


A Look Into GASB's Crystal Ball

Your Presenters

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Biography

Gerry Boaz, CPA, CGFM, CGMA

Gerry has been with the Tennessee Comptroller of the Treasury, Division of State Audit, since January 1995. He is a Certified Public Accountant and a Certified Government Financial Manager (CGFM). He was a Legislative State Auditor for five years before becoming State Audit's Technical Manager. As a Legislative State Auditor, he served as an audit in-charge for three of the five years primarily on college and university audits. As the Technical Manager, he is primarily responsible for monitoring GASB, FASB, AICPA, OMB, and GAO accounting, auditing, and compliance standards relating to financial statement and financial-related audits. He reviews financial statement audits for adherence to the above principles and standards, as well as to AICPA auditing standards. He is responsible for responding to all due process documents of the above standard setters, as applicable. He serves as a representative of the National Association of State Auditors, Comptrollers, and Treasurers (NASACT) by observing and writing an account of the Governmental Accounting Standards Board (GASB) meetings.

He is a member of the AICPA's Auditing Standards Board for a three-year term (January 2015-December 2017). He served as a member of the Government Finance Officers Association's (GFOA) Committee on Accounting, Auditing, and Financial Reporting (CAAFR) for two three-year terms (2004-2009) and serves on the Special Review Committee for its certificate of achievement program. He represents State Audit on the National State Auditors Association's Single Audit Committee and Auditing Standards and Reporting Committee (ASRC). He has served as a Vice Chair for both the Single Audit and ASRC committees. He is also an active member in the Association of Government Accountants (AGA). He was president of the Nashville AGA chapter for the 2006-07 program year. He served on AGA's Professional Certification Board (PCB) for seven years (2007-2014) and as the Chair of the PCB for four of those years. He was also a member of AGA's National Executive Committee as a result of being the Chair of the PCB. He currently serves on AGA's Governance Committee. As of July 1, 2014, he is serving as AGA's Southeast Regional Vice President. He is also a 2011 alumni of the Tennessee Government Executive Institute.



Biography

Jerry E. Durham, CPA, CGFM, CFE

- Jerry is an Assistant Director for the State of Tennessee, Comptroller of the Treasury, Division of Local Government Audit. The division has statutory responsibility for audits of approximately 1800 local governments and related organizations in Tennessee. A 31-year veteran of the division, Jerry has served as an auditor, audit supervisor, training instructor, technical manager, and assistant director. Jerry is a Certified Public Accountant (CPA), Certified Government Financial Manager (CGFM), and a Certified Fraud Examiner (CFE). In his role as assistant director, he is responsible for developing professional compliance procedures and monitoring the division's quality performance under GASB, AICPA, OMB, and GAO accounting and auditing standards. Jerry also has responsibility for supervising the contract review process within the division. Most recently, Jerry assisted the division in implementing GASB Statements 67 and 68. In addition, Jerry teaches training classes for the Tennessee Department of Audit (Yellow Book and Audit Findings) and has made training presentations for several other professional organizations including the Tennessee Society of Certified Public Accountants; Tennessee Government Finance Officers Association; National Association of State Auditors, Comptrollers and Treasurers; Association of Government Accountants; County Technical Assistance Service; Southeastern Intergovernmental Audit Forums; Nashville Chapter of the Association of Certified Fraud Examiners; and various county official's associations. Jerry currently serves on GFOA's CAAFR Committee, NASACT's Financial Management and Intergovernmental Affairs Committee, and NSAA's Audit Standards and Reporting Committee. He has served the National State Auditors Association External Peer Review program as a reviewer, team leader, and concurring reviewer and serves on the Special Review Committee for GFOA's Certificate of Achievement for Excellence in Financial Reporting program. Jerry has also provided training for the New York City Comptroller's Office and state auditors in Kentucky, Minnesota, North Dakota, Idaho, Montana, Arkansas, West Virginia, and North Carolina. In addition to these duties, Jerry currently serves on the state's Interagency Cash Flow Committee which operates under the authority of the Tennessee State Funding Board.
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- Jerry was a partner in the accounting firm of Crosthwaite Durham and Associates. He also served as controller for Rural Healthcare of America, Inc., and taught accounting as a member of the adjunct faculty for Columbia State Community College and Austin Peay State University.
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- Jerry received his accounting degree from the University of Tennessee at Martin. He is a member of the American Institute of Certified Public Accountants (AICPA); the Association of Government Accountants (AGA) and the Nashville Chapter where he served as chair of the CGFM committee; the Government Finance Officer's Association (GFOA) and the Tennessee Government Finance Officers Association (TGFOA) where he serves as state liaison to the Board of Directors; the Association of Certified Fraud Examiners (ACFE) and the Nashville Chapter of ACFE. Jerry is also a graduate from the Tennessee Government Executive Institute (TGEI) which is a training program for government leaders through the University of Tennessee.
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- Jerry is married and has three children and two grandchildren.
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The Opinions expressed during this presentation were our own. They do not necessarily represent the views of the Comptroller, his representatives, or the Department of Audit.

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GASB Projects

- **Categories:**
 - Potential Projects
 - New Projects
 - Reexamination Projects
 - Research Activities – Pre-Agenda Research
 - Monitoring Activities
 - **Concept Statements**
 - **Major Projects**
 - Practice Issues



GASB Projects

- **Terminology:**
 - PV = Preliminary Views Document
 - ITC = Invitation to Comment
 - ED = Exposure Draft
 - Final = Final Pronouncement



A presentation slide with a blue and white background. In the top left corner, there is a small globe icon. The main title "GASB Potential Topics" is centered in a blue rectangular box with white text. Below the title is a white rectangular box containing a list of topics, each on a separate line with a thin border.

Emissions Trading (Carbon Credits)
Exchange and Exchange-Like Financial Guarantees
Financial Transactions with Characteristics of Both Loans and Grants
Impairments of Assets Other Than Capital Assets
In-Kind Contributions
Interim Financial Reporting
Investment Fees
Popular Reporting
Present Value
Preservation Method
Reporting Unit Presentations
Social Impact Bonds
Social Security Disclosures

Accounting for Prior-Period Adjustments, Accounting Changes, and Error Corrections— Statement 62
Asset Impairment: Capital Assets—Statement 42
Capitalization of Interest Cost—Statement 62
Chapter 9 Bankruptcies—Statement 58
Compensated Absences—Statement 16
Conduit Debt—Interpretation 2
Costs and Initial Rental Operations of Real Estate—Statement 62
Deferred Compensation Plans—Statement 32
Derivative Instruments—Statements 53, 59, and 64
Escheat Property—Statement 21
Inventory—Statement 62
Intangible Assets—Statement 51
Landfills—Statement 18
Nonmonetary Transactions—Statement 62
Regulated Operations—Statements 62 and 65
Pollution Remediation Obligations—Statement 49
Research and Development—Statement 62
Right of Offset—Statement 62
Sales of Real Estate—Statement 62
Sales and Pledges of Receivables and Future Revenues—Statements 48 and 65
Securities Lending and Reverse Repurchase Agreements—Statement 28 and Interpretation 3
Statistical Section—Statement 44
Termination Benefits—Statement 47
Troubled Debt Restructurings—Statement 62





Equity Interests Ownership Issues

GASB Pre-Agenda Research

- **Equity Interests Ownership Issues:**
 - Research Project approved April 2016
 - Review results of Research November 2016
 - Objectives:
 - How are governments currently reporting equity interests in legally separate entities
 - Question, is the substance of an acquisition of an equity interest that remains legally separate significantly different from an acquisition in which the legal separation ceases and the acquired entity becomes part of the acquirer's legal entity

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GASB Pre-Agenda Research

- **Equity Interests Ownership Issues:**
 - Majority Interest?
 - Meets the definition of a component unit under GASB 14, because of financial accountability.
 - Question, if the purpose of holding a majority equity interest (i.e. an investment), does the investment meet the definition of an investment under GASB 72?
 - Report as an investment and a component unit?
 - Which Standard has the hierarchy?

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GASB Pre-Agenda Research

- **Equity Interests Ownership Issues:**
 - What is the intent of ownership
 - To enhance its ability to provide services?
 - Does the equity interest have present service capacity?

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GASB Pre-Agenda Research

- **Equity Interests Ownership Issues:**

- Example:

- Assume that Government A acquires 80 percent of the voting stock of a for-profit enterprise (the corporation). Government A appoints 8 of the 10 members of the governing body of the corporation and is able to impose its will on the corporation. Furthermore, the corporation is expected to provide financial benefits to, and impose financial burdens on, Government A. Under Statement 14, the corporation meets the financial accountability criteria for a component unit of Government A. However, if the sole purpose behind the acquisition of the corporation is to produce income or profit for Government A, should the definition of an investment in paragraph 64 of Statement 72 prevail, regardless of the fact that Government A is financially accountable for the corporation?

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GASB Pre-Agenda Research

- **Equity Interests Ownership Issues:**

- Does Statement 69, Government Combinations and Disposals of Government Operations apply?

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Going Concern Disclosures

- ## GASB Pre-Agenda Research
- **Going Concern Disclosures**
 - Research approved April 2015
 - Review results of research March 2017
 - Reexamination of Statement 56
 - Inconsistencies in Practice and Expectation GAP
 - What criteria are needed to determine severe financial stress
 - What disclosures are needed

GASB Pre-Agenda Research

- **Going Concern Disclosures**
 - What disclosures are needed by users
 - A conclusion that the government will cease to exist
 - How to identify severe financial distress

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GASB Pre-Agenda Research

- **Revenue Recognition for Exchange and Exchange-Like Transactions**
 - Research began January 2016
 - Review results of research March 2016
 - Transactions like warranty options, sales with financing, sales with right to return options are to be considered.

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GASB Pre-Agenda Research

- **Note Disclosures**
 - Research began April 2016
 - Review results of research November 2017
 - Are current disclosures adequate for users
 - GASB 38, 1997
 - Will not include:
 - Note disclosures that have not been effective for at least three years
 - Note disclosures related to leases
 - Note disclosures currently the subject of pre-agenda research
 - Will include the financial reporting model

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Monitoring Activities

GASB Monitoring Activities

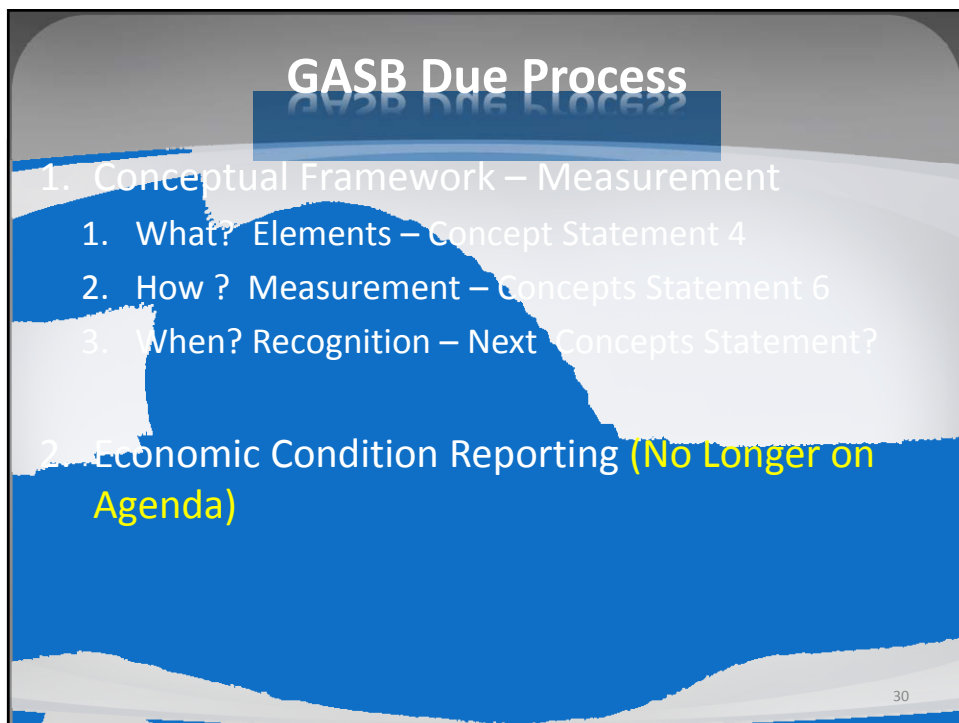
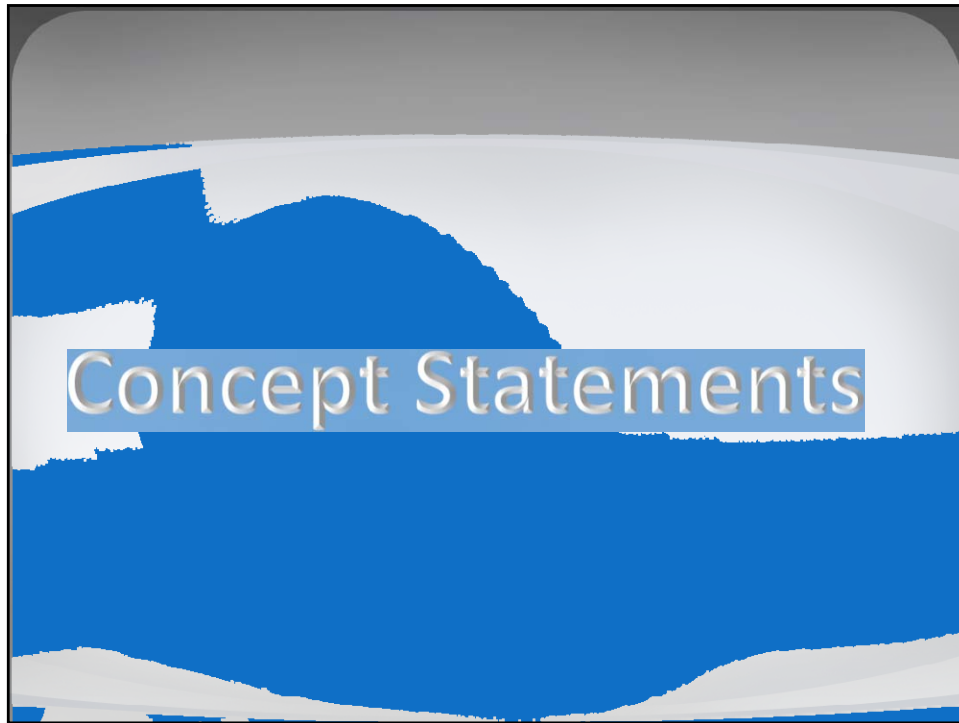
- **Electronic Financial Reporting:**
 - Monitoring Activities approved July 2000.
 - Extensible Business Reporting Language (XBRL)
 - Reporting Financial Information by electronic media in absence of standard format like XBRL.

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GASB Monitoring Activities

- **Other:**
 - Emerging Accounting Issues
 - Pension and OPEB Implementation

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GASB Due Process

- **Conceptual Framework – Measurement:**

- **PV issued June 2011**

- Eventually will be a GASB Concepts Statement.
 - Current Project was **on hold effective December 2012** pending the financial reporting model reexamination. Deliberations have begun again **10/15** in conjunction with the reporting model project.
 - “Whether” information should be reported and when that information should be reported.
 - What are the financial statements supposed to convey?
 - **Preliminary Views Document already issued! Proposes Near Term Reporting! (Read Chapter 2, Paragraph 4)**

Practice Issues

GASB Technical Agenda

- **Practice Issues**
 - Certain Debt Extinguishments
 - Omnibus
 - Implementation Guidance – OPEB 74 & 75
 - Implementation Guidance – Update
 - User Guides - Update

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Certain Debt Extinguishments

Debt Extinguishments

- **Practice Issue – Certain Debt Extinguishments Using Existing Resources:**

- Deliberations to begin in January 2016
- Exposure Draft Expected 3rd Q 2016
- Final Standard Expected 2nd Q 2017

– We have guidance on both “current” and “advance refundings” in GASB 7, 23, and 62.

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Debt Extinguishments

- **Practice Issue – Certain Debt Extinguishments Using Existing Resources:**

- Current guidance does not allow for defeasance when a government places only “existing” resources with an escrow agent for the purposes of early extinguishment? Should this be allowed??
- Current guidance does allow deferral of the difference between net carrying value of the old debt and its reacquisition price, without regard to whether some of the refunding was completed using existing resources. Should it??

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Debt Extinguishments

- **Practice Issue – Certain Debt Extinguishments Using Existing Resources:**

- Should there be additional disclosures?
 - Amount of debt legally defeased during the year
 - Debt covenants that remain in effect after debt has been defeased in-substance
 - Types of resources held in trust by the escrow agent
 - Should debt that had been advance refunded using only existing resources be derecognized or continue to be reported in the financial statements?

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Omnibus

Omnibus

- Matters to be Considered:
 - Clarification to Statement 14 for single column business type activities
 - Clarification to Statement 69 about prospective reclassification of Goodwill
 - Contradiction of Real Estate Valuation between GASB Statements 48 and 62 vs. GASB Statement 72. Use 72 definitions.

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Omnibus

- Matters to be Considered:
 - The use of the word should in Paragraph 69c of GASB Statement 72, implies that use of the “Amortized Cost” method is required rather than allowed. (May was used in GASB Statement 31 Paragraph 9)
 - How to consider on-behalf payments that are legally required after implementation GASB 68,73, and 75.

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Omnibus

- **Matters to be Considered:**
 - To provide the exception for OPEB employers similar to those provided to employers under GASB 78 (i.e. non-governmental pension plans)
 - To address the issue of covered-employee payroll vs. covered payroll for OPEB.
 - Employer payments made to satisfy contribution requirements under GASB Statement 82 for pensions, may be treated differently under GASB Statements 74 and 75.

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Questions?

