# {GASB Update.}

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# Agenda

- Summary of Standards
- Significant Standards
- GASB Technical Items

# Standards Summary

# Summary of Recent GASB Statements

| Statement | Effective | Summary | Impact |
|---|---|---|---|
| 60- Accounting and Financial Reporting for Service Concession Arrangements | YBA 12/15/11 | Recognition, measurement and disclosure requirements for public-private or public-public partnerships. | Not significant |
| 61- The Financial Reporting Entity; Omnibus | YBA 6/15/12 | Amends GASB no. 14 and 34 – Component units | Potentially significant |
| 62- Codification of Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements | YBA 12/15/11 | Incorporates FASB statements, interpretations, APB Opinions and ARBs into GASB literature | Not significant |
| 63- Net Position; Deferred Inflows/Outflows | YBA 12/15/11 | Changes the format of the financial statements | Significant |
| 65- Items previously reported as Assets and Liabilities | YBA 12/15/12 | Properly classify certain items as deferred outflows and inflows of resources | Not significant |

# Summary of Recent GASB Statements

| Statement | Effective | Summary | Impact |
|---|---|---|---|
| 66- Technical corrections 2012 | YBA 12/15/12 | Resolves conflicting accounting and financial reporting guidance that could diminish consistency | Not significant |
| 67- Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25 | YBA 6/15/13 | 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 | YBA 6/15/14 | 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 | YBA 12/15/13 | Merger - Use of carrying values to measure the assets and liabilities.<br>Acquisition - Assets acquired and liabilities assumed generally to be valued at their acquisition values. | Not significant |
| GASB 70 – Accounting and Financial reporting for nonexchange financial guarantees | YBA 6/15/13 | To recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee | Not significant |

# Significant Standards

# GASB 63

- GASB 63 – Net Position and Deferred inflows/outflows
  - Effective June 30, 2013
  - GASB Concept 4 defines “deferred inflows” and “deferred outflows”
  - GASB 65 clarifies use of the “deferred” terminology
  - This pronouncement:
    - Provides guidance for how to present deferred inflows and outflows in financial statements

# GASB 63 – net position and deferred inflows/outflows

- Statement of Net Assets becomes Statement of Net Position
- Statement of Net Position
  - Two format choices:
    - Assets + Deferred outflows – Liabilities - deferred inflows = Net Position (HIGHLY Encouraged)
    - Assets + Deferred outflows = Liabilities + Deferred inflows + Net Position (Balance sheet format)

# GASB 63

| | JUNE 30 | |
|---|---|---|
| | 2013 | 2012 |
| | (in thousands) | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 15,000 | $ 14,000 |
| Accounts receivable, net | 6,000 | 6,800 |
| Inventories | 500 | 550 |
| Other assets | 800 | 1,000 |
| **TOTAL CURRENT ASSETS** | 22,300 | 22,350 |
| **NONCURRENT ASSETS:** | | |
| Endowment investments | 6,000 | 5,000 |
| Loans receivable, net | 12,000 | 10,000 |
| Other long-term investments | 32,000 | 30,000 |
| Capital assets, net | 65,000 | 68,000 |
| **TOTAL NONCURRENT ASSETS** | 115,000 | 113,000 |
| **TOTAL ASSETS** | 137,300 | 135,350 |
| **DEFERRED OUTFLOWS, Net (Pension - GASB 68 - June 30, 2015)** | - | - |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES:** | | |
| Accounts payable and accrued liabilities | 3,000 | 2,000 |
| Unearned revenue | 6,000 | 7,000 |
| Deposits | 1,000 | 900 |
| Current portion of long-term obligations | 2,000 | 1,800 |
| **TOTAL CURRENT LIABILITIES** | 12,000 | 11,700 |
| **NONCURRENT LIABILITIES:** | | |
| Long-term debt and other obligations | 29,000 | 30,000 |
| **TOTAL LIABILITIES** | 41,000 | 41,700 |
| **NET POSITION** | | |
| Net investment in capital assets | 34,000 | 36,200 |
| Restricted for: | | |
| Nonexpendable | 23,000 | 22,000 |
| Expendable | | |
| Scholarships, fellowships and research | 15,000 | 13,000 |
| Loans | 2,000 | 2,000 |
| Capital projects | 6,000 | 5,000 |
| Unrestricted | 16,300 | 15,450 |
| **TOTAL NET POSITION** | 96,300 | 93,650 |

# GASB 63-net position and deferred inflows/outflows

- Disclosures:
  - Footnote disclosure of the components of deferred inflows/outflows if aggregated in the statement of net position or a governmental fund balance sheet
  - Significant impacts on a component of net position (invested in capital assets, restricted or unrestricted) resulting from large differences between deferred inflow/outflow and the related asset or liability

# GASB 63 - Implementation

## OPINION LETTER

As discussed in Note 1 to the financial statements, effective with the fiscal year ended June 30, 2012, the University early adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements introduce and define those elements as a consumption of net assets by the University that is applicable to a future reporting period, and an acquisition of net assets by the University that is applicable to a future reporting period, respectively. The standards also incorporate deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. In accordance with the standards, the University has modified the presentation of the statement of net position and has reported deferred outflows of resources from a refunding of debt at June 30, 2012 in accordance with the standard.

## NOTE 1

**Change in Accounting Principles**

Effective with the fiscal year ended June 30, 2012, the University early adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements introduce and define those elements as a consumption of net assets by the University that is applicable to a future reporting period, and an acquisition of net assets by the University that is applicable to a future reporting period, respectively. The standards also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. In accordance with the standards, the University has modified the presentation of the Statement of Net Position and has reported deferred outflows of resources from a refunding of debt in June 30, 2012 in accordance with the standard.

# 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), earlier application is encouraged, <u>and probably makes sense to early adopt with GASB 63</u>

# GASB 65 – deferred outflows/inflows

- Reporting Items Previously Recognized as Assets and Liabilities
  - Reclassifies certain items currently reported as assets and liabilities to be reported as deferred outflows of resources and deferred inflows of resources
  - Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented.

