow of resources, if practical to determine amount)	Not significant

GASB 65 – deferred outflows/inflows

- Reporting Items Previously Recognized as Assets and Liabilities
  - Issued March 2012
  - Effective for periods beginning after December 15, 2012 (FY14)
  - Many Colleges early adopted this with GASB 63, the rest will adopt for June 30, 2014

GASB 65 – deferred outflows/inflows

- Common Deferreds:
  - Refundings of debt
  - Debt issuance costs
  - Pension related (GASB 68)

- Use of the term "Deferred"
  - "Unearned" revenue

GASB 65 – Footnote

NOTE 1

Deferred Outflows

Deferred outflows consist $X of gain on the defeasance of the General Obligation Bonds Series 20XX. The College recorded deferred outflows of $X and $X at June 30, 2014 and 2013, respectively.

Bond Issuance Costs

Bond issuance costs are expensed when incurred.

Unearned Revenue

Unearned revenue consists primarily of summer school tuition not earned during the current year and advances on contracts and sponsored programs.

GASB 68 – Accounting and Financial reporting for Pensions

- Overall Significant Changes
  - Cost-sharing employers will now have to report their proportionate share of the collective net pension liability
  - Very significant footnote disclosure changes (both for the employer as well as a plan)
  - Expanded Required Supplementary Information (employer and plan)
  - Effective for June 30, 2015

Employer Information Requirements

Employers need the following to record the liability and disclose appropriately:

- Net pension liability (NPL)
- Deferrals
- Pension expense
- Footnote disclosure data
- Required supplemental information (RSI) data

Where this information comes from depends on the type of plan!

Employer Financial Statement Impact – Overview

Statement of Net Position

		June 30, 2015
ASSETS		
Cash and cash equivalents	$	13,518,186
Investments		5,929,622
Receivables (net)		3,085,177
Capital assets (net of accumulated depreciation)		29,912,082
TOTAL ASSETS		52,445,067
LIABILITIES		
Accounts Payable & accrued liaiblities		4,538,206
Non-current liabilities:		
Current portion of long-term debt		936,000
Long-term debt (net of current portion)		1,360,000
Net pension liability		16,549,861
TOTAL LIABILITIES		23,384,067
DEFERRED INFLOWS OF RESOURCES		320,702
NET POSITION		
Net investment in capital assets		27,616,082
Restricted		3,645,199
Unrestricted		(2,520,983)
TOTAL NET POSITION	$	28,740,298

Changes in the NPL

Changes in Net Pension Liability (in millions)	**Increase (Decrease)**			
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**	**Cost-Sharing Plan Proportionate Share** 0.07200%
Balances at 9/30/13	$ 63,427,123	$ 41,038,867	$ 22,388,256	$ 16,120
Changes for the Year				
Service Cost	758,640		758,640	546
Interest	2,165,150		2,165,150	1,559
Differences between expected and actual experience	375,390		375,390	270
Contributions - employer		457,131	(457,131)	(329)
Contributions - employee		314,510	(314,510)	(226)
Net investment income		1,961,540	(1,961,540)	(1,412)
Benefit payments, including employee refunds	(1,194,340)	(1,194,340)	-	-
Administrative expense		(33,730)	33,730	24
Other changes		80	(80)	(0)
Net changes	2,104,840	1,505,191	599,649	432
Balances at 9/30/14	$ 65,531,963	$ 42,544,058	$ 22,987,905	$ 16,551

Pension Expense vs. Deferred Inflow/Outflow

Changes in Net Pension Liability

	Net Pension Liability (a) - (b)	Expense	Deferred
Balances at 6/30/X8	$ 22,388,256		
Changes for the Year			
Service Cost	758,640	758,640	
Interest	2,165,150	2,165,150	
Differences between expected and actual experience	375,390		375,390
Contributions - employer	(457,131)		
Contributions - employee	(314,510)	(314,510)	
Net investment income	(1,961,540)	(1,924,462)	(37,078)
Benefit payments, including employee refunds	-		
Administrative expense	33,730	33,730	
Other changes	(80)	(80)	
Amortization of deferred inflows/outflows of resources		17,610	(17,610)
Net changes	599,649	$ 736,078	$ 320,702
Balances at 6/30/X9	$ 22,987,905		