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A “Sampling” of Standards

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Effective Dates—June 30

- **2015**
 - Statement 68—Pensions—Employers
 - Statement 69—Government Combinations and Disposals of Government Operations
 - Statement 71—Pension Transition for Contributions Made Subsequent to the Measurement Date
- **2016**
 - Statement 72—Fair Value Measurement and Application
 - Statement 73—Pensions—Related Assets (outside scope of Statements 67 and 68)
 - Statement 76—Hierarchy of GAAP for State/Local Governments
 - Statement 79 – Certain External Investment Pools and Pool Participants
- **2017**
 - Statement 73—Pensions Amendments to Certain Provisions of 67 & 68
 - Statement 74—Financial Reporting – OPEB Plans
 - Statement 77—Tax Abatement Disclosures
 - Statement 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Plans
 - Statement 79 – Certain Investment Pools and Participants
 - Statement 80 – Blending Requirements for Certain Component Units
 - Statement 82 – Pension Issues
- **2018**
 - Statement 75—Accounting and Financial Reporting – OPEB – Employers
 - Statement 81 – Irrevocable Split-Interest Agreements
 - Statement 82 – Pension Issues (Certain Provisions related to Assumptions)

Fair Value—Measurement and Application - Introduction

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Background

- **What:** The Board issued Statement 72 to update the existing standards on fair value – issued February 2015
- **Why:** Review of existing standards found opportunities to improve the measurement of resources available to governments, and to increase comparability and accountability. Provides guidance for disclosures related to all fair value measurements.
 - Convergence with International Standards
 - Disclosure concerns related to the financial crisis of 2008/2009
 - Concept Statement 6
- **When:** Effective for fiscal years beginning after June 15, 2015
 - July 1, 2015 to June 30, 2016

Objectives

- Primarily clarifies/expands on GASB Statements 31 (1997) and 53.
- Review and revise the definition of fair value for comparability and accountability
- Clarify the methods used to measure fair value
- Determine the applicability of fair value guidance to investments and other items currently reported at fair value (GASB 31 and 53)
- Determine disclosures for fair value measurements

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Concept Statement 6

Concepts Statement 6 - Measurement of Elements of Financial Statements

- Establishes concepts for both measurement approaches and measurement attributes
- The measurement approach identifies the point in time to which an amount is reported on the Financial Statements

Concepts Statement 6

- The measurement approach determines whether an asset or liability should be reported at a value as of the date of acquisition/incurred or
- Be remeasured and reported at an amount that reflects a value at the Financial Statements date
- A measurement attribute is the feature or characteristic of the asset/liability that is measured

Concepts Statement 6

- Two Measurement Approaches:
- Initial-Transaction-Date-Based Measurement (**Initial Amount**) = The transaction price when an asset was acquired or liability incurred.
- Current-Financial-Statement-Date-Based Measurement (**Remeasured Amount**) = The amount assigned when an asset or liability is remeasured as of the Financial Statement date.

Concepts Statement 6

- Two Measurement Approaches (cont'd):
- Initial Amounts are more appropriate for assets that are used directly in providing services
- Remeasured Amounts are more appropriate for assets that will be converted to cash (financial assets) or liabilities for which there is uncertainty about the timing and amount of payments

Concepts Statement 6

- Four Measurement Attributes (Methods):
- Historical Cost is the price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction
- Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Concepts Statement 6

- Four Measurement Attributes (Methods):
- Replacement Cost is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date
- Settlement Amount is the amount at which an asset could be realized or a liability could be liquidated with the counterparty, other than in an active market

Fair Value—Measurement and Application

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NC State CAFR

NC State CAFR

- General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; time deposits with specified financial institutions; prime quality commercial paper with specified ratings; specified bills of exchange or time drafts; asset-backed securities with specified ratings; and corporate bonds and notes with specified ratings.

NC State CAFR

- General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the pension trust funds, the Disability Income Plan of N.C., the Escheat Fund, the Public School Insurance Fund, Local Government Other Post-Employment Benefits (OPEB) Trust, and deposits of certain component units including trust funds of the University of North Carolina System, and funds of the State Health Plan and State Education Assistance Authority in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

NC State CAFR

- External Investment Pool:
- To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for the Public Hospitals, Escheat Fund, and bond proceeds investment accounts, is maintained in the Investment Pool. This pool, a governmental external investment pool, consists of the following individual investment portfolios:
 - **Short-term Investment** – This portfolio may hold any of the investments authorized by General Statute 147-69.1. The Short-term Investment portfolio is the primary cash management account for the State and is managed in such a manner as to be readily convertible into cash. The primary participants of this portfolio are the General Fund, Highway Fund, and Highway Trust Fund. Other participants include universities and various boards, commissions, community colleges, and school administrative units that make voluntary deposits with the State Treasurer as well as the remaining portfolios listed below.
 - **Long-term Investment** – This portfolio may hold the fixed-income investments authorized by General Statutes 147-69.1 and 147-69.2. Since the deposits in this fund are typically not needed for day-to-day operations, the investment vehicles used generally have a longer term and higher yield than those held in the Short-term Investment portfolio. The primary participants of the portfolio are the pension trust funds.
 - **External Fixed Income Investment** – This portfolio holds a portion of the Short-term Investment portfolio pursuant to General Statute 147-69.2. The State's pension trust funds are the sole participants in the portfolio.
 - **Equity Investment** – This portfolio is managed pursuant to General Statute 147-69.2(b)(8) and primarily holds an equity-based trust.

NC State CAFR

- External Investment Pool (cont'd):
- **Real Estate Investment** – This portfolio holds investments in real estate-based trust funds and group annuity contracts, which is managed pursuant to General Statute 147-69.2(b)(7). The State's pension trust funds are the sole participants in the portfolio.
- **Alternative Investment** – This portfolio holds investments in limited partnerships, hedge funds, U.S. Treasuries, and equities received in the form of distributions from its primary investments, which is managed pursuant to General Statute 147-69.2(b)(9). The State's pension trust funds are the sole participants in the portfolio.
- **Credit Investment** – This portfolio may hold investments in debt-related strategies as defined by General Statutes 147-69.2(b)(6c). The State's pension trust funds are the sole participants in the portfolio.
- **Inflation Protection Investment** – This portfolio may hold investments in assets that are acquired for the primary purpose of providing protection against risks associated with inflation, managed pursuant to General Statute 147-69.2(b)(9a). The State's pension trust funds are the sole participants in the portfolio.
- **OPEB Equity Investment** – This portfolio holds equity-based trusts. Pursuant to General Statute 159-30.1, the State Treasurer manages the trusts' assets. These trusts are established for local governments, public authorities, any entity eligible to participate in the State's Local Governmental Employees' Retirement System, and local school administrative units. Eligible participants make voluntary contributions to the trusts for the purpose of depositing and investing all or part of the contribution from their other postemployment benefit plans. As of June 30, 2015, there were sixteen participants. Each participant is responsible for making its own investment decision. However, through signed agreements with the State Treasurer, most participants have delegated their investment authority to the State Treasurer.

NC State CAFR

Statement of Net Position June 30, 2015

Assets	
Cash and cash equivalents.....	\$ 206,411
Other assets.....	244,560
Investments.....	108,714,418
Total assets.....	<u>109,165,389</u>
Liabilities	
Other payables.....	7,887
Obligations under securities lending.....	5,048,143
Total liabilities.....	<u>5,056,030</u>
Net Position	
Internal:	
Primary government.....	99,392,488
Component units.....	3,836,027
External.....	880,844
Total net position.....	<u>\$ 104,109,359</u>

NC State CAFR

Statement of Operations and Changes in Net Position For the Fiscal Year Ended June 30, 2015

Revenues	
Investment income.....	\$ 2,712,679
Expenses	
Securities lending.....	6,360
Investment management.....	581,266
Total expenses.....	<u>587,626</u>
Net increase in net position resulting from operations.....	2,125,053
Distributions to participants	
Distributions paid and payable.....	(2,125,053)
Share transactions	
Reinvestment of distributions.....	2,124,772
Net share redemptions.....	<u>(1,779,512)</u>
Total increase in net position.....	345,260
Net position	
Beginning of year.....	103,764,099
End of year.....	<u>\$ 104,109,359</u>

NC State CAFR

At year-end, the Investment Pool maintained by the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Debt investments:					
U.S. Treasuries	\$ 14,201,782	\$ 8,484,517	\$ 509,654	\$ 2,624,384	\$ 2,583,217
U.S. agencies	8,824,189	881,455	7,013,935	152,325	776,474
Mortgage pass-throughs	8,661,196	—	293	17,666	8,663,217
Repurchase agreements	2,188,000	2,188,000	—	—	—
Collective investment funds	203,726	—	—	—	—
Domestic corporate bonds	8,602,336	4,975	672,042	4,297,749	3,627,570
Foreign government bonds	25,021	—	—	25,021	—
Securities purchased with cash collateral under fixed income securities lending program:					
Asset-backed securities	184,867	184,867	—	—	—
Negotiable certificates of deposit	328,596	328,596	—	—	—
Repurchase agreements	631,464	631,464	—	—	—
Money market mutual funds	132,785	132,785	—	—	—
Commercial paper	67,502	67,502	—	—	—
Domestic corporate bonds	1,942,612	1,942,612	—	—	—
Securities purchased with cash collateral under equity securities lending program:					
U.S. Treasuries	14,800	14,800	—	—	—
U.S. agencies	22,000	22,000	—	—	—
Asset-backed securities	269,232	269,232	—	—	—
Negotiable certificates of deposit	65,988	65,988	—	—	—
Euro certificates of deposit	65,000	65,000	—	—	—
Yankee certificates of deposit	782,055	782,055	—	—	—
Repurchase agreements	256,628	256,628	—	—	—
Bank notes	39,997	39,997	—	—	—
Commercial paper	54,972	54,972	—	—	—
	<u>47,584,758</u>	<u>\$ 16,621,181</u>	<u>\$ 8,195,924</u>	<u>\$ 7,117,175</u>	<u>\$ 15,650,478</u>
Other investments:					
Equity based trust - domestic	25,081,834	—	—	—	—
Equity based trust - international	14,188,483	—	—	—	—
OPEB equity based trust - domestic	90,197	—	—	—	—
OPEB equity based trust - international	28,758	—	—	—	—
Alternative investments:					
Hedge funds	277,024	—	—	—	—
Private equity investment partnerships	4,726,969	—	—	—	—
Stock distributions	20,074	—	—	—	—
Real estate trust funds	7,246,950	—	—	—	—
Credit investments	5,438,220	—	—	—	—
Inflation protection investments	4,017,541	—	—	—	—
Total investments	\$ 108,700,818				

NC State CAFR

The major investment classifications of the Investment Pool had the following attributes at year-end (dollars in thousands):

Investment Classification	Principal Amount	Range of Interest Rates
U.S. Treasuries	\$ 13,127,829	0.00%-8.75%
U.S. agencies	8,621,956	0.00%-7.125%
Mortgage pass-throughs	8,148,736	3.00%-9.00%
Domestic corporate bonds	7,944,364	0.625%-10.50%
Foreign government bonds	25,000	2.45%
Repurchase agreements	2,188,000	0.20%-0.25%
Collective investment funds	203,726	0.186%
Securities purchased with cash collateral under fixed income securities lending program:		
Asset-backed securities	305,604	0.237%-0.277%
Negotiable certificates of deposit	328,585	0.17%-0.26%
Repurchase agreements	631,464	0.07%-0.14%
Money market mutual funds	132,785	0.163%
Commercial paper	67,513	0.18%-0.317%
Domestic corporate bonds	1,942,832	0.226%-0.464%
Securities purchased with cash collateral under equity securities lending program:		
U.S. Treasuries	14,800	0.00%
U.S. agencies	22,000	0.00%
Asset-backed securities	271,828	0.00%-1.027%
Negotiable certificates of deposit	66,000	0.287%-0.297%
Euro certificates of deposit	65,000	0.30%
Yankee certificates of deposit	779,500	0.09%-0.585%
Repurchase agreements	256,628	0.02%-0.16%
Bank notes	40,000	0.361%-0.372%
Commercial paper	55,000	0.00%-0.367%
Equity-based trust - domestic	n/a	n/a
Equity-based trust - international	n/a	n/a

TN State CAFR

- The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to **invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and securities lending agreements whereby securities may be loaned for a fee. Investments in derivative type securities and investments of high risk are prohibited.**

TN State CAFR

- In addition to the funds in the State Pooled Investment Fund, the Tennessee Consolidated Retirement System (TCRS), a pension trust fund; the College Savings Plans, a private-purpose trust consisting of the Baccalaureate Education System Trust (BEST) and the Tennessee Stars College Savings 529 Program (TNStars); the Tennessee Promise Scholarship Endowment Trust, a part of the education fund, a special revenue fund; and the Chairs of Excellence (COE) Trust, a permanent fund; **are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees.**

TN State CAFR

<u>Credit Quality Rating</u>	<u>TCRS</u>	<u>COE</u>	<u>SPIF</u>	<u>College Savings Plans</u>
AAA	\$ 876,554	\$ 3,204	\$ 1,727,808	
AA	521,115	11,599	1,289,701	
A	1,077,924	11,513		
BBB	2,757,564	12,369		
BB	183,838			
B	39,467			
CCC	90,396	389		
CC	1,181			
D	35,069			
NR	3,400,589	25,541	1,562,329	
A1 (Commercial paper)			749,983	
	<u>8,983,697</u>	<u>64,615</u>	<u>5,329,821</u>	
Government agencies and obligations ¹	<u>5,627,671</u>	<u>51,661</u>	<u>2,425,611</u>	
Total debt investments	<u>14,611,368</u>	<u>116,276</u>	<u>7,755,432</u>	

TN State CAFR

Government Agencies and Obligations ¹		22,703			8,127,646
Total Debt Investments		<u>181,012</u>	<u>59,411</u>	<u>1,658</u>	<u>22,725,157</u>
<u>Non Fixed Income Assets</u>					
Equity	164,019				24,022,958
Equity fund				182	25,505
Fixed mutual fund					48,853
Fixed mutual fund & MM					3,035
Blended mutual funds					12,663
Equity mutual funds					17,169
Preferred stock					75,790
Real estate					2,684,791
Private equities					1,062,185
Strategic lending					936,416
Certificate of deposit classified as short term					589,100
Short-term investment fund at custodian					1,772
Less: short term					(3,333,355)
Total investments		<u>\$ 345,031</u>	<u>\$ 59,411</u>	<u>\$ 1,840</u>	<u>\$48,872,039</u>

Fair Value Definition

- The price that would be received to sell an asset or paid to transfer a liability in an **“orderly”** transaction between **“market participants”** at the measurement date. (consistent with GASB Concepts Statement 6)
 - An **exit price**
- Other characteristics of fair value
 - Market-based, not an entity-specific measurement
 - Based on a government’s principal or most advantageous market

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Fair Value Definition

- Orderly transaction
 - 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 (for example, a forced liquidation or distress sale).

Fair Value Definition

- **Market participants**
 - Buyers and sellers that (1) are in the principal (or most advantageous) market for an asset or liability and (2) have all of the following characteristics:
 - They are independent of each other. That is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if a government has evidence that the transaction was entered into at market terms.
 - They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.
 - They are able to enter into a transaction for the asset or liability.
 - They are willing to enter into a transaction for the asset or liability. That is, they are motivated but not forced or otherwise compelled to do so.

Fair Value Definition

- **Principal market**
 - The market with the greatest volume and level of activity for an asset or liability
- **Most advantageous market**
 - The market that maximizes the amount that would be received to sell an asset or minimizes the amount that would be paid to transfer a liability, after taking into account transaction costs and transportation costs

Fair Value Definition

- Highest and best use
 - The use of a nonfinancial asset by market participants that would maximize the value of the asset or the group of assets and liabilities within which the asset would be used

Fair Value definition (cont.)

- *Fair Value* –
 - Assumes highest and best use:
 - Physically possible (e.g. size and location of the property)
 - Legally permissible (e.g. current zoning restrictions)
 - Financially feasible (i.e. for potential buyers – what can they do with it)

Fair Value Definition (cont'd)

- **Fair value is not an option**
- Once chosen, this method must be used going forward
- The objective, based on the fair value definition, is to estimate the exit price of assets and liabilities
- This exit price is determined at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability

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Valuation Techniques & Inputs

- The item(s) to be valued could be a single asset or liability, such as a financial instrument, a group or assets or liabilities, or a group of related assets and liabilities, such as a partnership
- Unit of account refers to the level at which an asset or liability is aggregated or disaggregated for measurement, recognition, or disclosure
- Transaction costs, such as commissions, do not meet the definition of an asset and should be recognized as expenses when incurred.

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Valuation Techniques & Inputs

- In a fair value measurement, the sale of an asset or transfer of a liability would be expected to take place in the “principal market” for the asset or liability
- The principal market is the market that the government would normally enter into for its transactions
- In absence of a principal market, the government may use the most “advantageous market”.
 - The determination takes into account both transaction and transportation costs.

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Valuation Techniques & Inputs

- To identify the principal market, the government should take into account all information that is reasonably available
- A government should have access to the principal or most advantageous market at the measurement date
- Access to the market is needed, but the government does “not” need to be able to sell the asset or transfer the liability at the measurement date.
- An “assumed” transaction is the basis for the fair value price.
- Example: Selling an Old Car.

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Valuation Techniques & Inputs

- Apply valuation technique(s) that best represents fair value in the circumstances
- There are three acceptable approaches:
 - Market Approach
 - Cost Approach
 - Income Approach
- All three approaches require the use of inputs.

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Valuation Techniques/Approaches

- 3 Approaches:
 - Market Approach – uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets and liabilities.

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Valuation Techniques/Approaches

- 3 Approaches (cont'd)
 - Cost Approach – reflects the amount that would be required to replace the present service capacity of an asset.
 - Income Approach – converts future amounts to a single current amount. The measurement should reflect any current market expectations for future amounts.

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Valuation Techniques & Inputs

- *Valuation techniques maximize the use of relevant “observable” inputs and minimize the use of “unobservable” inputs*
- *It is preferable to use observable inputs such as quoted prices in active markets rather than less reliable, non-objective, internally generated information (unobservable).*

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Valuation Techniques & Inputs

- Consist of three levels:
 - Level 1: quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
 - Level 2: Inputs, other than quoted prices included in Level 1, that are observable for an asset or liability (either directly or indirectly)
 - – Market quotes for similar assets
 - – Yield curves that are observable at commonly quoted intervals
 - Level 3: Unobservable inputs for an asset or liability – Such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

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Valuation Techniques & Inputs

Apply valuation technique(s) that best represent fair value in the circumstances using one of the three inputs:

Observable vs. Unobservable

- Level 1– Most Reliable
- Level 2– Reliable
- Level 3– Least Reliable

Valuation Techniques & Inputs

- Quoted prices are the most preferable source for fair value information
- However, market conditions may make quoted prices less reliable for fair value measurement
- The presence of material changes in the volume, nature, or level of activity of "normal" market activity make suggest the market is not orderly
- If evidence exists that a transaction is not "orderly", a government would rely less, if at all, on the transaction price

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Exceptions to Applying Valuation Techniques Consistently

- New markets develop
- New information becomes available
- Information previously used is no longer available
- Valuation techniques improve
- Market conditions change

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Investments

- Definition
 - An investment is a security or other asset that is held **primarily** for the **purpose of income or profit** and with a present service capacity that is based **solely** on its ability to generate cash or to be sold to generate cash.
 - Service capacity refers to a government's mission to provide services.
 - Held primarily for income or profit—acquired first and foremost for future income and profit.
- Assets that meet the definition of an investment generally are to be measured at fair value.
- Exceptions to fair value include money market funds or 2a7-like external investment pools.

Investments

- The purpose of the asset is determined by the government at the time of acquisition
- Once the government determines whether the asset is an investment or another type of asset, the classification should be retained for future financial reporting purposes—even if the government's usage of the asset changes over time
- If an asset is initially reported as a capital asset and then later is held only for resale, the asset should not be reclassified as an investment

Investments

- Example 1 – Mortgage Loans
- Mortgage Loans are not investments if the loans are the result of a government's program that provides financing to first-time homebuyers. The present service capacity of the loans is not based solely on the loans' ability to generate cash.