# GASB 65 – deferred outflows/inflows

- Refundings of debt
  - Deferred inflow/outflow for difference between the re-acquisition price and the net carrying amount of the old debt  (essentially gain or loss)
  - Amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt
- Debt issuance costs
  - Expensed in period incurred
  - Does not include prepaid insurance costs
  - Includes: insurance costs, financing costs, other

# GASB 65 – deferred outflows/inflows

- Use of the term “Deferred”
  - Deferred should be limited to items reported as deferred outflows/inflows of resources
  - For items still reported as liabilities, we need to find new terminology:
    - Deferred revenue from exchange transactions should be Unearned revenue;
    - Deferred revenue from nonexchange transactions will be more varied – perhaps “Obligation to perform eligibility requirements?” (or perhaps “Unearned revenue” still works for you)

# GASB 65 – deferred outflows/inflows

**Quick Reference Summary - Treatment under GASB 65:**

| Account Balance | Treatment |
|---|---|
| Effective hedges – the offset to the FMV of the hedging instrument (GASB 53) | Deferred outflow/ inflow |
| Service concession arrangements (GASB 60) | Deferred inflows |
| Debt refunding – diff b/w reacquisition price and carrying value of debt (or lease) (this is the GASB 23 deferred loss on refunding) | Deferred inflow |
| Imposed nonexchange revenue – resources received (or receivable) before the period resources may be used (incl. prop taxes before the period levied) | Deferred inflow |
| Government- mandated nonexchange revenue or Voluntary nonexchange resources received before eligibility requirements are met (excluding time requirements) | Liability<br>(Assets by payors) |
| - Awaiting just Time requirements | Deferred inflow/ outflow |
| Sale of future revenue (unless GASB 48 allows revenue in period of sale) | Deferred inflow |
| Debt issuance costs | Expense |
| - prepaid insurance costs | Asset (then amortized) |

# GASB 65 – deferred outflows/inflows

| | |
|---|---|
| Operating leases – initial direct costs | Expense |
| Sale-Leaseback gain or loss | Deferred O/I |
| Insurance – acquisition costs | Expense |
| Lending activities: | |
| – Loan origination fees rec'd (other than points) | Revenue |
| - Points rec'd | Deferred inflow |
| – Loan origination costs | Expense |
| – commitment fees | Liability, until exercised or expired (then Rev) |
| Purchased loan fees | Revenue/ Expense |
| Mortgage banking (other than mortgages held for resale) | Same as lending, above |
| Mortgages – held for resale | Defer until the time of resale (incl. points) – then Rev or Exp |
| Regulated operations – Revenue intended to cover future costs | Deferred inflow |
| Regulated Operations – Gain or other reduction of net allowable costs | Deferred inflow |

# GASB 65 – Footnote

## NOTE 1

### Deferred Outflows and Hedging Instruments

Deferred outflows and hedging instruments consist primarily of interest rate swap agreements and are stated at fair value based on the zero coupon valuation method.  The University recorded deferred outflows and hedging instruments of $X and $X at June 30, 2012 and 2011, respectively.  Effective June 30, 2012, deferred outflows also include $X of gain on the defeasance of the General Obligation Bonds Series 20XX.

### Bond Issuance Costs

Bond issuance costs are expensed when incurred.

### Unearned Revenue

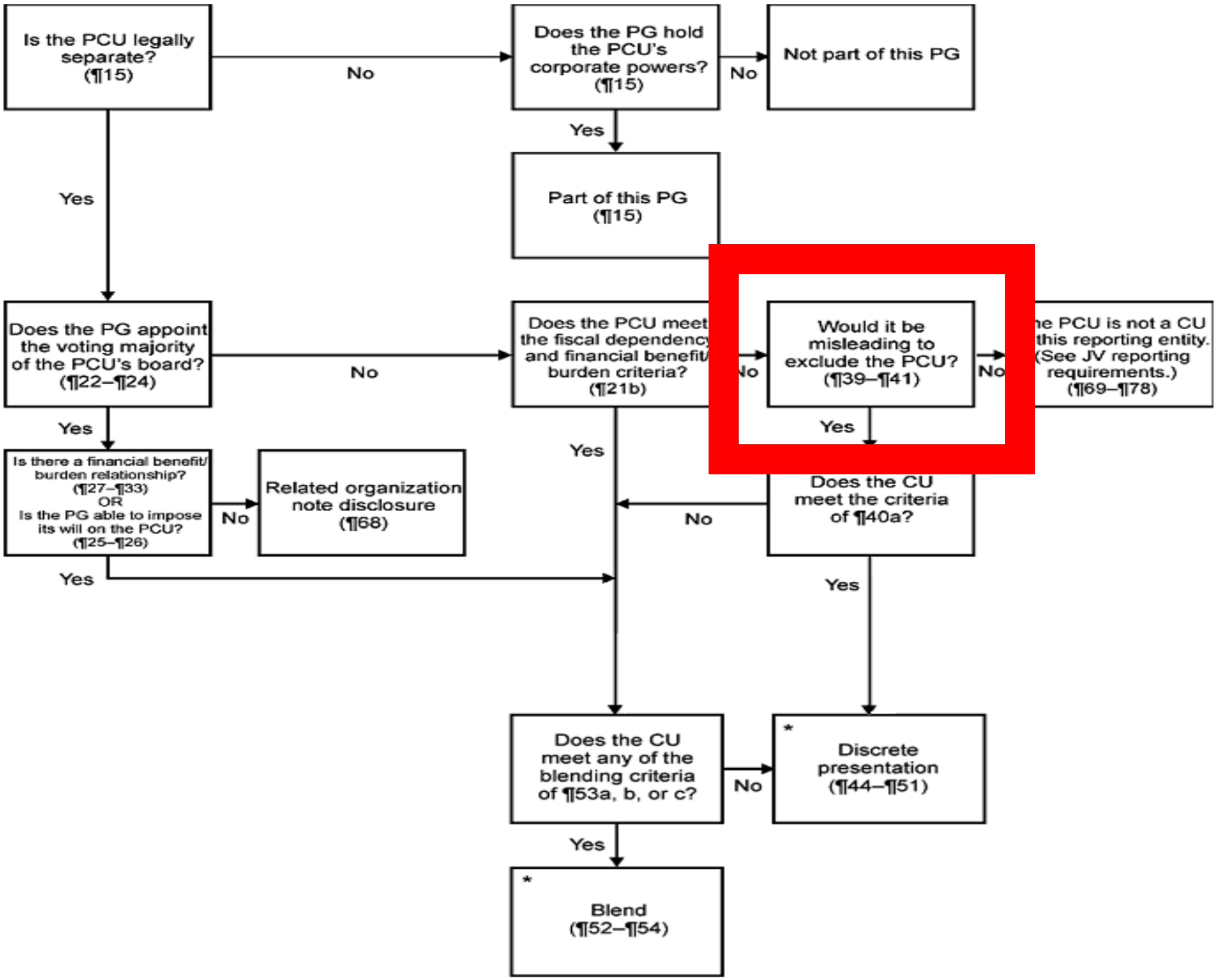
Unearned revenue consists primarily of summer school tuition not earned during the current year and advances on contracts and sponsored programs.