Tracking Amortization of the Deferrals

Deferred Inflow/Outflow of Resources			Current Year Activity				End of Year Balance		Future Recognition of Deferred Outflows/Inflows					
	Fiscal Year End	Amort. Period	Outflow Balance	Recognized during Year	Inflow Balance	Recognized during Year	Deferred Outflow	Deferred Inflow	FY+1	FY+2	FY+3	FY+4	FY+5	Thereafter
Differences between projected and actual experience	6/30/2015	15	$ -	$ -	$ (375,390)	$ (25,026)	$ -	$(350,364)	$ (25,026)	$ (25,026)	$ (25,026)	$ (25,026)	$ (25,026)	$ (225,234)
Difference between projected and actual investment earnings	6/30/2015	5	-	-	37,078	7,416	-	29,662	7,416	7,416	7,416	7,416	-	-
						(17,610)		(320,702)						
Differences between projected and actual experience	6/30/2016	15	130,000	8,667	-	-	121,333	-		(8,667)	(8,667)	(8,667)	(8,667)	(86,667)
Changes of assumptions	6/30/2016	15	-	-	14,000	933	-	13,067		933	933	933	933	9,333
Change in proportionate share	6/30/2016	15	32,000	2,133	-	-	29,867	-		(2,133)	(2,133)	(2,133)	(2,133)	(21,333)
Difference between projected and actual investment earnings	6/30/2016	5	26,000	5,200	-	-	20,800	-		(5,200)	(5,200)	(5,200)	(5,200)	-
Differences between projected and actual experience	6/30/2017	15	-	-	450,000	30,000	-	420,000			30,000	30,000	30,000	330,000
Change in proportionate share	6/30/2017	15	-	-	1,800	120	-	1,680			120	120	120	1,320
Difference between projected and actual investment earnings	6/30/2017	5	-	-	8,000	1,600	-	6,400			1,600	1,600	1,600	1,600

ORS/MPSERS Update

- ORS
  - GASB 67 implementing at 9/30/14
  - Audited proportionate share
- Estimated values provided 2/28/14
  - Estimated 9/30/12 net pension liability
  - MPSERS system total $25 billion

ORS/MPSERS Update

- For June 30, 2015 – 3 phases
  1. Estimated pension liability based on 2012 contributions (provided in 2/28/14 communication)
  2. Update of NPL, expense and additional detail based on 9/30/13 activity
  3. Actual pension liability and expenses for June 30, 2015 implementation including all GASB 68 required components (based on MPSERS 9/30/14 audit)

ORS/MPSERS Update

GASB 68 Financial Reporting Changes

MPSERS Plan Fiscal Year	When must reporting units record GASB 68 liability and expense in their financial statements?
2012-estimated	The estimated liability and expense are informational only and are **not** to be recorded in the school's financial statements
2013-estimated	The estimated liability and expense are informational only and are **not** to be recorded in the school's financial statements
2014-actual	School fiscal year 2015
2015-actual	School fiscal year 2016

ORS/MPSERS Update

- www.michigan/gov/GASB68
  - FAQ

4. **How do I reduce my liability?** The liability is reduced over time through the contribution rates. The system is designed to eliminate the liability over time (currently 24 more years), like paying off a mortgage on a house. No additional action is required of the reporting units.

5. **How can I pay off this liability?** The liability will be paid off according to the amortization of the unfunded liability over time, consistent with past practice. Since the liability itself is a shared liability, individual reporting units can't "pay off" their proportionate share.

6. **Why isn't the State recording this liability on their financial statements?** MPSERS is a multi-employer cost sharing plan. The State of Michigan has no employees in this plan and is not a participating employer in the MPSERS plan. The pension liability and pension expense are required to be recorded by the participants in the MPSERS plan.

17. **How do I share this with my auditor?** Share this information with your auditor as you see fit.

GASB Agenda Items

Projects and More

- Postemployment Benefit Accounting and Financial Reporting – Other Postemployment Benefit Accounting and Financial Reporting
    - Exposure Draft – 2Q14
    - Standard – 2Q15
- Fair Value Measurement and Application
    - Exposure Draft – 2Q14
    - Standard – 1Q15

Federal Update

Federal Update

- OMB Super Circular
  - Applicable January 1, 2015
  - A133 Audits of June 30, 2016
  - Combines 8 OMB circulars in 3 areas:
    - Audit requirements (i.e. A-133)
    - Administrative requirements (i.e. A-110)
    - Cost principles (i.e. A-21)
  - For public sector: Education, Governments, Not-for-profits

Federal Update

- OMB Super Circular -A133 audit requirements
  - Threshold of $750,000 (prev $500,000)
  - Findings threshold $25,000 (prev $10,000)
  - Major program selection coverage
    - Low risk auditee 20% (prev 25%)
    - Not low risk 40% (prev 50%)
  - Audit reports publically available

Federal Update

- OMB Super Circular – Admin requirements
    - Pass through entities
    - Procurement standards

Federal Update

- OMB Super Circular – Cost Principles
  - Time and effort reporting
  - Direct costs
  - Indirect Costs
  - Prior approval
  - Allowable costs

Questions?

{Thank you.}

Katie Thornton, 517-336-7506, katie.thornton@plantemoran.com

plante moran

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