Investments

- Example 2 – Capital Assets
- Once a government determines whether the capital asset is classified as an investment or other type of asset, the classification should be retained for financial reporting purposes, even if the government's usage of the asset changes over time.

Fair Value Measurement Exceptions

Type of Investments	Measurement	Applicable Guidance
Investments in nonparticipating interest-earning investment contracts	Cost-based measure	Statement 31, par. 8
Investments in unallocated insurance contracts	Interest-earning investment contracts	Statement 31, par. 8 Statement 59, par. 4
Money market investments and participating interest-earning investment contracts with maturity of < one year and are held by government other than external investment pools	Amortized cost	Statement 31, par. 9

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Fair Value Measurement Exceptions

Type of Investments	Measurement	Applicable Guidance
Investments held by 2a7-like external investment pools	Amortized cost	Statement 31, par. 16
Fully benefit-responsiveness synthetic guaranteed investment contracts	Contract value	Statement 53, par. 67
Investments in life insurance contracts	Cash surrender value	

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Investments

- A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent)

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Fair Value of Liabilities

- Measurement of the fair value of a liability assumes that the liability is transferred to a market participant at the measurement date.
- This is not the same as the book value of the liability

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Fair Value of Liabilities

- **Basic Principle:** Measurement of the fair value of a liability (for example, an interest rate swap that is in a liability position to a government) assumes that the liability is transferred to a market participant at the measurement date.
- **Liabilities Held By Other Parties:** If a quoted price for the transfer of an identical or similar liability is not available and the identical item is held by another party as an asset, a government should measure the fair value of the liability similar to how the asset would be measured.

Examples

- **Illustration 4—Examples of Application of the Definition of an Investment**
- *A public university holds student loan receivables. The loans were made as part of a governmental program to encourage higher education. Investment? Yes or No?*
- **NO!**
- **The present service capacity of the loans is to provide a service that allows students to obtain an education.**
- **Because the present service capacity is not based solely on the loan's ability to generate cash, these loans would not meet the definition of an investment.**

Examples

- Illustration 4—Examples of Application of the Definition
- of an Investment
- *A housing finance agency holds mortgage loan receivables. These loans were made as part of a governmental program to encourage home ownership. Investment? Yes or No?*
- NO!
- The present service capacity of the loans is to provide a service that allows residents to purchase a home.
- Because the present service capacity is not based solely on the loans' ability to generate cash, these loans would not meet the definition of an investment.

Examples

- Illustration 4—Examples of Application of the Definition
- of an Investment
- *A city owns life insurance policies on certain key employees. If an insured individual dies while still employed, a portion of the proceeds is paid to the individual's beneficiary and a portion is paid to the city. Investment? Yes or No?*
- NO!
- The city's purpose for holding the policies is both to collect the proceeds as indemnification of loss of the employee and to provide a benefit to the employee.
- Because the present service capacity is not based solely on the ability to generate cash, these policies would not meet the definition of an investment.

Examples

- Illustration 4—Examples of Application of the Definition of an Investment
- *A pension plan owns a life settlement contract. Investment? Yes or No?*
- YES!
- Because the plan (investor) does not have an insurable interest, the contract is held primarily for the purpose of profit (the proceeds received over the consideration paid) and the present service capacity is solely the contract's ability to generate cash for the plan.
- Therefore, this contract meets the definition of an investment.

Examples

- Illustration 4—Examples of Application of the Definition of an Investment
- *A state owns royalty interests in certain oil and gas properties. It holds these interests in order to generate income for providing funding to schools within the state. It does not own the tangible land associated with the oil and gas rights. There is no governmental program or service associated with the ownership of the interests. Investment? Yes or No?*
- YES!
- Because the primary purpose of holding the royalty interests is for the purpose of income, and the present service capacity is based solely on the ability to generate cash, these assets would meet the definition of an investment.

Examples

- Illustration 4—Examples of Application of the Definition
- of an Investment
- *A state owns land and timber resources in an undeveloped part of the state. The state acquires the resources in order to preserve the land; however, the state occasionally enters into contracts for a company to cut and sell the timber, for which the state receives a fee. Investment? Yes or No?*
- NO!
- Because the land and timber resources were not acquired primarily for the purpose of income or profit, the resources would not meet the definition of an investment.

Warning:



Step away from the Standard!!

Acquisition Value (AV)

- Acquisition Value (AV)
 - Price paid to acquire an asset with equivalent service potential in an orderly market transaction or amount a liability could be liquidated with a counterparty at the acquisition date
- Assets that should be measured using AV:
 - Donated Capital Assets
 - Donated works of art, historical treasures, etc
 - Capital Assets received in a SCA

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Disclosures

A bunch +

Disclosures

- The following disclosures should be made for each type of asset or liability measured at fair value in the statement of net position after initial recognition for recurring and nonrecurring measurements:
 - The fair value measurement at the end of the reporting period
 - Except for NAV measured investments, the level of the fair value hierarchy (level 1, 2, or 3)
 - A description of the fair value techniques used in the fair value measurement
 - If there has been a significant change in valuation technique, explain that change and the reason for making it

Disclosures

- The following disclosures should be made for each type of asset or liability measured at fair value in the statement of net position after initial recognition for recurring and nonrecurring measurements (cont'd):
 - And for nonrecurring value measurements, the reasons for the measurement

Disclosures

- The following disclosures should be made for NAV measured investments:

A bunch



Read Paragraph 82, I got tired of typing!

Effective Date

- The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.
- July 1, 2015 to June 30, 2016
- Earlier Application is encouraged.

Effective Date

- 83. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. Earlier application is encouraged. In the period this Statement is first applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. However, restatement of assets that will no longer be measured at fair value is not required if restatement is not practical.

Effective Date

- 84. If restatement of the financial statements for all prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position (or fund balance or fund net position, as appropriate) for the earliest period restated (generally the current period). Also, the reason for not restating prior periods presented should be explained. In the period this Statement is first applied, the notes to the financial statements should disclose the nature of any restatement and its effect.

Effective Date

- 85. The use of acquisition value for transactions referred to in paragraph 79 should be applied **prospectively** to transactions occurring in the period that this Statement is first applied.

Quiz

- Which of the following should be a consideration when determining fair value:
 - A. Orderly Market
 - B. Market Participants
 - C. Measurement Date
 - D. Principal or most advantageous market
 - E. Highest and best use
 - F. All of the above
 - G. All of the above except E

Quiz

- Fair value is now based on:
 - A. An exit price
 - B. An entry price
 - C. Either, depending on the investment

Quiz

- Observable inputs would normally be categorized within what level(s)?
 - A. Level 1
 - B. Level 2
 - C. Level 3
 - D. Level 1 or 2, depending on the investment

Quiz

- Donated capital assets should be valued based on which of the following?
 - A. Exit Price
 - B. Selling Price
 - C. Acquisition Price
 - D. All of the above, depending on the situation

Implementation Steps

- Derived from a presentation by:
 - Melinda M. Gildart, CPA, MBA, and Ted Williamson, CPA

Step 1: Identify Items at Fair Value

- Begin by developing a listing of the assets and liabilities you will be required to report at fair value.
- Paragraph 64 of GASB 72 requires investments to be reported at fair value.
- Per Basis of Conclusions paragraph B3, GASB 72 does not require anything else to be reported at fair value unless another GASB statement has already required it to be reported at fair value.

7
5

Step 1: Identify Items at Fair Value

- Most common other asset/liability at fair value is derivative instruments per GASB 53:
 - Interest rate swaps
 - Foreign currency exchange contracts
 - Fuel purchase contracts
 - Others?

7
6

Step 2: Determine Fair Value Source

- Determine what the source of the fair value information will be for each item.
 - Quoted market prices as determined by the government
 - Pricing services or brokers
 - Audited financial statements or other statements received from alternative investment funds
 - Appraisals (how often are these prepared?)
- Don't simply rely on the fair value reported to you on monthly bank statements or brokerage statements. Contact the financial institution to understand how they determine the fair value.

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Step 3: Contact Pricing Services

- For fair value quotes obtained from pricing services or brokers, contact them to clarify how they determine the price quote.
 - Actual quoted market prices (level 1)
 - Pricing models or matrices (generally level 2)
- Keep in mind that U.S. Treasury and agency securities and corporate bonds are often priced using models or matrices and thus would be level 2.
 - Refer to GASB 72, Illustration 2, example 1

7
8

Step 4: Address Investments at NAV

- For investments measured at Net Asset Value (NAV), various specific steps should be performed, as follows:
 - A. Obtain the investment fund agreement and/or contact the fund to obtain the necessary information for the disclosure.
 - Unfunded commitments
 - Redemption frequency and notice period
 - Fund strategy and method for determining fair value

7

9

Step 4: Address Investments at NAV

- B. Consider the source and reliability of fair value information:
 - Statements provided by the fund itself: are these sufficiently independent to rely upon?
 - Audited financial statements for the fund are preferred. Make sure these financial statements are:
 - Presented in accordance with U.S. generally accepted accounting principles
 - An unmodified opinion was rendered by the auditors
 - Information can be extracted in order to value your share of the fund (for example, a net asset value per share)

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Step 4: Address Investments at NAV

C. Consider the timeliness of fair value

information:

- Statements provided by the fund are often on a one-month or one-quarter lag. Make sure the information you are using is actually as of your financial statement date.
- Audited financial statements involves the following issues:
 - For some funds, these are not available until 5-6 months after year end
 - Most funds have December 31st fiscal year-ends. This could be problematic if your fiscal year-end is something other than December 31.

8
1

Step 4: Address Investments at NAV

- Remember that, per paragraph 71 of GASB 72, these provisions apply to investments valued at NAV or its equivalent
 - Some funds calculate a net asset value per share
 - Other funds simply report the dollar value of your capital account. This is considered to be the equivalent of NAV.

8
2

Step 5: Classify FV by Level

- Make a first attempt to classify fair values for all assets and liabilities within the Level 1, 2, and 3 classification scheme.
- Beware of corporate bonds, U.S. Treasuries and U.S. agency securities, which are often level 2.
- Beware of publicly traded alternative investment funds (which must be classified in the level 1/2/3 scheme) vs. alternative investment funds reported at NAV (which are not classified in the level 1/2/3 scheme)

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Step 6: Accumulate Disclosure Info

Determine whether all necessary information to prepare the narrative portion of the footnotes is available, as required by paragraph 81 of GASB 72:

- Description of valuation techniques
- Nature of any material changes in valuation techniques
- Nonrecurring fair value measurements and the reason (for example, capital asset impairments, per Illustration 5, example 1)
- Required disclosures for those investments reported at NAV

8

4

Step 6: Accumulate Disclosure Info

- Also, determine at what level assets and liabilities will be aggregated for footnote disclosure purposes.
- Follow the guidance in GASB 72, paragraph 80.

6

Step 8: Donated Capital Assets

- Per GASB 72, paragraph 79, these are now to be reported at acquisition value (an entry price).
- Most common examples are donated infrastructure and donated art and historical treasures.

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Step 8: Donated Capital Assets

For donated infrastructure:

- Are you notified of donated infrastructure as it is received?
- Do you receive construction cost information from the developer?
- If not, do you have a process in place to estimate the acquisition cost:
 - Accumulate the number of lane miles or square feet obtained
 - Have a current construction cost per lane mile or square foot available
 - Multiply these to calculate an estimated acquisition cost

8
7

Step 8: Donated Capital Assets

For donated art and historical treasures:

- Are you notified of donated art and historical treasures as it is received?
- Do you receive cost or appraisal information from the donor?
- If not, do you have a process in place to estimate the acquisition cost (e.g. an appraisal process)?

8
8

Questions?

Gerry Boaz, CPA, CGFM, CGMA
Jerry E. Durham, CPA, CGFM, CFE

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GAAP Hierarchy

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The GAAP Hierarchy

- **What:** In June, the Board issued Statement 76 and cleared a revised Comprehensive Implementation Guide
- **Why:** The GAAP hierarchy was incorporated (by Statement 55) from the auditing literature essentially “as is”—this project simplifies the hierarchy and explains how to identify the relevant literature within the hierarchy
- **When:** Effective for periods beginning after June 15, 2015

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Categories of Authoritative GAAP

Category	Sources	Due Process
A	GASB Statements	Formally approved by the Board for the purpose of creating, amending, superseding, or interpreting standards, <u>AND</u> exposed for a period of public comment
B	GASB Technical Bulletins and Implementation Guides; AICPA literature specifically cleared by GASB	Cleared by the Board, specifically made applicable to state and local governmental entities, <u>AND</u> exposed for a period of public comment

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Comprehensive Implementation Guide (CIG)

- Now classified as Category B authoritative GAAP
- Revised due process
 - Public exposure of new Q&A guidance going forward
 - Will continue to issue Guides to individual pronouncements (such as Statements 74 and 75 on OPEB) and annual updates with new Q&As on various pronouncements
 - Board clearance of the final Implementation Guides

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GAAP Hierarchy

- Practice Issue - GAAP Hierarchy:
 - Exposure Draft issued January 2014.
 - *GASB Statement 76 issued June 2015.*
 - Effective Date, Fiscal Year Ending June 30, 2016. Earlier Application is permitted. Apply Retroactively.
- The proposed Standard would supersede GASB Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (2009)*.
- Prior to Statement 55, Guidance was found in Auditing Standard No. 69 (1992).

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GAAP Hierarchy

- Practice Issue - GAAP Hierarchy:
 - Previous four categories:
 - A. Officially established accounting principles— Governmental Accounting Standards Board (GASB) Statements and Interpretations. GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards
 - B. GASB Technical Bulletins and, if specifically made applicable to state and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.

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GAAP Hierarchy

- Practice Issue - GAAP Hierarchy:
 - Previous four categories (cont'd):
 - C. AICPA Practice Bulletins if specifically made applicable to state and local governmental entities and cleared by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities.
 - D. Implementation guides (Q&As) published by the GASB staff, as well as practices that are widely recognized and prevalent in state and local government.

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GAAP Hierarchy

- Practice Issue - GAAP Hierarchy:
 - The Hierarchy will be reduced from four categories to two categories:
 - A. Officially established accounting principles – Governmental Accounting Standards Board (GASB) Statements. (And the GAAP Codification when Statements are added)
 - B. GASB Technical Bulletins; GASB Implementation Guides; and literature of the American Institute of Certified Public Accountants (AICPA) if specifically cleared by the GASB. The AICPA literature will contain a statement that indicates it has been cleared (i.e. the majority of the Board Members did not object to its issuance) by the GASB.
 - Such as Industry Audit Guides

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GAAP Hierarchy

- Practice Issue - GAAP Hierarchy:
 - After the two categories of authoritative literature, accountants will utilize nonauthoritative guidance:
 - Sources of “nonauthoritative” accounting literature include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, International Accounting Standards Board, and AICPA (other than AICPA literature cleared by the GASB); practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

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Certain External Investment Pools

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Certain External Investment Pools

- **Practice Issue – Certain External Investment Pools and Pool Participants:**
 - Exposure Draft Expected 2nd Q 2015
 - *Statement 79 issued December 2015*
 - *Effective Date, fiscal year ending June 30, 2016*
- Because of a change in SEC rules relative to money market funds, many external investment pools may face interest rate risks that create fair value losses. This standard will address appropriate measurement and disclosure requirements.

Certain External Investment Pools

- Amortized cost would be expected to approximate fair value for money market funds because of their nature
 - High Quality Investments
 - Diverse Portfolio
 - Short Term
 - High Liquidity
- These pools have traditionally been permitted to report their investments at Amortized Cost
- Pool members have reported their position in the pool based on share value prices that reflect amortized cost

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Certain External Investment Pools

- This treatment was based on SEC Rule 2a-7 which provided the criteria for this method
- Pools meeting the SEC criteria (such as Tennessee's LGIP) have been permitted to report all of their investments at amortized costs, and
- These Pools have been permitted to report their position based on share value prices that reflect amortized cost
- However, the SEC has changed Rule 2a-7 to require strict fair value methods
- Therefore, GASB could no longer rely on Rule 2a-7 to allow GAAP based reporting at Amortized Cost

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Certain External Investment Pools

- GASB proposes to replace Rule 2a-7 criteria with its own GAAP based criteria. As proposed
 - Use of Amortized Cost remains purely optional
 - Use of Fair Value is always permitted
 - Once a pool has elected to use Fair Value, it cannot subsequently reverse that election
 - Amortized Cost (Stable Net Asset Value – NAV – Per Share) Criteria:
 - Maturity Requirements
 - Quality Requirements
 - Diversification Requirements
 - Liquidity Requirements
 - Meets Shadow Price Requirements

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Certain External Investment Pools

- Amortized Cost (Stable Net Asset Value – NAV – Per Share) Criteria:
 - Maturity Requirements
 - Remaining maturity less than or equal to 397 days
 - Weighted average maturity less than or equal to 60 days
 - Allows maturity shortening features
 - Weighted average life less than or equal to 120 days

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Certain External Investment Pools

- Amortized Cost (Stable Net Asset Value – NAV – Per Share) Criteria:
 - Quality Requirements
 - Denominated in U.S. dollars
 - Highest credit rating category at acquisition

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Certain External Investment Pools

- Amortized Cost (Stable Net Asset Value – NAV – Per Share) Criteria:
 - Diversification Requirements
 - Each issuer should have less than or equal to 5% of total pool assets
 - Not applicable to U.S. Government securities

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Certain External Investment Pools

- Amortized Cost (Stable Net Asset Value – NAV – Per Share) Criteria:
 - Liquidity Requirements:
 - Definitions:
 - Illiquid Investments – cannot be sold or disposed of in the ordinary course of business at amortized cost with 7 calendar days
 - Daily Liquid Assets – Cash and deposits, direct U.S. Government Obligations, Securities that mature within one business day
 - Weekly Liquid Assets – Cash and deposits, direct U.S. Government Obligations, U.S. Government agency or instrumentality securities issued at a discount, no interest payments and maturity less than or equal to 60 days, securities that mature within five business days

107

Certain External Investment Pools

- Amortized Cost (Stable Net Asset Value – NAV – Per Share) Criteria:
 - Liquidity Requirements:
 - Liquid assets must remain greater than or equal to 95% of pool assets
 - Daily Liquid assets must remain greater than or equal to 10% of pool assets
 - Weekly Liquid assets must remain greater than or equal to 30% of pool assets

108

Certain External Investment Pools

- Amortized Cost (Stable Net Asset Value – NAV – Per Share) Criteria:
 - Meets Shadow Price Requirements:
 - Definition of Shadow Price – NAV per share calculated using total investments measured at fair value at the calculation date
 - Calculate the Shadow Price Monthly
 - Earliest – 5 business days prior to end of month
 - Latest – end of the month
 - The Deviation between the Shadow Price must not be less than or equal to .5% (1/2 of one percent) of the Price Per Share calculated at Amortized Cost

109

Certain External Investment Pools

- Noncompliance with GAAP Pool Criteria:
 - Significant Noncompliance with any Criteria will mean loss of Amortized Cost method status.
 - Can be regained.