# GASB 61

- Statement 61 - The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34
  - Clarifies blending with focus on fiscal dependency
  - Applicable for June 30, 2013
  - GASB 14 set forth the rules for which component units should be included in another government's financial reporting entity

# GASB 61 - Reporting Entity (GASB 14/34) OMNIBUS

- Impacts:
  - Which entities to include/exclude
  - How to include (blend, discretely present, footnote)



Is the PCU legally separate? (¶15)
No
Does the PG hold the PCU's corporate powers? (¶15)
No
Not part of this PG
Yes
Part of this PG (¶15)
Yes
Does the PG appoint the voting majority of the PCU's board? (¶22–¶24)
No
Does the PCU meet the fiscal dependency and financial benefit/ burden criteria? (¶21b)
No
Would it be misleading to exclude the PCU? (¶39–¶41)
No
he PCU is not a CU this reporting entity. (See JV reporting requirements.) (¶69–¶78)
Yes
Is there a financial benefit/ burden relationship? (¶27–¶33) OR Is the PG able to impose its will on the PCU? (¶25–¶26)
No
Related organization note disclosure (¶68)
Yes
Yes
Does the CU meet the criteria of ¶40a?
No
Yes
Yes
Does the CU meet any of the blending criteria of ¶53a, b, or c?
No
* Discrete presentation (¶44–¶51)
Yes
* Blend (¶52–¶54)

# GASB 61 - Reporting Entity (GASB 14/34)

- Definitions:
  - *Misleading to Exclude* – Certain organizations should be included if the nature & significance of their relationship would render the f/s misleading or incomplete. A tax-exempt organization should be reported as a CU if all are true:
    - Its economic resources are entirely or almost entirely for the direct benefit of the PG
    - The PG may access (or historically has received) those resources
    - The resources are significant to the PG

# GASB 61 - Reporting Entity (GASB 14/34)

- Blending is allowed in any of these situations:
  1. The CU governing board is substantively the same as the governing body of the PG, and either:
     - PG management has operational responsibility for the CU; or
     - There is a financial benefit/ burden.
  2. The CU provides its services entirely (or almost entirely) to the PG itself (not merely for the benefit of the PG, or to constituents of the PG).
  3. The CU's total outstanding debt is expected to be repaid almost entirely from PG.

*(blend, only if not also meeting criteria of Par 40a, see next slide)*

# GASB 61 - Reporting Entity (GASB 14/34)

- Reporting a Tax Exempt Entity (Foundation)
  - But, if the NFP/Foundation also meets all the criteria below (par 40a of GASB 14):
    - Holds resources entirely or almost entirely for the University
    - University is entitled to or has ability to access funds
    - Amounts held at the NFP/Foundation are significant to the University
  - Guidance now require NFP/Foundations meeting blending criteria and par. 40a criteria to be discretely presented

# GASB 61 – Discrete Presentation #1

| | June 30, 2013 | | June 30, 2012 | |
|---|---|---|---|---|
| | College | Foundation | College | Foundation |
| **Assets** | (in thousands) | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ 60,000 | $ 10,000 | $ 66,000 | $ 6,000 |
| Investments | 100,000 | 89,000 | 121,000 | 100,000 |
| Accounts and pledges receivable - Net | 65,000 | 7,000 | 60,000 | 8,000 |
| Prepaid expenses and deferred charges | 8,000 | 1,000 | 7,000 | 1,000 |
| Inventories | 1,900 | 1,000 | 2,000 | 1,000 |
| Total current assets | 234,900 | 108,000 | 256,000 | 116,000 |
| **Noncurrent Assets** | | | | |
| Pledges receivable - Net | - | 12,000 | - | 1,000 |
| Endowment investments | 15,000 | 120,000 | 21,000 | 130,000 |
| Capital assets - Net | 350,000 | 22,000 | 360,000 | 24,000 |
| Total noncurrent assets | 365,000 | 154,000 | 381,000 | 155,000 |
| Total assets | $ 599,900 | $ 262,000 | $ 637,000 | $ 271,000 |
| **Deferred Outflows, Net (Pension - GASB 68 - June 30, 2015)** | $ - | $ - | $ - | $ - |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 28,000 | $ 3,000 | $ 32,000 | $ 4,000 |
| Deferred revenue | 15,000 | - | 16,000 | - |
| Long term-debt - Current portion | 6,000 | 1,000 | 7,000 | 1,500 |
| Total current liabilities | 49,000 | 4,000 | 55,000 | 5,500 |
| **Noncurrent Liabilities** | | | | |
| Long-term debt | 150,000 | 8,000 | 160,000 | 9,500 |
| Refundable advances, federal student loans | 6,000 | - | 7,000 | - |
| Total noncurrent liabilities | 156,000 | 8,000 | 167,000 | 9,500 |
| Total liabilities | $ 205,000 | $ 12,000 | $ 222,000 | $ 15,000 |
| **Net Position** | | | | |
| Net investment in capital assets | 194,000 | 13,000 | 193,000 | 13,000 |
| Restricted: | | | | |
| Nonexpendable | 15,000 | 120,000 | 20,000 | 120,000 |
| Expendable | 24,000 | 60,000 | 32,000 | 60,000 |
| Unrestricted | 161,900 | 57,000 | 170,000 | 63,000 |
| Total net position | $ 394,900 | $ 250,000 | $ 415,000 | $ 256,000 |