110

Questions?

Gerry Boaz, CPA, CGFM, CGMA

Jerry E. Durham, CPA, CGFM, CFE

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Pensions

Been There, Done That, What's Next?

May 17, 2016

Gerry Boaz, CPA, CGFM, CGMA
Jerry E. Durham, CPA, CGFM, CFE

EFFECTIVE DATES—JUNE 30

- **2015**
 - STATEMENT 68—PENSIONS—EMPLOYERS
 - STATEMENT 69—GOVERNMENT COMBINATIONS AND DISPOSALS OF GOVERNMENT OPERATIONS
 - STATEMENT 71—PENSION TRANSITION FOR CONTRIBUTIONS MADE SUBSEQUENT TO THE MEASUREMENT DATE
- **2016**
 - STATEMENT 72—FAIR VALUE MEASUREMENT AND APPLICATION
 - STATEMENT 73—PENSIONS—RELATED ASSETS (OUTSIDE SCOPE OF STATEMENTS 67 AND 68)
 - STATEMENT 76—HIERARCHY OF GAAP FOR STATE/LOCAL GOVERNMENTS
 - STATEMENT 79 – CERTAIN EXTERNAL INVESTMENT POOLS AND POOL PARTICIPANTS
- **2017**
 - STATEMENT 73—PENSIONS AMENDMENTS TO CERTAIN PROVISIONS OF 67 & 68
 - STATEMENT 74—FINANCIAL REPORTING – OPEB PLANS
 - STATEMENT 77—TAX ABATEMENT DISCLOSURES
 - STATEMENT 78 – PENSIONS PROVIDED THROUGH CERTAIN MULTIPLE-EMPLOYER DEFINED BENEFIT PLANS
 - STATEMENT 79 – CERTAIN INVESTMENT POOLS AND PARTICIPANTS
 - STATEMENT 80 - BLENDING REQUIREMENTS FOR CERTAIN COMPONENT UNITS
 - STATEMENT 82 – PENSION ISSUES
- **2018**
 - STATEMENT 75—ACCOUNTING AND FINANCIAL REPORTING – OPEB – EMPLOYERS
 - STATEMENT 81 – IRREVOCABLE SPLIT-INTEREST AGREEMENTS
 - STATEMENT 82 – PENSION ISSUES (CERTAIN PROVISIONS RELATED TO ASSUMPTIONS)

GASB OPENING THOUGHTS

- FINANCIAL STATEMENT RECOGNITION AND DISCLOSURES DON'T CREATE PENSION OBLIGATIONS; INSTEAD, THEY SIMPLY MAKE EXISTING OBLIGATIONS MORE TRANSPARENT.
- COLLECTIVELY, THE CHANGES IN STATEMENTS 67, 68, AND 71, REPRESENT MAJOR IMPROVEMENTS IN PUBLIC PENSION REPORTING, AND WILL MAKE PENSIONS MORE UNDERSTANDABLE AND COMPARABLE.
- **THEORETICALLY SPEAKING THEN, 73, 78, AND 82 DO THE SAME THING!**

- THE COMBINED VALUE OF DEFINED BENEFIT PLAN ASSETS HELD BY STATE AND LOCAL GOVERNMENTS AS OF Q4 2014 INCREASED TO \$3.78 TRILLION, FROM \$3.66 TRILLION AS OF Q4 2013 (FEDERAL RESERVE FLOW OF FUNDS REPORT, MARCH 2015).

- STATE AND LOCAL EMPLOYEES MAKE UP 13.8 PERCENT OF THE US WORKFORCE. AND ABOUT 25 PERCENT OF STATE AND LOCAL EMPLOYEES ARE NOT COVERED BY SOCIAL SECURITY, INCLUDING NEARLY HALF OF ALL TEACHERS AND OVER TWO-THIRDS OF FIREFIGHTERS AND PUBLIC SAFETY OFFICERS.

According to the U.S. Census Bureau, roughly 4,000 public sector retirement systems exist in the U.S.. Some of the 227 state-administered plans and 3,771 locally-administered plans date back to the 19th century and each has evolved independently. Collectively, these plans have:

- \$3.80 trillion in assets
- 14.4 million active (working) members and 9.0 million retirees
- \$228.5 billion in benefit distributions annually

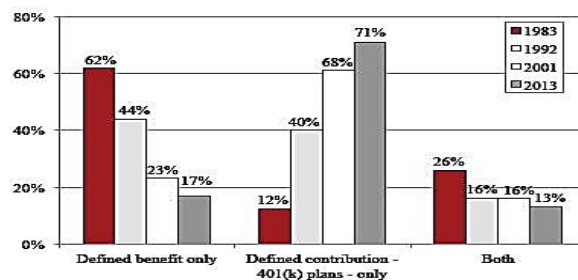
- All but two states paid at least one-half of their ARC.
- All but six states paid at least 75 percent of their ARC.
- The average plan received 89.3 percent of its ARC.
- The weighted average ARC received was 84.4 percent: of \$779 billion of combined ARC, plans received \$657 billion.

FREQUENTLY REQUESTED DATA

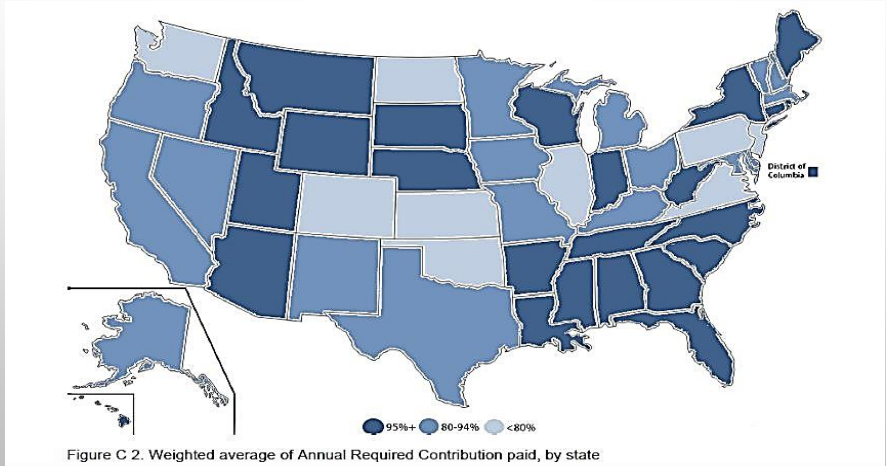
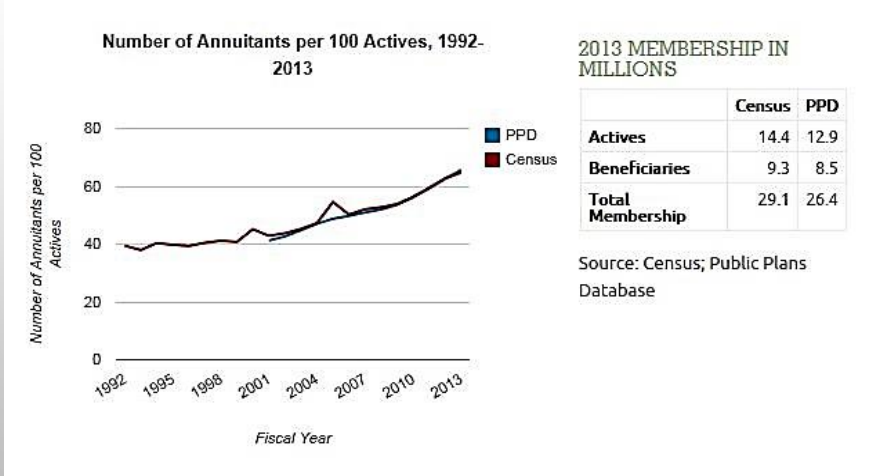
SEPTEMBER 2014

CENTER for
RETIREMENT
RESEARCH
of BOSTON COLLEGE

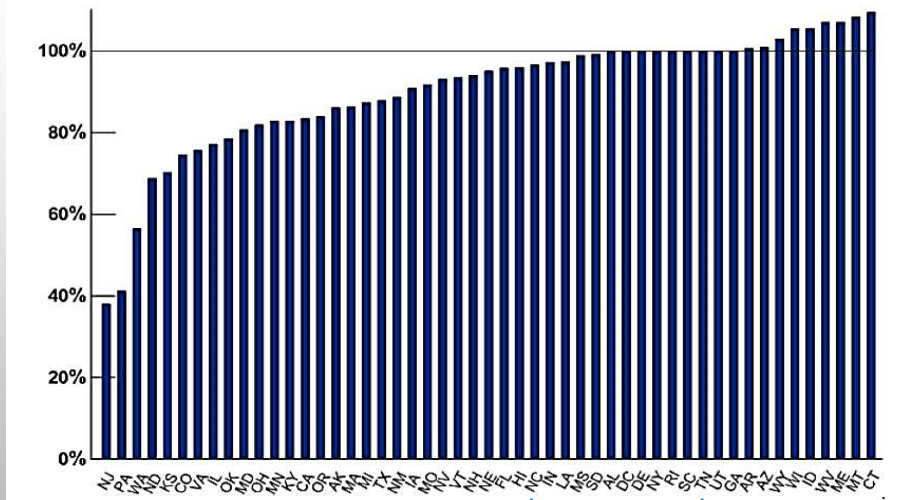
WORKERS WITH PENSION COVERAGE BY TYPE OF PLAN, 1983, 1992, 2001, AND 2013



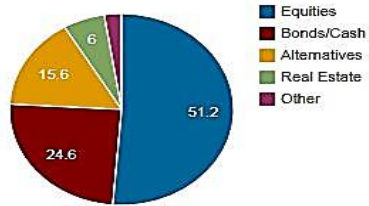
SOURCE: Authors' calculations based on U.S. Board of Governors of the Federal Reserve System. *Survey of Consumer Finances* (various years). Washington, DC.



CONTRIBUTIONS FUNDED



Asset Allocation for State and Local Pensions, 2013



ASSET ALLOCATION, 2013

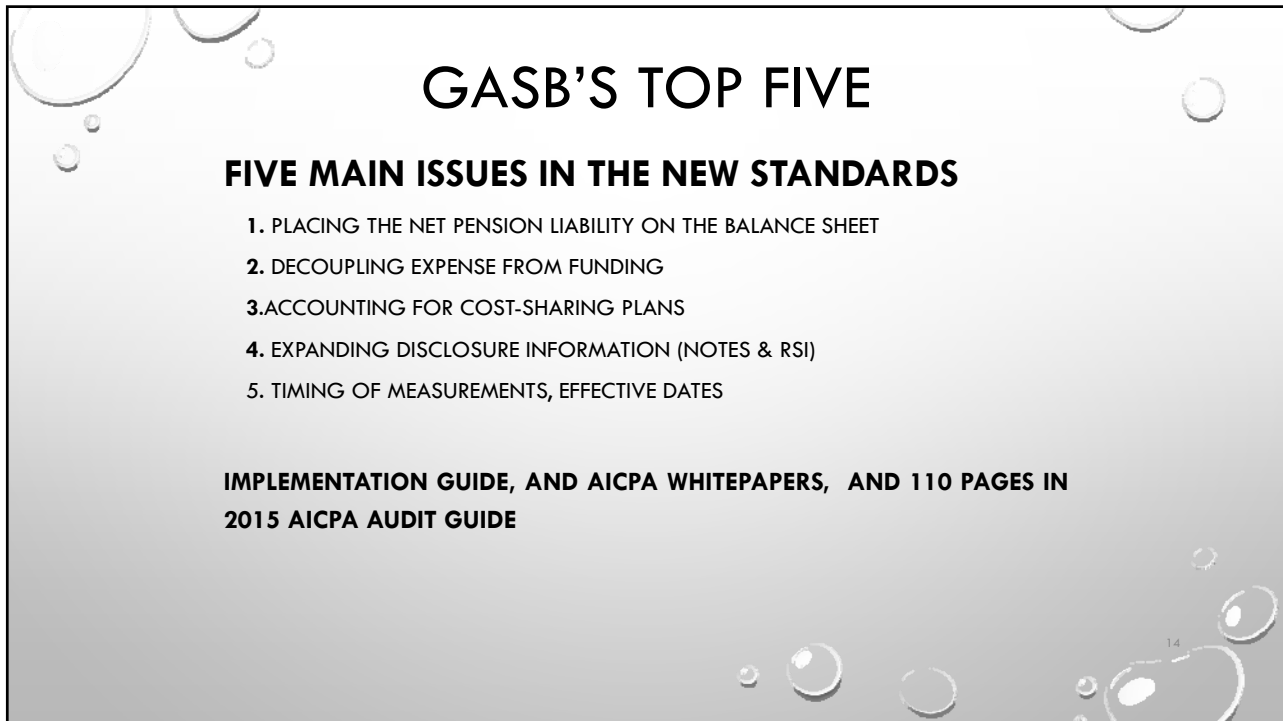
	Percent
Equities	51.2
Bonds/Cash	24.6
Alternatives	15.6
Real Estate	6.0
Other	2.5

Source: Public Plans Database

Source: Public Plans Database



FIVE IMPORTANT ISSUES

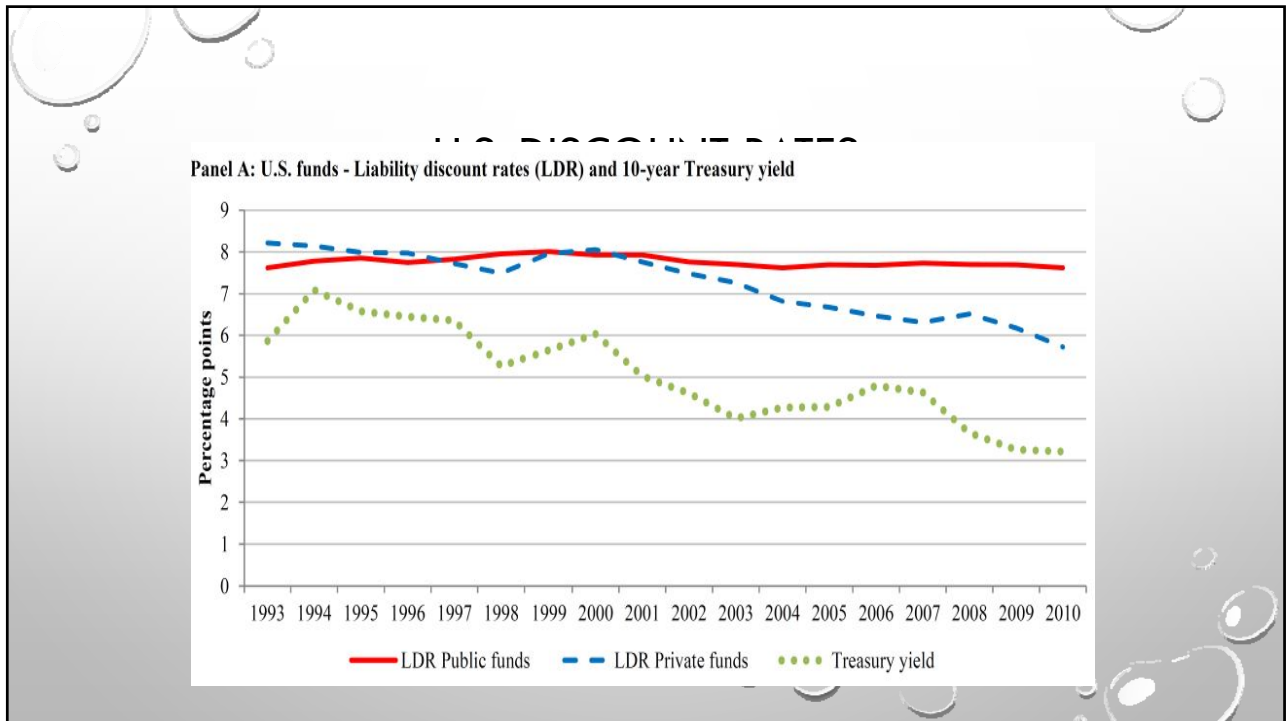
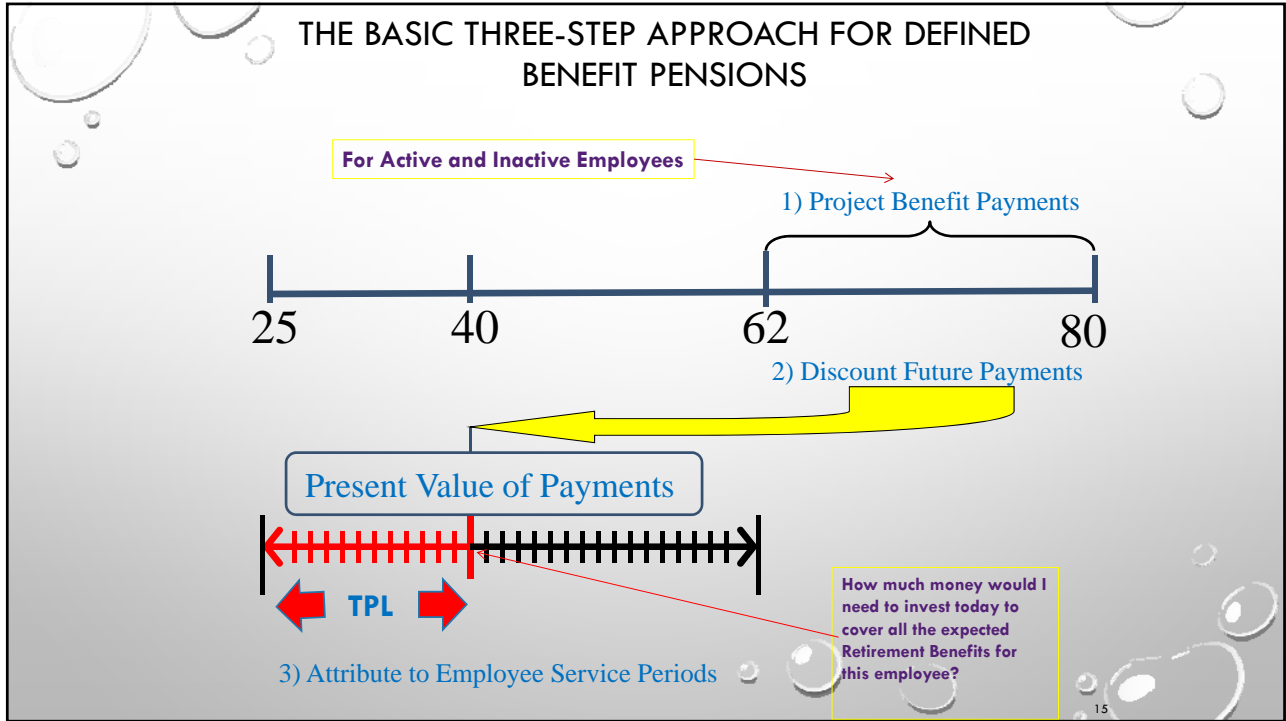


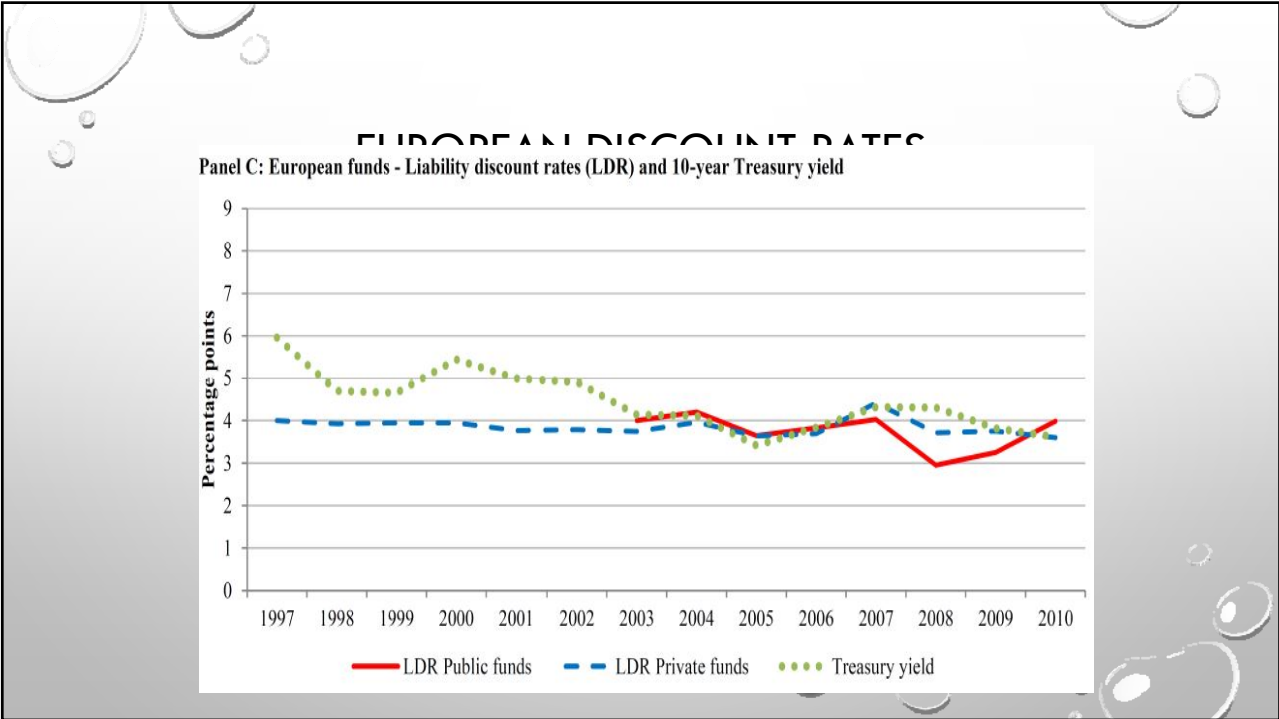
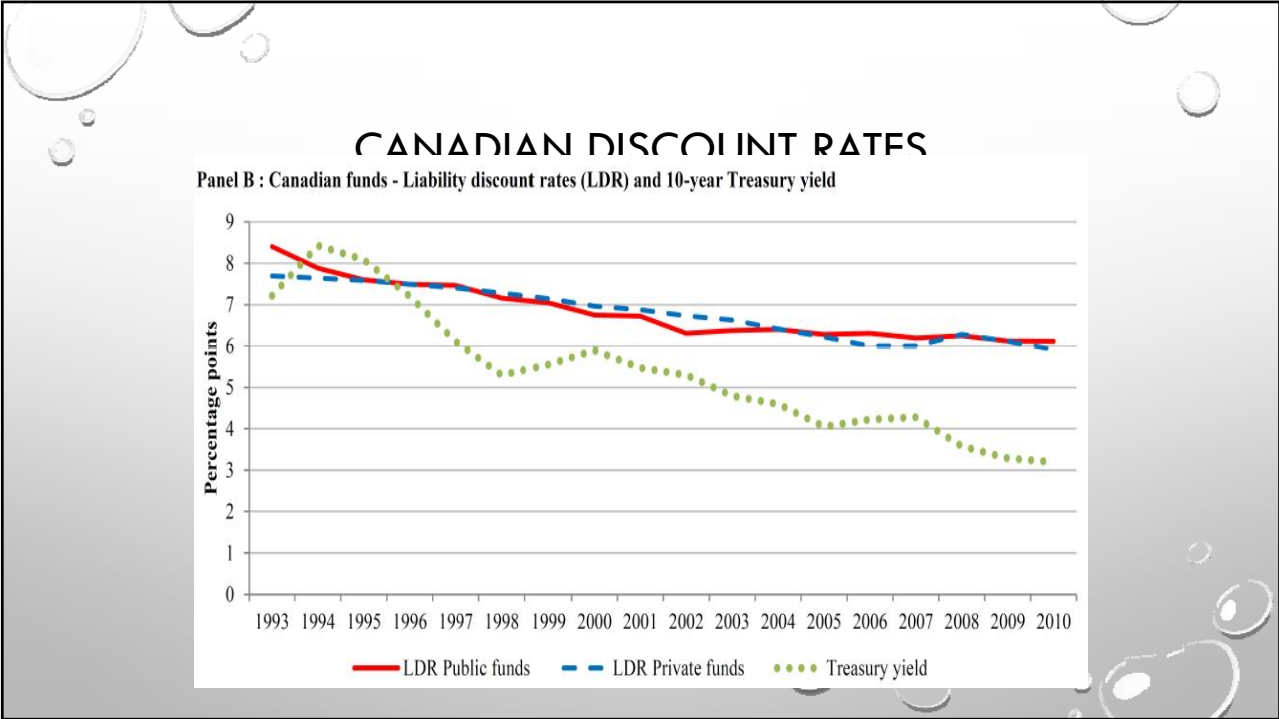
GASB'S TOP FIVE

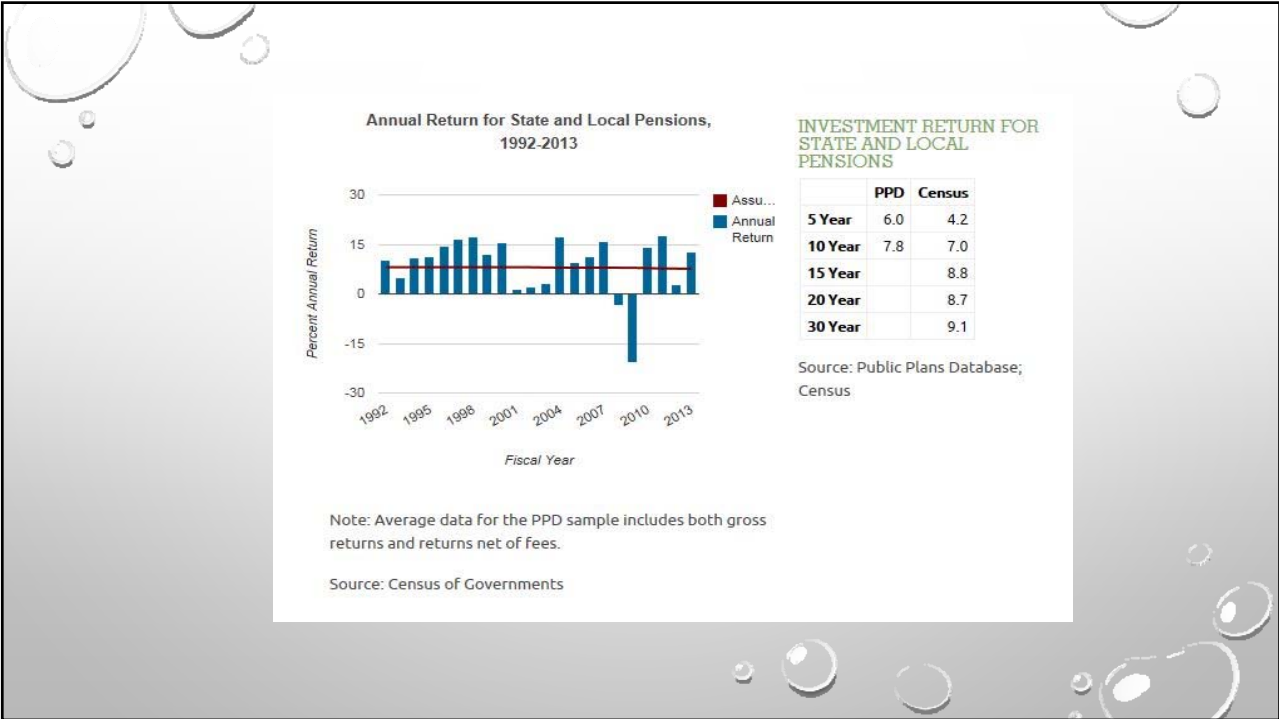
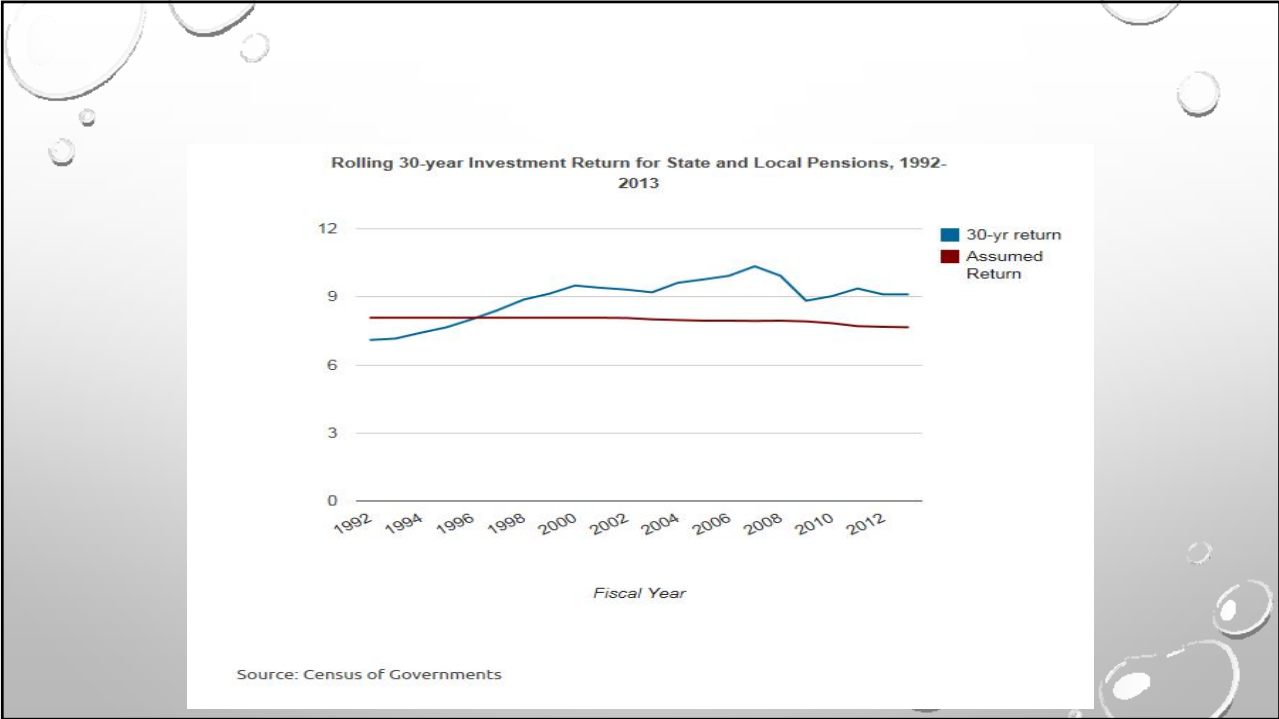
FIVE MAIN ISSUES IN THE NEW STANDARDS

1. PLACING THE NET PENSION LIABILITY ON THE BALANCE SHEET
2. DECOUPLING EXPENSE FROM FUNDING
3. ACCOUNTING FOR COST-SHARING PLANS
4. EXPANDING DISCLOSURE INFORMATION (NOTES & RSI)
5. TIMING OF MEASUREMENTS, EFFECTIVE DATES

**IMPLEMENTATION GUIDE, AND AICPA WHITEPAPERS, AND 110 PAGES IN
2015 AICPA AUDIT GUIDE**







GASB RECALCULATING

73, 78, 82

ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS AND RELATED ASSETS
THAT ARE NOT WITHIN THE SCOPE OF GASB STATEMENT 68, AND AMENDMENTS TO
CERTAIN PROVISIONS OF GASB STATEMENTS 67 AND 68

73

PENSIONS NOT IN SCOPE OF 68

- **PRACTICE ISSUE**

- EXPOSURE DRAFT ISSUED MAY 2014.
- *GASB STATEMENT 73 ISSUED JUNE 2015.*
- **EFFECTIVE DATES:**
 - **PLANS NOT ADMINISTERED THROUGH TRUSTS -**
 - FISCAL YEAR ENDED JUNE 30, 2017
 - **AMENDMENTS TO GASB 67 AND 68 -**
 - FISCAL YEAR ENDED JUNE 30, 2016
- **EARLIER APPLICATION ENCOURAGED IN BOTH SITUATIONS**

23

PENSIONS NOT ADMINISTERED THROUGH TRUSTS

- SAME PURPOSE AS IF THERE WERE A TRUST ARRANGEMENT
- ONLY DIFFERENCE IS, YOU DON'T HAVE FIDUCIARY NET POSITION BECAUSE YOU CAN'T NET THE PLAN ASSETS AGAINST THE PLAN PENSION LIABILITY
- APPLY PROVISIONS OF 67 AND 68 IN TERMS OF CALCULATIONS
- JUST DON'T NET ASSETS AND LIABILITIES, AND
- USE A DISCOUNT RATE FOR A HIGH-GRADE MUNICIPAL RATE

24

PENSIONS NOT ADMINISTERED THROUGH TRUSTS

- TREATMENT OF ACCUMULATED ASSETS:
- EMPLOYERS:
 - SINGLE EMPLOYER PLAN
 - REPORT A EMPLOYER ASSETS
 - MULTIPLE-EMPLOYER PLAN
 - REPORT EMPLOYER'S PROPORTIONATE SHARE OF ACCUMULATED ASSETS AS EMPLOYER ASSETS
- PLANS:
 - REPORT IN AN AGENCY FUND

25

THREE MAIN ISSUES – AMENDMENTS TO 67 AND 68

- NEW DISCLOSURES – NOTES TO RSI
- SPECIFIC PAYABLE TO A DEFINED BENEFIT PENSION PLAN
- RECOGNITION OF NONEMPLOYER REVENUE WHEN NOT IN A SPECIAL FUNDING SITUATION.

26

NEW RSI DISCLOSURES

- PREVIOUS - INVESTMENT FACTORS THAT SIGNIFICANTLY AFFECT TRENDS IN THE AMOUNTS REPORTED
- AMENDMENT – LIMITED TO FACTORS OVER WHICH THE PENSION PLAN OR PARTICIPATING GOVERNMENT HAVE INFLUENCE.
 - E.G. MANAGEMENT CHANGES IN INVESTMENT POLICIES.

27

SPECIFIC PAYABLES TO DEFINED BENEFIT PLANS

- SEPARATELY FINANCED SPECIFIC LIABILITY:
 - AN INCREASE IN THE TOTAL PENSION LIABILITY DUE TO AN INDIVIDUAL EMPLOYER JOINING A PENSION PLAN
 - AN INCREASE IN THE TOTAL PENSION LIABILITY DUE TO A CHANGE IN BENEFIT TERMS SPECIFIC TO AN INDIVIDUAL EMPLOYER
 - A CONTRACTUAL COMMITMENT FOR A NONEMPLOYER CONTRIBUTING ENTITY TO MAKE A ONE-TIME CONTRIBUTION FOR PURPOSES OF REDUCING THE NET PENSION LIABILITY
- NOT OBLIGATIONS ASSOCIATED WITH POOLED OBLIGATION
 - EVEN IF SEPARATE PAYMENT TERMS EXIST

28

SPECIFIC PAYABLES TO DEFINED BENEFIT PLANS

- **CHANGES:**

- **DEFINES “SEPARATELY FINANCED SPECIFIC LIABILITY”**

- A SPECIFIC CONTRACTUAL LIABILITY TO A DEFINED BENEFIT PENSION PLAN FOR A ONE-TIME ASSESSMENT TO AN INDIVIDUAL OR NONEMPLOYER CONTRIBUTING ENTITY.
- CLARIFIES EXCLUSION OF PAYABLES FOR UNPAID (LEGAL, CONTRACTUAL, OR STATUTORY) FINANCING OBLIGATIONS ASSOCIATED WITH THE POOLED PORTION OF THE TOTAL PENSION LIABILITY (EVEN IF SEPARATE PAYMENT TERMS).
- PROVIDES REVENUE RECOGNITION GUIDANCE.

29

RECOGNITION OF NONEMPLOYER REVENUE WHEN NOT IN A SPECIAL FUNDING SITUATION.

- **AMENDMENT:**

- RECOGNIZE REVENUE IN THE REPORTING PERIOD IN WHICH THE CONTRIBUTION OF THE NONEMPLOYER CONTRIBUTING ENTITY IS REPORTED AS A CHANGE IN THE NET PENSION LIABILITY (OR COLLECTIVE NET PENSION LIABILITY)

30

PENSIONS PROVIDED THROUGH CERTAIN MULTIPLE-EMPLOYER
DEFINED BENEFIT PENSION PLANS

78

EXCEPTION – CERTAIN PENSION PLANS

• **PRACTICE ISSUE – CERTAIN PENSION PLANS:**

- PROJECT BEGAN SEPTEMBER 2015
- EXPOSURE DRAFT ISSUED OCTOBER 2015
- *STATEMENT 78 ISSUED DECEMBER 2015*
- *EFFECTIVE DATE, JUNE 30, 2017*

EXCEPTION - CERTAIN PENSION PLANS

- DURING THE IMPLEMENTATION OF STATEMENT 68 AN ISSUE AROSE REGARDING THE ABILITY OF STATE AND LOCAL GOVERNMENTAL EMPLOYERS TO OBTAIN NECESSARY INFORMATION RELATED TO PENSIONS THAT ARE PROVIDED THROUGH CERTAIN MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLANS. THE OBJECTIVE OF THIS STATEMENT IS TO ADDRESS THAT ISSUE.