# GASB 61 – Discrete Presentation #2

**STATEMENTS OF NET POSITION**
**College**

| | JUNE 30 2013 | JUNE 30 2012 |
|---|---|---|
| | (in thousands) | |
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 15,000 | $ 14,000 |
| Accounts receivable, net | 6,000 | 6,800 |
| Inventories | 500 | 550 |
| Other assets | 800 | 1,000 |
| **TOTAL CURRENT ASSETS** | 22,300 | 22,350 |
| **NONCURRENT ASSETS:** | | |
| Endowment investments | 6,000 | 5,000 |
| Loans receivable, net | 12,000 | 10,000 |
| Other long-term investments | 32,000 | 30,000 |
| Capital assets, net | 65,000 | 68,000 |
| **TOTAL NONCURRENT ASSETS** | 115,000 | 113,000 |
| **TOTAL ASSETS** | 137,300 | 135,350 |
| **DEFERRED OUTFLOWS, Net (Pension - GASB 68 - June 30, 2015)** | - | - |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES:** | | |
| Accounts payable and accrued liabilities | 3,000 | 2,000 |
| Unearned revenue | 6,000 | 7,000 |
| Deposits | 1,000 | 900 |
| Current portion of long-term obligations | 2,000 | 1,800 |
| **TOTAL CURRENT LIABILITIES** | 12,000 | 11,700 |
| **NONCURRENT LIABILITIES:** | | |
| Long-term debt and other obligations | 29,000 | 30,000 |
| **TOTAL LIABILITIES** | 41,000 | 41,700 |
| **NET POSITION** | | |
| Net investment in capital assets | 34,000 | 36,200 |
| Restricted for: | | |
| Nonexpendable | 23,000 | 22,000 |
| Expendable | | |
| Scholarships, fellowships and research | 15,000 | 13,000 |
| Loans | 2,000 | 2,000 |
| Capital projects | 6,000 | 5,000 |
| Unrestricted | 16,300 | 15,450 |
| **TOTAL NET POSITION** | 96,300 | 93,650 |

**STATEMENT OF NET ASSETS**
**Foundation**

| | JUNE 30 2013 | JUNE 30 2012 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 12,000 | $ 12,000 |
| Pledges receivable | 6,000 | 6,000 |
| Cash surrender value of life insurance | 1,000 | 1,000 |
| Prepaid expenses | 4,000 | 4,000 |
| Investments | 100,000 | 100,000 |
| Property and equipment, net | 55,000 | 55,000 |
| **Total Assets** | $ 178,000 | $ 178,000 |
| **Liabilities** | | |
| Grants payable | 2,000 | 3,000 |
| Accrued liabilities | 1,000 | 1,000 |
| **Total Liabilities** | $ 3,000 | $ 4,000 |
| **Net Assets** | | |
| Unrestricted | 57,000 | 12,900 |
| Temporarily restricted | 30,000 | 45,000 |
| Permanently restricted | 88,000 | 116,100 |
| **Total Net Assets** | $ 175,000 | $ 174,000 |

# GASB 61 – Blending Presentation in Footnotes

When Foundation is insignificant:

**Condensed Statement of Net Assets**

| | JUNE 30 | | | |
|---|---|---|---|---|
| **Foundation** | 2013 | | 2012 | |
| **Assets** | | | | |
| Current assets | $ | 23,000 | $ | 23,000 |
| Investments | | 100,000 | | 100,000 |
| Capital assets | | 55,000 | | 55,000 |
| **Total Assets** | | 178,000 | | 178,000 |
| **Current Liabilities** | | 3,000 | | 4,000 |
| **Net Assets** | | | | |
| Unrestricted | | 57,000 | | 12,900 |
| Temporarily restricted | | 30,000 | | 45,000 |
| Permanently restricted | | 88,000 | | 116,100 |
| **Total Net Assets** | | 175,000 | | 174,000 |

# GASB 61 – Blending Presentation in Footnotes

## When Foundation is insignificant:

**Condensed Statement of Revenue, Expenses, and Changes in Net Assets**

| | | JUNE 30 | |
|---|---|---|---|
| **Foundation** | | 2013 | 2012 |
| **Operating Revenue** | | | |
| Sales and services | | $ 5,000 | $ 6,000 |
| Other | | 1,000 | 1,000 |
| **Total operating revenue** | | 6,000 | 7,000 |
| **Operating Expense** | | | |
| Instruction | | 10,000 | 8,000 |
| Research activities | | 5,000 | 4,000 |
| Scholarships | | 50,000 | 55,000 |
| **Total operating expense** | | 65,000 | 67,000 |
| **Nonoperating Revenue (Expense)** | | | |
| Gifts | | 120,000 | 100,000 |
| Investment (loss) income | | (5,000) | 10,000 |
| Other | | 6,000 | 5,000 |
| **Total nonoperating revenue** | | 121,000 | 115,000 |
| **Increase in Net Assets** | | 62,000 | 55,000 |
| Net Assets - Beginning of Year | | 275,000 | 220,000 |
| Net Assets - End of year | | 337,000 | 275,000 |

**Condensed Statement of Cash Flows**

| | JUNE 30 | |
|---|---|---|
| **Foundation** | 2013 | 2012 |
| Net cash (used in ) provided by operating activities | (4,000) | 5,000 |
| Net cash provided by noncapital financing activities | 10,000 | 5,000 |
| Net cash used in by investing activities | (2,000) | (3,000) |
| Net increase in cash and cash equivalents | 4,000 | 7,000 |
| Cash and Cash Equivalents - Beginning of Year | 17,000 | 10,000 |
| Cash and Cash Equivalents - End of Year | 21,000 | 17,000 |

# 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
  - Effective June 30, 2015

# GASB 68 – Accounting and Financial reporting for Pensions

- Employer-Employee Exchange
  - GASB board concluded in GASB 45, that postemployment benefits (including pensions) arise from an exchange between an employer and employees of salaries and benefits for employee service each period.
  - Therefore, an employer incurs an obligation to its employees for pensions as a result of the employment-exchange transactions.

# GASB 68 – Accounting and Financial reporting for Pensions

- Issues related to control
  - GASB board concluded that the lack of ability to control the benefit terms or the manner in which the defined benefit pension are financed <u>does not</u> change whether the employers collectively receive the benefits of employees' services in exchange for compensation that includes pensions.

# GASB 68 – Accounting and Financial reporting for Pensions

- Issues related to control
  - It is the GASB Board's view that for financial reporting purposes, a pension plan can have an obligation for the pensions of its participating employers only to the extent that the pension plan is holding fiduciary net position (cash at the plan) available for payment of those benefits.

# GASB 68 – Accounting and Financial reporting for Pensions

- Issues related to control
  - Through contractually required contributions, the cost-sharing employers have an ongoing responsibility to provide financial support for the benefits created by their collective employment exchanges with their employees
  - Therefore, the Board believes that the employers collectively remain responsible for the unfunded obligation

# Approach Under GASB 67/68

- Accounting implications:
  - Pension expense will be reported as employees earn their pension benefits by providing services
  - If the amount funded is less than this, the statements will report a <u>net pension liability</u>
  - Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on nature of change

# Formula for Net Pension Liability

- Employers will now record the NET pension liability on the full accrual statements.

**TOTAL** pension liability − Plan Net Position = **NET** pension liability

*These amounts will be measured as of the **"measurement date"***

# Total Pension Liability

**TOTAL** pension liability

- Calculated by the actuary
- Similar to today's actuarial accrued liability (BUT definitely NOT the same)
- GASB significantly limits HOW the total pension liability will be calculated
    - Actuarial cost method
    - Discount rate
    - Measurement date

# Plan Net Position

- Plan Net Position = Plan Assets – Plan Liabilities

Plan Net Position

- Assets are valued at FMV (not smoothed value!)
- All other amounts determined on same accounting basis used by pension plan

# Income Statement Impact


- Impact on pension expense: The change in the net pension liability **<u>does NOT</u>** all get recognized as pension expense immediately
- Certain changes can be deferred (shown as deferred inflow or outflow related to pensions)
    - See table on next slide
- Everything else (including benefit changes) will impact pension expense immediately

# Income Statement Impact

| CHANGE IN NET PENSION LIABILITY DUE TO: | EXPENSE | DEFD I/O |
|---|---|---|
| 1. Employees work and earn more benefits | X | |
| 2. Interest on the total pension liability | X | |
| 3. Changes in total pension liability due to:<br>a) Actual economic & demographic changes differing from assumed | | Amortized Over Service Period |
| b) Changing assumptions about economic & demographic factors | | Amortized Over Service Period |
| c) Changes in the terms of pension benefits | X | |
| 4. Changes in amount of pension plan net assets due to:<br>a) Projected investment earnings | X | |
| b) Actual investment earnings experience different than assumed | | Amortized Over 5 Years |
| c) All other (receiving contributions, paying benefits, etc.) | X | |

# Other Implications

- ARC is no longer relevant for financial reporting
    - But still need to comply with state law!
- If ARC is calculated under the new standards, it will likely be higher than under current GAAP
    - However, you can continue to calculate ARC under prior parameters.
- Coordination with actuary – plan and employer!
    - Timing of roll forward procedures, if required

# Cost-Sharing Employers

- Cost sharing employers expense will include:
  - Proportionate share of the plan’s pension expense
  - Amortization of deferrals including:
    - Net effect of annual changes in the employer’s proportionate share
    - Annual differences between the employer’s actual contribution and its proportionate share

# Cost-Sharing Pension Plans – Example calculation

| MPSERS Pension Benefits - Estimated GASB 68 Liability | | |
|---|---|---|
| | June 30, 2011 | June 30, 2010 |
| Actuarial Value of MPSERS Plan Assets | $ 41,038,000,000 | $ 43,294,000,000 |
| Actuarial Accrued Liability (AAL) | $ (63,427,000,000) | $ (60,927,000,000) |
| Unfunded Accrued Liability (UAAL) | $ (22,389,000,000) | $ (17,633,000,000) |
| Funded Ratio | 64.7% | 71.1% |

**Michigan Public School Employees Retirement System (MPSERS)**
http://www.michigan.gov/documents/orsschools/MPSERS_2012_CAFR_412874_7.pdf

# Example Cost-Sharing Plan Allocation

| MPSERS Pension Benefits - Estimated GASB 68 Liability | | |
|---|---|---|
| | June 30, 2011 | June 30, 2010 |
| Estimated XYZ CC Covered Payroll | $ 10,000,000 | $ 9,000,000 |
| MPSERS Statewide Covered Payroll | $ 9,156,000,000 | $ 8,845,000,000 |
| Covered Payroll as a Percentage of MPSERS Covered Payroll | 0.11% | 0.10% |
| | | |
| Estimated XYZ CC prorata share of unfunded liability | $ (24,452,818) | $ (17,942,001) |