EXCEPTION - CERTAIN PENSION PLANS

- CERTAIN PENSION PLANS:
 - PROVIDED TO EMPLOYEES OF STATE OR LOCAL GOVERNMENTAL EMPLOYERS THROUGH A COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN.
 - THAT IS NOT A STATE OR LOCAL GOVERNMENTAL PENSION PLAN
 - THAT IS USED TO PROVIDE DEFINED BENEFIT PENSIONS BOTH TO EMPLOYEES OF STATE AND LOCAL GOVERNMENTAL EMPLOYERS AND TO EMPLOYEES OF EMPLOYERS THAT ARE NOT STATE AND LOCAL GOVERNMENTAL EMPLOYERS
 - THAT HAS NO PREDOMINANT STATE OR LOCAL GOVERNMENTAL (EITHER INDIVIDUALLY OR COLLECTIVELY WITH OTHER STATE OR LOCAL GOVERNMENTAL EMPLOYERS THAT PROVIDE PENSIONS THROUGH THE PENSION PLAN

EXCEPTION - CERTAIN PENSION PLANS

- **CERTAIN PENSION PLANS:**
 - REQUIREMENTS APPLY WHETHER THE GOVERNMENT'S FINANCIAL STATEMENTS ARE PRESENTED IN STAND-ALONE FINANCIAL REPORTS OR ARE INCLUDED IN THE FINANCIAL REPORTS OF ANOTHER GOVERNMENT
 - PENSION EXPENSE SHOULD BE RECOGNIZED EQUAL TO THE EMPLOYER'S REQUIRED CONTRIBUTIONS TO THE PENSION PLAN FOR THE REPORTING PERIOD, AND A PAYABLE SHOULD BE REPORTED FOR UNPAID REQUIRED CONTRIBUTIONS AT THE END OF THE REPORTING PERIOD

35

EXCEPTION - CERTAIN PENSION PLANS

- **CERTAIN PENSION PLANS:**
 - PENSION EXPENSE ALSO SHOULD BE RECOGNIZED FOR SEPARATE LIABILITIES TO THE PENSION PLAN THAT ARISE IN THE REPORTING PERIOD (FOR EXAMPLE FOR AMOUNTS ASSESSED TO AN INDIVIDUAL EMPLOYER UPON JOINING A COST-SHARING PENSION PLAN) AND A PAYABLE SHOULD BE REPORTED FOR UNPAID AMOUNTS AT THE END OF THE REPORTING PERIOD.

36

EXCEPTION - CERTAIN PENSION PLANS

- CERTAIN PENSION PLANS:
 - NOTE DISCLOSURES
- REQUIRED SUPPLEMENTARY INFORMATION
 - A SCHEDULE OF THE EMPLOYER'S REQUIRED CONTRIBUTIONS FOR EACH OF THE 10 MOST RECENT FISCAL YEARS (INCLUDE REASON IF CANNOT INCLUDE 10 YEARS IN NOTES TO RSI)
 - THE SCHEDULE SHOULD SEPARATELY IDENTIFY AMOUNTS ASSOCIATED WITH EACH PENSION PLAN
 - NOTE DISCLOSURES FOR RSI SHOULD INCLUDE INFORMATION ABOUT FACTORS THAT SIGNIFICANTLY AFFECT TRENDS IN THE AMOUNTS REPORTED (FOR EXAMPLE CHANGES IN THE SIZE OF THE POPULATION COVERED BY THE BENEFIT TERMS OR CHANGES IN REQUIRED CONTRIBUTION RATES)

37

PENSION ISSUES

82

PENSION ISSUES

- **PRACTICE ISSUE – PENSION ISSUES:**

- **DELIBERATIONS BEGAN SEPTEMBER 2015**
- **EXPOSURE DRAFT ISSUED DECEMBER 2015**
- **COMMENTS ACCEPTED THROUGH FEBRUARY 12, 2016**
- **FINAL STANDARD EXPECTED 2ND QTR. 2016**

- **EFFECTIVE DATE FOR FISCAL YEAR ENDED JUNE 30, 2017**
- **EARLIER APPLICATION IS ENCOURAGED**

39

PENSION ISSUES

- **PRACTICE ISSUE – PENSION ISSUES**

- **THREE ISSUES COVERED:**
 - **THE PRESENTATION OF PAYROLL-RELATED MEASURES IN REQUIRED SUPPLEMENTARY INFORMATION**
 - **DEVIATIONS FROM ACTUARIAL STANDARDS OF PRACTICE FOR FINANCIAL REPORTING PURPOSES**
 - **CLASSIFICATION OF PAYMENTS MADE TO EMPLOYERS TO SATISFY EMPLOYEE CONTRIBUTION REQUIREMENTS**

40

PENSION ISSUES

- **PRACTICE ISSUE – PENSION ISSUES**

- **THE PRESENTATION OF PAYROLL-RELATED MEASURES IN REQUIRED SUPPLEMENTARY INFORMATION**

- STATEMENTS 67 AND 68 REQUIRE PRESENTATION OF “COVERED-EMPLOYEE PAYROLL” IN RSI
- STATEMENTS 67 AND 68 WOULD BE AMENDED TO INSTEAD REQUIRE THE PRESENTATION OF “COVERED PAYROLL”

41

PENSION ISSUES

- **PRACTICE ISSUE – PENSION ISSUES**

- **THE PRESENTATION OF PAYROLL-RELATED MEASURES IN REQUIRED SUPPLEMENTARY INFORMATION**

- “COVERED PAYROLL” IS THE PORTION OF COMPENSATION PAID TO ACTIVE EMPLOYEES ON WHICH CONTRIBUTIONS TO A PENSION PLAN ARE BASED, AND UPON WHICH CERTAIN RSI RATIOS CALCULATED (PENSIONABLE PAYROLL)
- “COVERED EMPLOYEE PAYROLL” IS THE PAYROLL OF EMPLOYEES THAT ARE PROVIDED WITH PENSIONS THROUGH THE PENSION PLAN (TOTAL PAYROLL)

42

PENSION ISSUES

- **PRACTICE ISSUE – PENSION ISSUES**

- **DEVIATIONS FROM ACTUARIAL STANDARDS OF PRACTICE FOR FINANCIAL REPORTING PURPOSES:**

- **THE STATEMENT WOULD CLARIFY THAT A DEVIATION, AS THE TERM IS USED IN ACTUARIAL STANDARDS OF PRACTICE, IS NOT CONSIDERED TO BE IN CONFORMITY WITH THE REQUIREMENTS OF STATEMENTS 67, 68, AND 73 FOR THE SELECTION OF ASSUMPTIONS IN DETERMINING THE TOTAL PENSION LIABILITY**

43

PENSION ISSUES

- **PRACTICE ISSUE – PENSION ISSUES**

- **CLASSIFICATION OF PAYMENTS MADE TO EMPLOYERS TO SATISFY EMPLOYEE CONTRIBUTION REQUIREMENTS:**

- **IN SOME CIRCUMSTANCES, EMPLOYERS MAKE PAYMENTS TO SATISFY CONTRIBUTION REQUIREMENTS THAT ARE IDENTIFIED BY THE PENSION PLAN TERMS AS PLAN MEMBER CONTRIBUTIONS**
- **FOR PURPOSES OF APPLYING STATEMENT 67, THE EMPLOYER CONTRIBUTIONS SHOULD BE CLASSIFIED AS PLAN MEMBER CONTRIBUTIONS**
- **FOR PURPOSES OF APPLYING STATEMENT 68, THE EMPLOYER CONTRIBUTIONS SHOULD BE CLASSIFIED AS EMPLOYEE CONTRIBUTIONS, INCLUDING FOR PURPOSES OF DETERMINING A COST-SHARING EMPLOYER'S PROPORTION**

44

PENSION ISSUES

- **PRACTICE ISSUE – PENSION ISSUES**

- **CLASSIFICATION OF PAYMENTS MADE TO EMPLOYERS TO SATISFY EMPLOYEE CONTRIBUTION REQUIREMENTS:**

- AN EMPLOYER'S EXPENSE AND EXPENDITURES FOR THOSE CONTRIBUTIONS SHOULD BE INCLUDED IN SALARIES AND WAGES OF THE PERIOD FOR WHICH THE CONTRIBUTION REQUIREMENTS (FOR EXAMPLE, IF AN EMPLOYER "PICKS UP" EMPLOYEE CONTRIBUTIONS IN CONNECTION WITH AN ELECTION MADE FOR TAX REPORTING PURPOSES), THE EMPLOYER SHOULD DISCLOSE INFORMATION ABOUT THE ARRANGEMENT

PENSION ISSUES

- **PRACTICE ISSUE – PENSION ISSUES**

- CHANGES ADOPTED TO CONFORM TO THE REQUIREMENTS OF PARAGRAPH 7 (DEVIATIONS FROM ASOP) SHOULD BE APPLIED ON A PROSPECTIVE BASIS.

SOLUTIONS AND CONCLUSIONS

- MORE WORK FOR EVERYONE, BUT MUCH BETTER REPORTING.
- BE PREPARING FOR OPEB! DISCUSSION SHOULD BEGIN NOW.
- TOGETHER, WE WILL MAKE IT THROUGH THIS IMPLEMENTATION PROCESS, AND IN A FEW YEARS THIS WILL NO LONGER SEEM AS DIFFICULT OR PAINFUL.

47

QUESTIONS?

Gerry Boaz, CPA, CGFM, CGMA

Jerry E. Durham, CPA, CGFM, CFE

48

OPEB

Just Like Pensions but Not!

Gerry Boaz, CPA, CGFM, CGMA
Jerry E. Durham, CPA, CGFM, CFE

Effective Dates—June 30

- **2015**
 - Statement 68—Pensions—Employers
 - Statement 69—Government Combinations and Disposals of Government Operations
 - Statement 71—Pension Transition for Contributions Made Subsequent to the Measurement Date
- **2016**
 - Statement 72—Fair Value Measurement and Application
 - Statement 73—Pensions—Related Assets (outside scope of Statements 67 and 68)
 - Statement 76—Hierarchy of GAAP for State/Local Governments
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 - Statement 77—Tax Abatement Disclosures
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- **2018**
 - Statement 75—Accounting and Financial Reporting - OPEB - Employers
 - Statement 81 - Irrevocable Split-Interest Agreements
 - Statement 82 - Pension Issues (Certain Provisions related to Assumptions)

OPEB Plans – 74

- Addresses both OPEB Plans Administered through trust & not administered through trust

- Requires reporting of liability in the F.S.
 - Trust: Total Opeb Liability - FNP= NPL
 - Not trust: Total OPEB liability = Liability

- Discount Rate –
 - Trust – Single Discount rate = LTeRoR as projected sufficient
 - Not trust – 20-year, tax-exempt general obligation municipal bonds (AA/Aa or higher)

3

OPEB Plans – 74

- Accounting for assets accumulated for OPEB that does not meet the trust criteria:
 - Single employer – continue to be reported as assets of the employer
 - Multiple-employer – report the assets in an Agency Fund
 - Exception – employer is a member of the opeb plan (agency fund should exclude the employer amounts)

4

OPEB Employers – 75

- Post Employment Benefits - Employers:
 - The Gist of the Employer Standard is to require recording of the Net OPEB Liability, OPEB Expense, and Deferred Outflows and Inflows.
 - Currently only a Net OPEB Obligation is recorded.
 - Increased Notes Disclosures and RSI.

5


OPEB Employers – 75

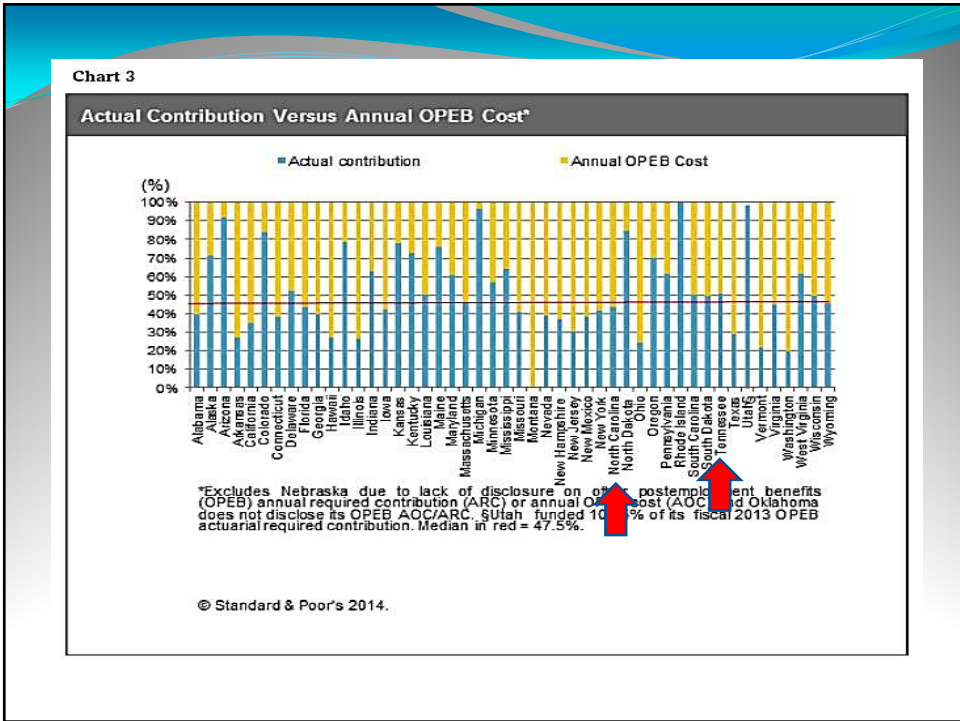
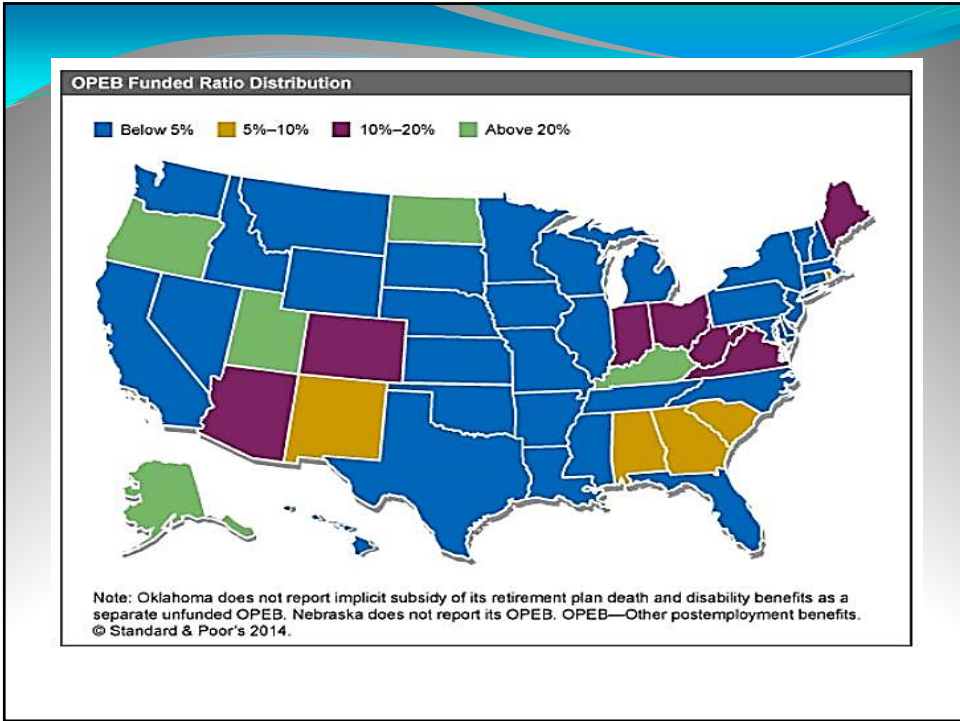
- Post Employment Benefits - Employers:
 - **In essence, just like 67 and 68.**
 - Except, the numbers will be much bigger!
 - Will supersede GASB Statements 45 and 57.

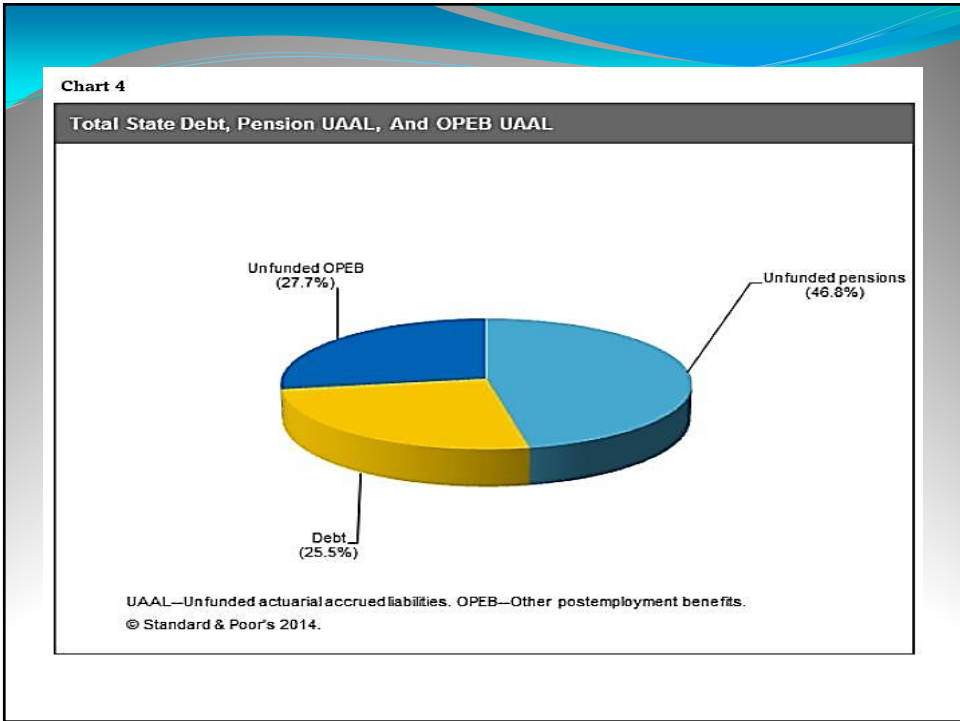
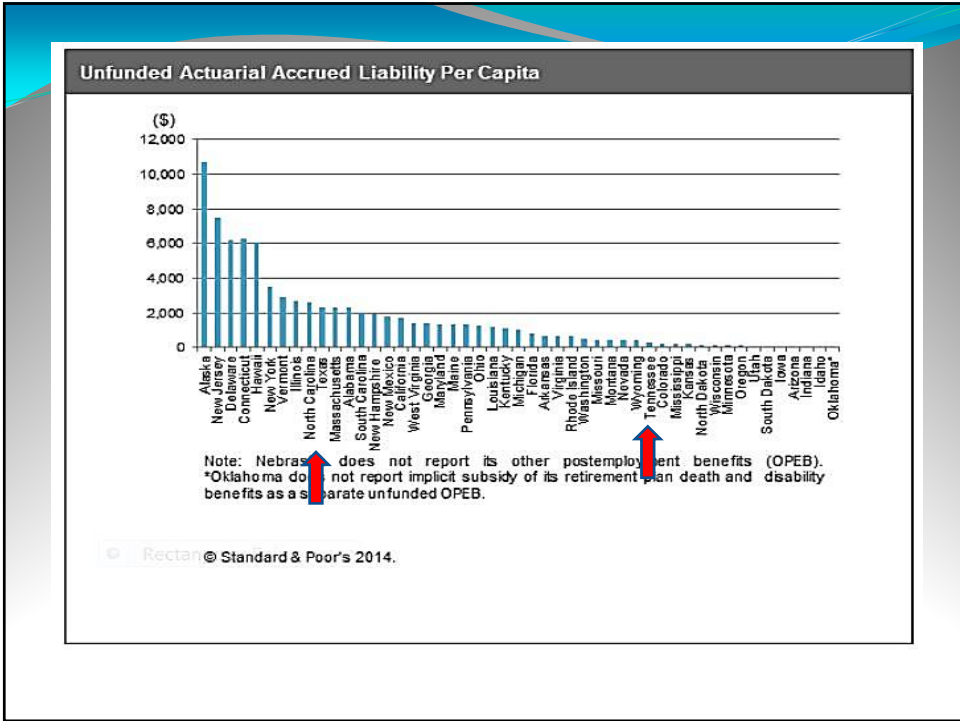
6



- Just the facts Maam.