**Michigan Public School Employees Retirement System (MPSERS)**

http://www.michigan.gov/documents/orsschools/MPSERS_2012_CAFR_412874_7.pdf

# Example Roll-forward

| | Total Example Plan (not actual #) | CC Share (0.11%) |
|---|---|---|
| **<u>Net Pension Liability</u>** | | |
| Net pension liability, July 1, 2010 | $ (17,633,000,000) | $ (17,942,001) |
| | | |
| *Components to pension expense* | | |
| Normal cost | (2,530,000,000) | (2,763,215) |
| Actual benefit payments | 3,942,027,101 | 4,305,403 |
| Interest of 7% | (4,264,890,000) | (4,658,028) |
| Projected investment earnings | 2,400,000,000 | 2,621,232 |
| All other (receiving contributions, paying benefits, etc) | (213,651,000) | (233,345) |
| Total components recorded as pension expense | (666,513,899) | (727,953) |
| | | |
| *Components to deferred inflow/outflow of resources:* | | |
| Change in proportion from 0.10% in 2010 to 0.11% in 2011 | - | (1,316,408) |
| Actual investment earnings experience different than assumed | (1,068,256,332) | (1,166,728) |
| Census loss (actuarial accrued liability experience) | (878,310,000) | (959,273) |
| Other assumptions changes loss | (2,142,919,769) | (2,340,454) |
| Total components recorded as deferred inflow/outflow | (4,089,486,101) | (5,782,863) |
| Net pension liability, June 30, 2011 | $ (22,389,000,000) | $ (24,452,818) |

# Example Roll-forward

| Deferred Inflow and Outflow | | |
|---|---|---|
| Deferred outflow (inflow) of resources, July 1, 2010 | $ - | $ - |
| | | |
| 2011 activity | 4,089,486,101 | 5,782,863 |
| 2011 amortization on investment earnings difference (5 years) to pension expense | (213,651,266) | (233,346) |
| 2011 amortization of all other deferred outflows (12 years) to pension expense | (251,769,147) | (384,678) |
| | | |
| Deferred outflow (inflow) of resources, June 30, 2011 | $ 3,624,065,687 | $ 5,164,840 |

Note: GASB 63 would encourage one line on statement of net position and then footnote breakout for Deferred Outflows/Inflows

# Example FS for GASB 68 (first year)

**STATEMENTS OF NET POSITION**
**College**

| | JUNE 30 2011 | GASB 68 Adjustments | Proforma June 30, 2011 |
|---|---|---|---|
| | | (in thousands) | |
| **ASSETS** | | | |
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | $ 15,000 | | $ 15,000 |
| Accounts receivable, net | 6,000 | | 6,000 |
| Inventories | 500 | | 500 |
| Other assets | 800 | | 800 |
| **TOTAL CURRENT ASSETS** | 22,300 | | 22,300 |
| **NONCURRENT ASSETS:** | | | |
| Endowment investments | 6,000 | | 6,000 |
| Loans receivable, net | 12,000 | | 12,000 |
| Other long-term investments | 32,000 | | 32,000 |
| Capital assets, net | 65,000 | | 65,000 |
| **TOTAL NONCURRENT ASSETS** | 115,000 | | 115,000 |
| **TOTAL ASSETS** | 137,300 | | 137,300 |
| **DEFERRED OUTFLOWS, Net (Pension - GASB 68 - June 30, 2015)** | - | 5,783 (2)<br>(618) (3) | 5,165 |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES:** | | | |
| Accounts payable and accrued liabilities | 3,000 | | 3,000 |
| Unearned revenue | 6,000 | | 6,000 |
| Deposits | 1,000 | | 1,000 |
| Current portion of long-term obligations | 2,000 | | 2,000 |
| **TOTAL CURRENT LIABILITIES** | 12,000 | | 12,000 |
| **NONCURRENT LIABILITIES:** | | | |
| Long-term debt and other obligations | 29,000 | | 29,000 |
| Pension obligations | - | 17,942 (1)<br>6,511 (2) | 24,453 |
| **TOTAL LIABILITIES** | 41,000 | | 65,453 |
| **NET POSITION** | | | |
| Net investment in capital assets | 34,000 | | 34,000 |
| Restricted for: | | | |
| Nonexpendable | 23,000 | | 23,000 |
| Expendable | | | |
| Scholarships, fellowships and research | 15,000 | | 15,000 |
| Loans | 2,000 | | 2,000 |
| Capital projects | 6,000 | | 6,000 |
| Unrestricted | 16,300 | (17,942) (1)<br>(728) (2)<br>(618) (3) | (2,988) |
| **TOTAL NET POSITION** | $ 96,300 | | $ 77,012 |

# Example FS for GASB 68 (first year)

**SRECNP**
**College**

| | | JUNE 30 2011 | GASB 68 Adjustments | | | Proforma June 30, 2011 |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Operating Revenue | $ | 75,000 | | | $ | 75,000 |
| Operating Expenses | | 100,000 | 728 | (2) | | |
| | | | 618 | (3) | | 101,346 |
| Operating loss | | (25,000) | | | | (26,346) |
| Nonoperating revenue and expenses | | 26,650 | | | | 26,650 |
| Income before other | | 1,650 | | | | 304 |
| Other | | 1,000 | | | | 1,000 |
| Increase in net position | | 2,650 | | | | 1,304 |
| Net position, beginning of year | | 93,650 | (17,942) | (1) | | 75,708 |
| Net position, end of year | $ | 96,300 | | | $ | 77,012 |

# Example FS GASB 68 Adjustments

| Journal entries - as if recording for first time at June 30, 2011 | | 2011 | |
|---|---|---|---|
| | | Debit | Credit |
| *(1) To record CC's share of Plan's net pension liability as of July 1, 2010* | | | |
| | Net pension liability | | $ 17,942,001 |
| | Unrestricted net assets | $ 17,942,001 | |
| | | | |
| | | | |
| *(2) To record changes in CC's share of Plan's net pension liability in fiscal year June 30, 2011* | | | |
| | Pension expense | 727,953 | |
| | Deferred inflows (cr)/outflows (dr) of resources - Change in proportionate share | 1,316,408 | |
| | Deferred inflows (cr)/outflows (dr) of resources - Changes in assumptions | 3,299,727 | |
| | Deferred inflows (cr)/outflows (dr) of resources - Net difference between projected and actual earnings on pension plan investments | 1,166,728 | |
| | Net pension liability | | 6,510,816 |
| | | | |
| *(3) To record amortization of the first year of the deferred* | | | |
| | Deferred inflows (dr)/outflows (cr) of resources | 618,024 | |
| | Pension expense | | 618,024 |

# Footnote Disclosure Changes

- Very significant footnote disclosure changes (the illustrative model takes 5 pages!):
  - Benefit terms
  - # of participants
  - Contribution requirements
  - Assumptions
  - Support for the discount rate
  - Details of the changes in the net pension liability

***Likely these will be very time-intensive to compile! Plan accordingly!***

# Footnote Disclosure Changes

## Summary of Significant Accounting Policies

*Pensions*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Pension Plan (TPP) and additions to/deductions from TPP's fiduciary net position have been determined on the same basis as they are reported by TPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note X**

[If the District's employees were provided with benefits through more than one defined benefit pension plan, the District should disclose information required by paragraph 74 of this Statement and should apply the requirements of paragraph 75 of this Statement.]

***General Information about the Pension Plan***

*Plan description*. Teaching-certified employees of the District are provided with pensions through the Teachers Pension Plan (TPP)—a cost-sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS). Article 33 of the State Statutes grants the authority to establish and amend the benefit terms to the TRS Board of Trustees (TRS Board). TRS issues a publicly available financial report that can be obtained at [Internet address].

*Benefits provided*. TPP provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 10 years of continuous service are eligible to retire at age 60. Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two times the employee's final full-year salary. [If the benefit terms included postemployment benefit changes, the District should disclose information about those terms, as required by paragraph 76b of this Statement.]

[If the pension plan was closed to new entrants, the District should disclose that fact, as required by paragraph 76b of this Statement.]

*Contributions*. Per Article 33 of the State Statutes, contribution requirements of the active employees and the participating school districts are established and may be amended by the TRS Board. Employees are required to contribute 6.20 percent of their annual pay. The school districts' contractually required contribution rate for the year ended June 30, 20X9, was 17.32 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were $2,095 for the year ended June 30, 20X9.

# Footnote Disclosure Changes

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 20X9, the District reported a liability of $14,910 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 20X8, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At December 31, 20X8, the District's proportion was 0.20 percent, which was an increase of 0.01 from its proportion measured as of December 31, 20X7.

[If there had been a change of benefit terms that affected the measurement of the total pension liability since the prior measurement date, the District should disclose information required by paragraph 80e of this Statement.]

[If changes expected to have a significant effect on the measurement of the net pension liability had occurred between the measurement date and the reporting date, the District should disclose information required by paragraph 80f of this Statement.]

For the year ended June 30, 20X9, the District recognized pension expense of $2,395. At June 30, 20X9, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 2,657 | $ 142 |
| Changes of assumptions | 1,714 | 130 |
| Net difference between projected and actual earnings on pension plan investments | – | 2,188 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 747 | 153 |
| District contributions subsequent to the measurement date | 1,065 | – |
| Total | $ 6,183 | $ 2,613 |

$1,065 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| **Year ended June 30:** | |
|---|---|
| 20Y0 | $ (269) |
| 20Y1 | 161 |
| 20Y2 | 217 |
| 20Y3 | 545 |
| 20Y4 | 551 |
| Thereafter | 1,300 |

# Footnote Disclosure Changes

*Actuarial assumptions*. The total pension liability in the December 31, 20X8 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 3.5 percent |
| Salary increases | 4.5 percent, average, including inflation |
| Investment rate of return | 7.75 percent, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 20X8 valuation were based on the results of an actuarial experience study for the period January 1, 20X6-October 31, 20X8. As a result of the 20X8 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 20X8 actuarial valuation to more closely reflect actual experience.

[If the benefit terms included ad hoc postemployment benefit changes, the District should disclose information about assumptions related to those changes, as required by paragraph 77 of this Statement.]

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Fixed income | 28% | 1.3% |
| Domestic equity | 31 | 5.4 |
| International equity | 21 | 5.6 |
| Real estate | 10 | 5.0 |
| Private equity | 7 | 7.4 |
| Commodities | 1 | 2.3 |
| Cash | 2 | 0.0 |
| Total | 100% | |

# Footnote Disclosure Changes

*Discount rate*. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. [If there had been a change in the discount rate since the prior measurement date, the District should disclose information about that change, as required by paragraph 78a of this Statement.]

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate*. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

| | **1% Decrease (6.75%)** | **Current Discount Rate (7.75%)** | **1% Increase (8.75%)** |
|---|---|---|---|
| District's proportionate share of the net pension liability | $16,476 | $14,910 | $13,091 |

*Pension plan fiduciary net position*. Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report. [If significant changes had occurred that indicate that the disclosures included in the pension plan's financial report generally did not reflect the facts and circumstances at the measurement date, the District should disclose additional information, as required by paragraph 79 of this Statement.]