- 
- Unfunded OPEB liability across states totaled \$529.8 billion as of the most recent valuation reports, practically unchanged from our 2013 survey, although trends diverge across states.
 - Total OPEB liability is largely unfunded across states, but overall funding ratios have improved slightly for states that have established OPEB trusts.
 - Benefits vary widely among states and OPEB liabilities are reported using different actuarial cost methods and amortization periods.





Just Like Pensions, Not!

- Still have an implicit rate subsidy calculation
- Preserves the alternative measurement calculation option for small employers and plans that have 100 employees or less – active and inactive employees
- Sensitivity disclosure is broadened to include Healthcare Trend Rate in addition to the Discount Rate in Notes to Financial Statements
- Considerations for Employers who not have a Trust Fund are incorporated in 75 rather than by an Amendment (i.e. 73)

Thought Question?

- Is it more difficult to estimate pension benefits into the future, or
- More difficult to estimate healthcare costs into the future?

Questions!

Gerry Boaz, CPA, CGFM, CFE

Jerry E. Durham, CPA, CGFM, CFE

GASB's New Toys 77, 80, and 81

Gerry Boaz, CPA, CGFM, CGMA
Jerry E. Durham, CPA, CGFM, CFE

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Tax Abatement Disclosures - 2017

77

Background

- **What:** The Board issued Statement 77, which requires disclosures about a government's tax abatement agreements
- **Why:** Information about revenues that governments forgo is essential to understanding financial position and economic condition, interperiod equity, sources and uses of financial resources, and compliance with finance related legal or contractual requirements
- **When:** Effective for periods beginning after December 15, 2015
 - July 1, 2016 to June 30, 2017

Tax Abatement Disclosures

- Practice Issue -Tax Abatement Disclosures:
 - Many governments offer tax abatements, but little information is publicly available regarding the provisions of the tax abatement agreements or the magnitude of the effect those agreements have on the government's ability to raise resources in the future.
 - Often times in Tennessee they take the form of In-Lieu-Of-Tax Agreements

5

Tax Abatement Disclosures

- Practice Issue -Tax Abatement Disclosures:
 - **1984 Saturn Corporation**
 - \$20 -30 million cash for training
 - \$50,000 million for Saturn Parkway
 - Maury County Agreements:
 - Rezoned Property
 - Issued Industrial Revenue Bonds
 - In-lieu-of Tax Agreements with City of Columbia, City of Mt. Pleasant, City of Spring Hill (\$3.5 Billion plant)
 - Build a Fire Station
 - In-lieu-of-Tax Agreements – Maury County

6

NOW, THEREFORE, for an in consideration of the terms, conditions, premises and covenants herein contained, the parties hereby agree to amend the PILOT Agreement and otherwise be legally bound as follows:

1. **Amendment of Section 3 of the PILOT Agreement.** The terms and provisions of Section 3 of the PILOT Agreement are hereby revoked effective as of January 1, 1996 and the following shall be substituted in lieu thereof:

3. **Amount of Payments.**

(a) During 1986, the Company will make the following Payments: on February 28—\$2,000,000; on June 1 - \$2,000,000; and on October 1 - \$3,500,000. On October 1 of each year beginning October 1, 1987, the Company will make the following payments for the periods indicated:

Year(s)	Amount of Annual Payment
1987 - 8	3,500,000
1989-95	3,000,000
1996-2005	25% of "Standard Tax" (as defined below)
2006-2010	30% of Standard Tax
2011-2015	35 % of Standard Tax
2016-2025	40% of Standard Tax

provided however, that if (but only if) the Industrial Facility is being operated as an Automotive Assembly Plant (as defined below) as of January 1, or at any time prior to October 1 of any of the following years, the annual Payments for such year will not be less than (i) for each of the years 1996 through 2005, inclusive, \$2,000,000; (ii) for each of the years 2006 through 2010, inclusive, \$2,250,000; (iii) for each of the years 2011 through 2015, inclusive, \$2,362,500; and (iv) for each of the years 2016 through the year during which this Agreement expires, inclusive, \$2,480,625 (provided, further, however, that the calculation of the minimum Payment for any year is subject to the provisions of Section 3(d), below). For purposes of this Section 3(a), the phrase "being operated as an Automotive Assembly Plant" shall mean that at least some portion of the Industrial Facility is being used by the Company for manufacture and final assembly of automobiles for shipment to dealers for sale at retail to such dealers' customers (i.e., the manufacture, final assembly and shipment of finished automobiles). In the event no portion of the Industrial Facility is being operated as an Automotive Assembly Plant as of January 1, nor at any time prior to October 1 in any of the years specified in sections 3(a)(i) through (iv) above, then the minimum Payment provisions set forth in Sections 3(a)(i) through (iv) shall be no further force or effect and the amount of the Payments due hereunder will be calculated without regard to such provisions.

Tax Abatement Disclosures

- Practice Issue -Tax Abatement Disclosures:
 - Maury County had no disclosures in the Notes to the Financial Statements

8

Tax Abatement Disclosures

- Practice Issue -Tax Abatement Disclosures:
 - **Nissan Headquarters**
 - \$197,600 in tax breaks and incentives from State and Williamson County
 - \$64 million in relocation assistance (\$50,000/person)
 - \$6 million for temporary office space
 - \$23 million site incentive
 - \$80.3 million “enhanced jobs tax credit”
 - \$5.5 million “headquarters tax credit”
 - \$3 million for recruitment
 - \$1 million for fast track job training
 - \$14.8 million in tax abatements from Williamson County
 - University of Tennessee study suggested that the economic benefit
 - Boost to local income = \$527 million
 - Increase to local tax revenues = \$24 million
 - Produce 13,260 new jobs

9

Tax Abatement Disclosures

- Practice Issue -Tax Abatement Disclosures:
 - **2008 VW Original Plant**
 - Total package, \$577 million in incentives
 - **2016 VW Expansion**
 - Total package, possible \$300 million
 - \$165.8 million for site development, prep, etc.
 - \$52.5 million loan from Chattanooga and Hamilton County, about half to be repaid
 - \$12 million state training grant
 - \$33 million in property tax breaks over the next decade
 - More

10

Tax Abatement Disclosures

- **What was your first thought when you saw those numbers??**

Definition and Scope

- Does not include all transactions that reduce tax revenues
- Emphasis is on the substance of the arrangement meeting the definition, not on its name or form
- Would apply only to arrangements meeting this definition:
 - A reduction in **tax** revenues that results from an **agreement** between one or more governments and an individual or entity in which (a) one or more governments promise to **forgo tax revenues** to which they are otherwise entitled and (b) the individual or entity promises to take a **specific action** after the agreement has been entered into that contributes to economic development or otherwise **benefits the governments or the citizens** of those governments.

Definition and Scope

- **Tax Expenditures**
 - **Cost of foregoing the collection of taxes the government was entitled to collect**
 - Tax Exemptions
 - Tax Deductions
 - Tax Abatements
 - **Type of Revenue**
 - A tax (not a fee or service charge)

13

Definition and Scope

- **Tax Abatements:**
 - Proceed from an agreement
 - The agreement does not have to be in writing
 - The agreement does not have to be legally enforceable
 - The agreement must precede the “abatement”
 - The substance of the agreement rather than the form determine whether an “abatement” has taken place
 - Can be agreements of the government itself, or
 - Agreements of others that reduce the government’s revenue
- **What about Tax Increment Financing?**
- **What about Tax Rebates that are in substance abatements?**

14

General Disclosure Principles

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments that reduce the reporting government's taxes
- Disclose own tax abatements by major program
- Disclose those of other governments by the government and specific tax abated
- May disclose individual tax abatements above quantitative threshold established by the government (may use different thresholds for government vs. other governments)
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

15

General Disclosure Principles

- The disclosures may be aggregated by major tax abatement programs
- Governments are not required to present information if they are legally prohibited from doing so (however, that fact must be disclosed)
- Disclose information for discrete component units:
 - If essential to fair presentation of the government – then like any other agreement of the government
 - If not essential to fair presentation, then disclose like an agreement of another government

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Required Disclosures

Brief Descriptive Information	Government's Own Abatements	Other Government's Abatements
Name of program	✓	
Purpose of program	✓	
Name of government		✓
Tax being abated	✓	✓
Authority to abate taxes	✓	
Eligibility criteria	✓	
Abatement mechanism	✓	
Recapture provisions	✓	
Types of recipient commitments	✓	

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Required Disclosures

Other Disclosures	Government's Own Abatements	Other Government's Abatements
Dollar amount of taxes abated	✓	✓
Amounts received or receivable from other governments associated with abated taxes	✓	✓
Other commitments by the government	✓	
Quantitative threshold for individual disclosure	✓	✓
Information omitted due to legal prohibitions	✓	✓

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Tax Abatement Disclosures

- Perhaps even more interesting are the disclosures that are not required. For example:
 - The names of the entities that received a tax abatement
 - How an entity that received a tax abatement, spent or is spending the money
 - The actual or potential benefits to the local government of granting the tax abatement
 - GFOA has a best practice document that recommends using the letter of transmittal for disclosure.
 - Number of Tax Abatement Agreements
 - Duration of Tax Abatements
 - Total Amount of Abatements over the duration of agreement

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Tax Abatement Disclosures

Information relevant to the disclosure of those programs for the fiscal year ended December 31, 20X1 is:

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated during the Fiscal Year (in thousands)</u>
Residential Improvement Program	\$ 32,912
Film and Television Production Incentives	
Sales Tax	13,435
Corporate Income Tax	12,479
Department of Economic Assistance	
Economic Assistance Initiative	18,586
High-Tech Investment Program	9,578
Competitive County Credit	11,159
Renewable Energy Incentive	
Sales Tax	8,157
Corporate Income Tax	4,619

20

Tax Abatement Disclosures

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 - 1984 Saturn Corporation
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Quiz

- Which of the following represents a “tax abatement”?
 - A. A property tax exemption for church property
 - B. A donation of land to a industrial company as incentive to locate
 - C. A reduction in landfill charges for a company for the first 5 years after relocation
 - D. None of the above

Quiz

- Which of the following properly accounts for the tax revenue forgone on the books of the government?
 - A. Credit Revenue, and Debit an Expenditure/Expense
 - B. Credit Revenue, and Debit a Receivable
 - C. Debit an Expenditure/Expense, and Credit Cash
 - D. None of the above

Quiz

- Tax abatement agreements for discretely presented component units should?
 - A. Be treated like any other agreement of the government itself
 - B. Be treated like an agreement of another government
 - C. Either A or B
 - D. None of the above

Quiz

- Which of the following are not true for tax abatement disclosures?
 - A. Gross dollar amount of the abatements must be presented for the current year and future years
 - B. Disclosures may be aggregated for different types of programs
 - C. Disclosures must be separated between the government and other governments that provide tax abatements including component units
 - D. The government may establish a threshold for individual agreements
 - E. A and C

Blending Requirements for Certain Component Units -
2017

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Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - Exposure Draft June 2015
 - Final Standard Expected 1st Q 2016
 - GASB Statement 80
- **Effective date June 30, 2017**
- **Earlier Application encouraged**

Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - Certain financial reporting entities such as the Healthcare Industry (BTA) desire to be able to present all component units in either a single column or by a multi-column approach for blended component units.
 - Problem, their component units do not meet the requirements for blending.

29

Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - The statement amends Statement 14 paragraph 53 to add a “new” blending requirement:
 - Not-for-profit corporations
 - Primary government is the sole corporate member
 - Applies to all state and local governments

30

Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - **Additional Blending Criteria:**
 - “A component unit should be included in the reporting entity financial statements using the blending method when the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member.”
 - **Notice the title, Certain Component Units. The application is limited in scope.**

31

Blending Requirements

- **Practice Issue - Blending Requirements for Certain Component Units:**
 - **The statement does not apply to component units included under provision of Statement 39.**
 - **So now we have Statements 14, 39, 61, 80 and 34 that all help us understand the reporting entity and how to report component units.**

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Irrevocable Split-Interest Agreements - 2018

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Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - Exposure Draft Issued June 2015
 - Final Standard Expected March 2016
- **Definition of Irrevocable Split-Interests:**
 - A split-interest agreement in which the donor has not reserved, or conferred to another person, the right to terminate the agreement at will and have the donated assets returned to the donor or third party.

Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - **Irrevocable split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. Examples include charitable lead trusts, charitable remainder trusts, charitable annuity gifts, and life-interests in real estate.**

35

Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - **Since there are different types of agreements, a determination has to be made about the type.**
 - **When does the interest begin and terminate?**
 - **Is the Government the intermediary or is the intermediary a third party?**
 - **If the donation is capital property (e.g. land), how do I plan to use the property? Capital Asset or Investment.**
 - **Will I use fair value or acquisition value?**

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Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - Since there are different types of agreements, a determination has to be made about the type (cont'd).
 - Do you have the lead interest or the remainder interest?
 - If the government is the Intermediary and has a remainder interest normally debit an asset, credit a liability for the lead interest, and credit a deferred inflow for the difference.

37

Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - Since there are different types of agreements, a determination has to be made about the type (cont'd).
 - If the government is the Intermediary and has a lead interest normally debit an asset, credit a liability for the remainder interest, and credit a deferred inflow for the difference.

38

Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - Since there are different types of agreements, a **determination has to be made about the type (cont'd).**
 - If a third party is the Intermediary and the government has a **beneficial interest**, normally debit an asset and credit a deferred inflow when the government becomes aware of the agreement and has **sufficient information** to measure the beneficial interest.

39

Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - If a third party is the Intermediary and the government has a **beneficial interest**, what is **sufficient information**:
 - Government is specified by name
 - Government has an unconditional beneficial interest
 - The donation agreement is irrevocable
 - The donor has not granted variance power to the intermediary with regard to the donated resources
 - The intermediary is not under the control of the donor
 - The government's ability to assign its beneficial interest is not subject to approval of the intermediary
 - The government's attempt to assign its beneficial interest does not invalidate the government's beneficial interest and thereby terminate the agreement

40

Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - **FASB Statement 136 *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, requires the resources held in an irrevocable trust as assets and contributions into the trust to be recorded as assets and the contributions into the trust as revenues of the beneficiary government (Para 15).**

41

Irrevocable Split-Interests

- **Practice Issue – Accounting and Reporting for Irrevocable Split-Interest Agreements:**
 - **Obviously, there are many variations of the scenarios we have looked at that require different entries and calculations.**
 - **The statement does not mention disclosure requirements!**

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- Coming Soon to a Government Near You!

Questions!

Gerry Boaz, CPA, CGFM, CGMA

Jerry E. Durham, CPA, CGFM, CFE

North Carolina Office of the State Controller

May 17, 2016

Really, There's More?

Gerry Boaz, CPA, CGFM, CGMA
Jerry E. Durham, CPA, CGFM, CFE

Major Projects

GASB Due Process

Major Projects:

1. Asset Retirement Obligations
2. Fiduciary Activities
3. Financial Reporting Model
4. Leases
5. Revenue and Expense Recognition

3

ARO

ARO

- **Asset Retirement Obligations (ARO):**

- Exposure Draft Issued December 7, 2015
- Final Standard Expected 4th Q 2016

- FASB Statement 143, Accounting for Asset Retirement Obligations (2001) has been followed.
- Should costs be capitalized, what should be disclosed?

5

Proposals: Scope

- *Asset retirement obligation*—A legal obligation associated with the retirement of a capital asset
 - *Retirement of a tangible capital asset*—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)
- Includes:
 - Nuclear power plant decommissioning
 - Coal ash pond closure (those that are not landfills)
 - Contractually required land restoration such as removal of wind turbines
 - Other similar obligations
 - But not the pollutions they cause!
- Excludes:
 - Landfills (GASB 18)
 - Pollution remediation obligations from abnormal operation (GASB 49)
 - Conditional obligations to perform asset retirement activities, such as most asbestos removal

6

ARO

- **Asset Retirement Obligations (ARO):**

- Legally enforceable liability
- Associated with a tangible capital asset
- Recognize a liability when incurred and reasonably estimable
- Use probability weighing of all potential outcomes
- Record a deferred outflow
- Remeasure the liability for effects of inflation and deflation annually. Book if significant
- Disclose funding requirements and amounts accumulated and restricted for payment of the liability

7

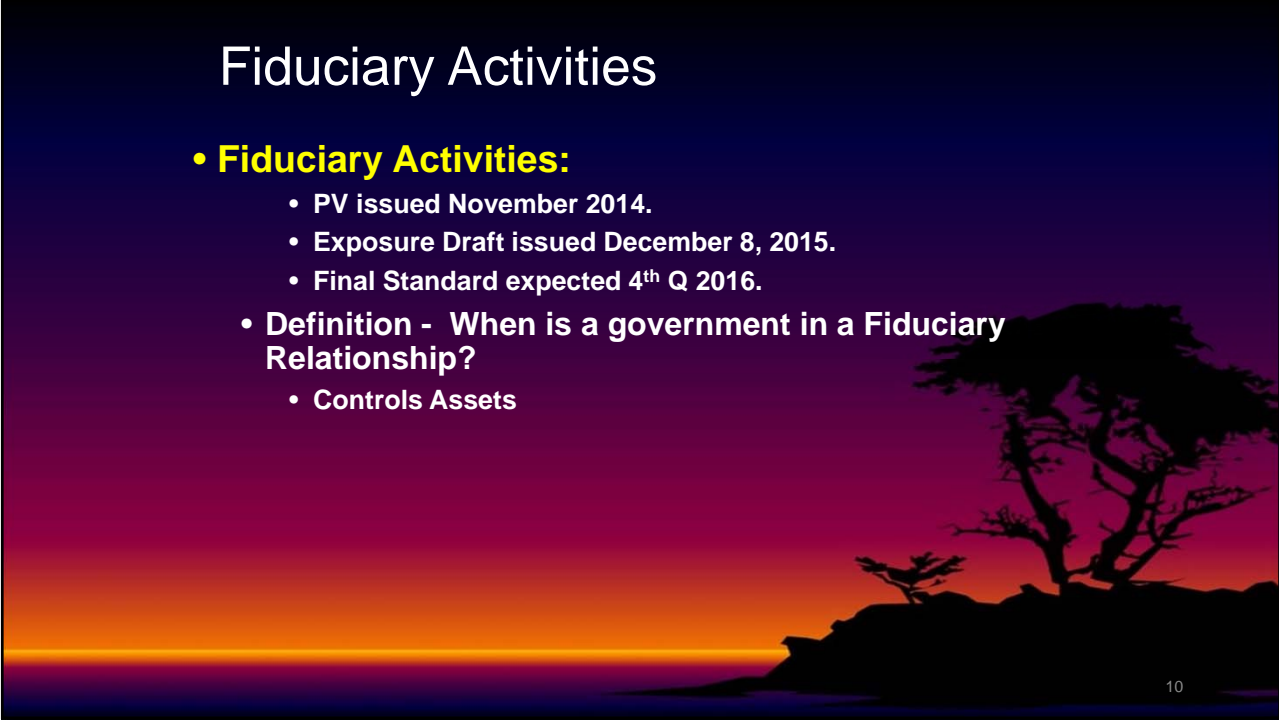
Proposal: Recognition & Measurement

Initial Recognition	ARO liability when incurred and reasonably estimable—measured based on the best estimate	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	<ul style="list-style-type: none"> • At least annually remeasure the current value for inflation/ deflation • At least annually evaluate relevant factors for significant change 	Recognize a reduction as an outflow of resources – systematic and rational manner over the useful life

Fiduciary Responsibilities



Fiduciary Activities

- **Fiduciary Activities:**
 - PV issued November 2014.
 - Exposure Draft issued December 8, 2015.
 - Final Standard expected 4th Q 2016.
 - **Definition - When is a government in a Fiduciary Relationship?**
 - Controls Assets
- 

Fiduciary Activities

- Would establish criteria for identifying and reporting fiduciary activities of all state and local governments
- The focus of the criteria generally is whether a government is “controlling” the assets of the fiduciary activity
- Important date under GASB 32, August 1996.
- Effective date June 30, 2019

Fiduciary Activities

- **Fiduciary Activities:**
 - Control is established if the primary government:
 - Holds the assets for the benefit of others.
 - The government has the ability to administer or direct the use, exchange, or employment of the present service capacity of the assets.