# Expanded Required Supplementary Information

- 10 years of changes in net pension liability
- 10-year comparison of funding status
- 10 years of ARC v. actual contributions

# Expanded Required Supplementary Information

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

### Teachers Pension Plan

Last 10 Fiscal Years*
(Dollar amounts in thousands)

| | 20X9 | 20X8 | 20X7 | 20X6 |
|---|---|---|---|---|
| District's proportion of the net pension liability (asset) | 0.20% | 0.19% | 0.19% | 0.19% |
| District's proportionate share of the net pension liability (asset) | $ 14,910 | $ 11,738 | $ 12,972 | $ 13,495 |
| District's covered-employee payroll | $ 11,512 | $ 10,412 | $ 9,715 | $ 9,553 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 129.52% | 112.74% | 133.53% | 141.26% |
| Plan fiduciary net position as a percentage of the total pension liability | 81.38% | 83.20% | 80.41% | 78.53% |

* The amounts presented for each fiscal year were determined as of 12/31.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

# Expanded Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

| | 20X9 | 20X8 | 20X7 | 20X6 |
|---|---|---|---|---|
| Contractually required contribution | $ 2,095 | $ 2,057 | $ 1,969 | $ 1,649 |
| Contributions in relation to the contractually required contribution | (2,095) | (2,057) | (1,969) | (1,649) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| District's covered-employee payroll | $ 12,097 | $ 10,962 | $ 10,063 | $ 9,634 |
| Contributions as a percentage of covered-employee payroll | 17.32% | 18.76% | 19.57% | 17.11% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

# Expanded Required Supplementary Information

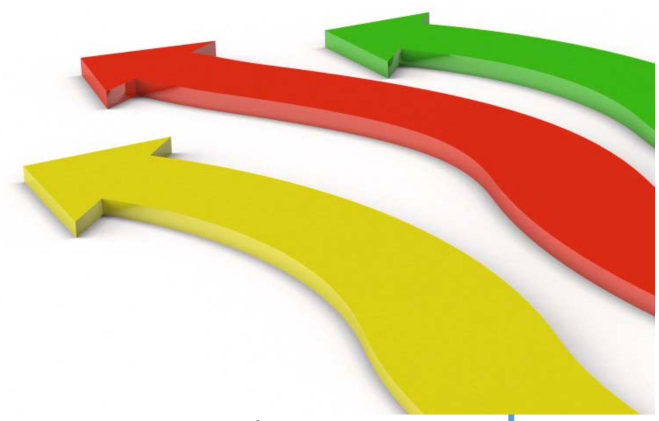
**Notes to Required Supplementary Information**
**for the Year Ended June 30, 20X9**

*Changes of benefit terms*. Amounts reported in 20X8 reflect an increase in disability benefits to be equivalent to retirement benefits. Amounts reported in 20X4 reflect a modification to the benefit terms to incorporate a new definition of base compensation.

*Changes of assumptions*. Amounts reported in 20X9 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 20X6 and later, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 20X6. Amounts reported in 20X3 reflect an adjustment of expected retirement ages to more closely reflect actual experience. Amounts reported in 20X0 reflect an adjustment of assumed life expectancies to more closely reflect actual experience.

# Transition

- Report as adjustments to prior periods
- Restate all prior periods reported
- Deferred inflows/outflows – restate if practical; otherwise, assume zero beginning balance
- When single statements are issued, the prior year MD&A comparative information will still need to be updated
- RSI schedules prospective if information not initially available



# MPSERS state appropriations

- 201(4) and 236(4) – appropriation allocation for MPSER payments for State's FY 2013 (for College's 6/30/13) and it notes that there will be a similar allocation for FY 2014
- The amount should credit against the expense when the institution sends in a payment to MPSERS.  Institution should consider disclosing the payment was offset by a credit from state appropriations of $X,XXX.
- For State of Michigan CAFR, the institution should report the credit as state appropriation revenue.

# MPSERS state appropriations-13

(4) From the appropriations described in subsection (1), there is appropriated for fiscal year 2012-2013 an amount not to exceed $1,733,600.00 for payments to community colleges from the state school aid fund. A community college that receives money under this subsection shall use that money solely for the purpose of offsetting a portion of the retirement contributions owed by the college for the fiscal year ending September 30, 2013. The amount allocated to each community college under this subsection is as follows:

(a) Alpena Community College, $30,400.00.

(b) Bay de Noc Community College, $30,800.00.

(c) Delta College, $81,400.00.

(d) Glen Oaks Community College, $14,200.00.

(e) Gogebic Community College, $25,300.00.

(f) Grand Rapids Community College, $101,700.00.

(g) Henry Ford Community College, $123,000.00.

(h) Jackson Community College, $68,500.00.

(i) Kalamazoo Valley Community College, $70,400.00.

(j) Kellogg Community College, $55,300.00.

Sec. 201a. It is the intent of the legislature to provide appropriations for the fiscal year ending on September 30, 2014 for the items listed in section 201. The fiscal year 2013-2014 appropriations are anticipated to be the same as those for fiscal year 2012-2013, except that the amounts will be adjusted for changes in caseload and related costs, federal fund match rates, economic factors, and available revenue. These adjustments will be determined after the January 2013 consensus revenue estimating conference.

# MPSERS state appropriations-14

(4) From the appropriations described in subsection (1), there is appropriated for fiscal year 2013-2014 an amount not to exceed $1,733,600.00 for payments to community colleges from the state school aid fund. A community college that receives money under this subsection shall use that money solely for the purpose of offsetting a portion of the retirement contributions owed by the college for the fiscal year ending September 30, 2014. The amount allocated to each participating community college under this section shall be based on each participating college's total payroll covered by the retirement system-covered payroll for all participating colleges for the immediately preceding state fiscal year.

# GASB Agenda Items

# Projects and More

- Postemployment Benefit Accounting and Financial Reporting – Other Postemployment Benefit Accounting and Financial Reporting
    - ED – 2Q14
    - STD – 2Q15

# Projects and More

- Fair Value Measurement and Application
  - Preliminary view – comments due 9/30
  - Hierarchy – Level 1, 2, 3
  - Excludes 2a7-like external investment pools, money market, equity method common stock
  - Expanded disclosure of hierarchy, description of valuation inputs, narrative on sensitivity of Level 3, NAV disclosures
  - Sound familiar?

# NACUBO Blank Slate Program

# Questions?