Fiduciary Activities

- **Fiduciary Activities:**

- Report the activity as a fiduciary activity if:
 - The government controls the assets, and
 - The assets are not derived from the government's own-source revenue (i.e. revenues are generated by the government itself such as taxes or utility charges), **and**
 - One or more of the following criteria is met:
 - Assets are administered through a trust agreement or equivalent arrangement.
 - Assets are not to be provided to individuals who are required to be a resident or recipients of government's goods and services
 - Assets are to be provided to organizations or other governments that are neither part of the financial reporting entity nor recipients of the government's goods or services
 - The assets result from a pass-through grant for which the government does not have administrative or direct financial involvement in the program

13

Fiduciary Activities

- **Fiduciary Activities:**

- Report the activity as a fiduciary activity if:
 - The government controls the assets, and
 - One or more of the following criteria is met:
 - The activity is a pension benefit arrangement with the scope of GASB 67
 - The activity is a OPEB plan with the scope of GASB 74
 - The government is required to apply the provisions of paragraph 116 of GASB 73 (Pension not administered through a Trust but meet the definition of an equivalent arrangement).
- What about 457 Plans?? (GASB 32)
 - Plans as of August, 1996?

14

457 Plans

The Administrator is responsible for the day-to-day administration and operation of the Plan. For example, the Administrator maintains the Plan records, including your account information, provides you with the forms you need to complete for Plan participation, and directs the payment of your account at the appropriate time. The Administrator will also allow you to review the formal Plan document and certain other materials related to the Plan. If you have any questions about the Plan or your participation, you should contact the Administrator. The Administrator may designate other parties to perform some duties of the Administrator.

The Administrator has the complete power, in its sole discretion, to determine all questions arising in connection with the administration, interpretation, and application of the Plan (and any related documents and underlying policies). Any such determination by the Administrator is conclusive and binding upon all persons.

The name, address and business telephone number of the Plan's Administrator are:

Typical Government
Typical Address
Typical Zip Code

Plan Trustee Information and Plan Funding Medium

457 Plans

Plan Trustee Information and Plan Funding Medium

All money that is contributed to the Plan is held in a trust fund. The Trustee is responsible for the safekeeping of the trust fund and must hold and invest Plan assets in a prudent manner and in the best interest of you and your beneficiaries. The trust fund established by the Plan's Trustee(s) will be the funding medium used for the accumulation of assets from which benefits will be distributed. While all the Plan assets are held in a trust fund, the Administrator separately accounts for each Participant's interest in the Plan.

The Plan's Trustee is:

Typical Trust Company
Typical Address
Typical Zip Code

457 Plans

**APPLICATION FOR
GROUP ANNUITY CONTRACT**

Application is hereby made for a Group Annuity Contract to be issued on the basis of each completed Enrollment Form submitted by the Applicant.

1. Applicant (give exact legal name): Municipal Water District

Address: _____
(STREET) (CITY) (STATE) (ZIP CODE)

2. Employer:
 Address: _____
(STREET) (CITY) (STATE) (ZIP CODE)

3. Name of Employer's business: Political Subdivision, St. of Tn. - Water Utility

4. Section of Internal Revenue Code under which the Purchase Payments made are to qualify (Check one only):
 Section 404 (a): Corporation IRA Policy
 Section 403 (b): 501-(c)(3) organization Public school system
 Section 457 Section 401(a) Not applicable
 Other _____

5. Should notices be sent to the Employer? Yes
 If not, to whom? _____

6. Except as requested otherwise under Item 7, normal retirement age, amount of purchase payments, and effective date will be as indicated on each Enrollment Form submitted by the Applicant. The type of annuity will be elected by each Participant.

7. Special Requests: Deferred Compensation Plan: The Group Contract holder
will exercise all ownership rights under the group contract.

It is understood that this application is for a Group Annuity Contract providing fixed and variable benefits in which each employee (participant) will at all times have a 100% vested interest in his or her individual account unless specified otherwise in Special Requests above.

ANNUITY PAYMENTS (AND TERMINATION VALUES, IF ANY) PROVIDED BY THE CONTRACT ARE VARIABLE WHEN BASED ON THE INVESTMENT EXPERIENCE OF THE COMPANY'S SEPARATE ACCOUNT FOR VARIABLE CONTRACTS, AND ARE NOT GUARANTEED AS TO FIXED DOLLAR AMOUNT.

Dated at _____ on the 1st day of JANUARY, 19 96

(Signature) (Title) (Address) (City) (State) (Zip Code)

(Signature) (Title) (Address) (City) (State) (Zip Code)

571-94-07-1

Fiduciary Activities

• Fiduciary Activities:

- Continue to use Fiduciary Funds (4 types).
- Pension and Other Employee Benefit Trusts, Investment Trust, Private-Purpose Trusts
- Pension/Other Employee Benefit Trust Funds would require a Trust Agreement or Equivalent Arrangement:
 - Assets are dedicated to providing benefits to plan members in accordance with benefit terms
 - Assets are legally protected from Creditors of the Government
 - Contributions are irrevocable (not including refunds)
 - Government itself is not a beneficiary

Fiduciary Activities

- **Fiduciary Activities:**

- Investment Trust and Private Purpose Trust Funds would require a Trust Agreement or Equivalent Arrangement:

- Assets are dedicated to providing benefits to plan members in accordance with benefit terms
- Assets are legally protected from Creditors of the Government
- Government itself is not a beneficiary

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Fiduciary Activities

- **Fiduciary Activities:**

- A new fund would be established – “Custodial Fund”
– Formerly Agency Fund

- Used to report any fiduciary activity not administered through a trust agreement or equivalent arrangement

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Fiduciary Activities

• Fiduciary Activities:

- Two Required Financial Statements
 - The Statement of Fiduciary Net Position
 - The Statement of Changes in Fiduciary Net Position would report additions and deductions in more detail (i.e. by source, investment income, investment costs, and deductions by type including administrative costs.)

21

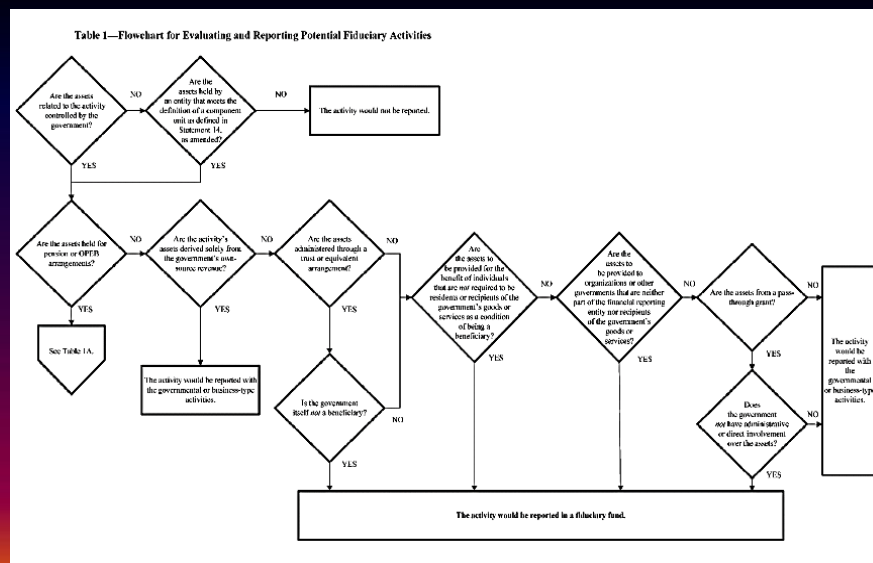
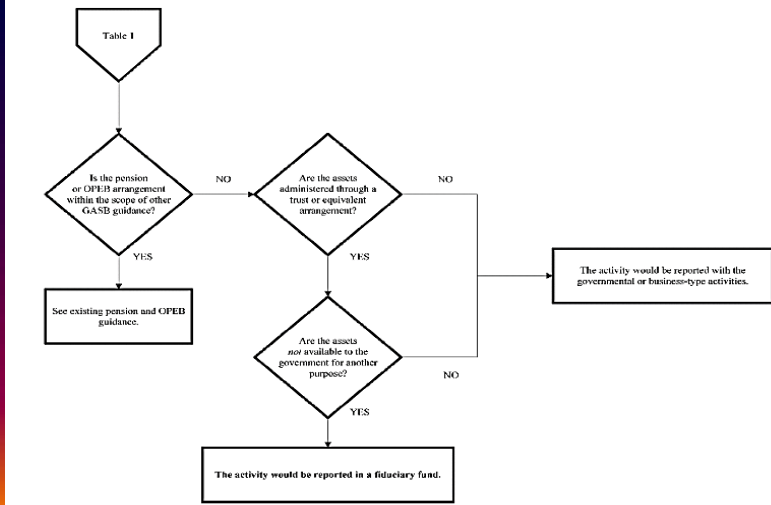


Table 1A—Flowchart for Evaluating and Reporting Potential Fiduciary Activities (Pension or OPEB Arrangements)



Fiduciary Activities

- **Fiduciary Activities:**
 - **Two Statements:**
 - **Statement of Fiduciary Net Position.**
 - Report liabilities when an event has occurred that compels the government to disburse fiduciary resources
 - Section 529 College Savings Plan
 - County Sales Tax Collections for Cities
 - **The Statement of Changes in Fiduciary Net Position would report additions and deductions in more detail (i.e. by source, investment income, investment costs, and deductions by type including administrative costs.)**

Sample State Government Statement of Changes in Fiduciary Net Position Fiduciary Funds for the Year Ended June 30, 20X2 (in Thousands)				
	Pension Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS				
Contributions:				
Members	\$ 297,948	\$ —	\$ —	\$ —
Employers	1,259,384	—	—	—
Other plans	148,792	—	—	—
Gifts and bequests	—	—	197,268	—
Total contributions	1,706,022	—	197,268	—
Investment income:				
Net increase in fair value of investments	1,852,408	64,683	33,702	—
Interest, dividends, and other	1,416,448	58,465	30,378	—
Securities lending income	76,075	—	—	—
Total investment income	3,344,931	123,128	64,080	—
Less investment expense:				
Investment advisory expense	32,281	60,236	63	—
Securities lending expense	73,642	—	—	—
Net investment income	3,239,008	72,892	64,017	—
Capital share and individual account transactions:				
Shares sold	—	2,817,210	—	—
Reinvested distributions	—	72,892	—	—
Shares redeemed	—	(2,778,543)	—	—
Net capital share and individual account transactions	—	113,259	—	—
Sales tax collections for other governments	—	—	—	1,811,120
Surety deposits received	—	—	—	167,868
Miscellaneous	1,130	—	—	—
Total additions	4,946,160	166,151	261,276	1,999,058
DEDUCTIONS				
Benefits paid to participants or beneficiaries	1,963,047	—	—	—
Medical, dental, and life insurance for retirees	636,927	—	—	—
Refunds and transfers to other systems	170,514	—	—	—
Administrative expense	19,920	—	43	293
Beneficiary payments to individuals	—	—	211,179	—
Release of surety deposits	—	—	—	159,439
Payments of sales tax to other governments	—	—	—	1,811,120
Distributions to shareholders	—	72,892	—	—
Total deductions	2,869,608	72,892	211,222	2,000,849
Change in net position held in trust for:				
Employees' pension benefits	2,280,555	—	—	—
Employees' postemployment healthcare benefits	(23,903)	—	—	—
Individuals, organizations, and other governments	—	113,259	60,083	(1,761)
Net position—beginning	40,454,493	1,962,687	639,671	101,603
Net position—ending	\$ 42,711,145	\$ 2,075,946	\$ 808,024	\$ 89,542

Fiduciary Activities

- **Fiduciary Activities:**

- Fiduciary Fund Financial Statements of a Primary Government should include Fiduciary Component Units.
- Stand-alone business-type activities also engaged in fiduciary activities should present fiduciary fund financial statements within its basic financial statements.

Financial Reporting Model

Financial Reporting Model

- **Financial Reporting Model Reexamination:**

- Research approved August 2013.
- ITC 4th 2016, PV 2nd 2018, ED 4th 2019, Final 2nd 2021
- Reexamine Statements 34, 35, 37, 41, 46 and Interpretation 6.
- Rank #1 Priority for Research by Governmental Accounting Standards Advisory Council (GASAC)
- Objective: Evaluate the current model and issues to improve/enhance the effectiveness of the overall financial reporting model

Financial Reporting Model

- **Financial Reporting Model Reexamination:**

- State and Local Reporting Model (34 & 35)
- Lingering tweaks to (34, 35, & 37)
- Budgetary Comparison Schedule (41)
- Net position restricted by enabling legislation (46)
- How to understand modified accrual accounting (Interpretation 6)

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Financial Reporting Model

- **Financial Reporting Model Reexamination:**

- MD&A
- Government-wide F/S Format
- Major Funds – Debt Service Funds
- Governmental Fund F/S Measurement Focus (Near-Term Focus?)
- BTA Financial Statement Format
- Fiduciary Fund Financial Statements
- Budgetary Comparisons
- Reduce Complexity and Permit more timely F/S

30

Financial Reporting Model

- **Financial Reporting Model Reexamination:**

- **MD&A**

- Explore options for enhancing the financial statement analysis component, consider the elimination of requirements that are boiler plate and no longer necessary for understanding the financial reporting model, and clarify guidance for presenting currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

31

Financial Reporting Model

- **Financial Reporting Model Reexamination:**

- **Government-wide F/S Format**

- Explore alternatives for the format of the statement of activities and consider whether a government-wide statement of cash flows should be required, and if so, how those cash flows should be presented.

32

Financial Reporting Model

- **Financial Reporting Model Reexamination:**
 - **Major Funds – Debt Service Funds**
 - Explore options for providing additional information about debt service funds, either individual or in aggregate.

33

Financial Reporting Model

- **Financial Reporting Model Reexamination:**
 - **Governmental Fund F/S Measurement Focus (Near-Term Focus?)**
 - Explore a conceptually consistent measurement focus and basis of accounting.
 - Develop a presentation format for governmental fund financial statements consistent with the measurement focus and basis of accounting.
 - In conjunction with this project, the conceptual framework project on recognition of elements of financial statements would be recommended.

34

Financial Reporting Model

- **Financial Reporting Model Reexamination:**

- **BTA Financial Statement Format**

- Evaluate operating indicator alternatives in conjunction with evaluating the guidance for the separate presentation of operating and nonoperating revenues and expenses.

35

Financial Reporting Model

- **Financial Reporting Model Reexamination:**

- **Fiduciary Fund Financial Statements**

- Explore where the Fiduciary Fund Financial Statements should be presented in the basic financial statements.
- Should they roll forward to Government-wide Level?

36

Financial Reporting Model

- **Financial Reporting Model Reexamination:**
 - **Budgetary Comparisons**
 - Explore the appropriate method of communication (either as basic financial statements or RSI) for the budgetary comparison information and consider whether and, if so, which budget variances should be required to be presented.

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Financial Reporting Model

- **Financial Reporting Model Reexamination:**
 - **Other**
 - Reduce Complexity and Permit more timely F/S
 - Extraordinary and Special Items – Clarify Guidance for more consistent presentation.

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Financial Reporting Model

- **Tentative Board Decisions:**

- Near-term financial resources approach, working capital approach with past-due compensation liabilities, and a total financial resources approach?
- Resources flow statement – use current approach or use a short-term (current activities) separated from long-term activities?
- Government-wide statement of activities – Use current approach or a traditional approach (revenue first). Also explore methods of communicating information about the natural classification of functional expenses.

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Financial Reporting Model

- **Tentative Board Decisions:**

- A governmental funds statement of cash flows that could be presented as part of a working capital approach or total financial resources approach?

40

Financial Reporting Model

- **Question:**

- How many accountants does it take to change a light bulb?

41

Leases

Leases

- **Leases:**

- PV issued November 2014
- Exposure Draft Issued January 25, 2016
- Comment Period ends May 31, 2016
- Final Standard Expected 4th Q 2016

- Converge with FASB and International Standards
- FASB still has a dual approach
- GASB and International Standards are using a single approach

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Leases

- **Leases:**

- Foundational Principle – All leases are financings of the right to use an underlying asset
- Definition of a lease – A contract that conveys the right to use a nonfinancial asset for a period of time in an exchange or exchange-like transaction
- If ownership transfers, then a sale not a lease

44

Leases

- **Leases:**

- The definitions are intended to include “Operating” leases. (Remember the Gauthier Example of a Mortgage, now leases are similar)
- “Capitalized” Leases (current guidance) will not be accounted for under leases guidance but would be considered a purchase that was financed.
- Operating leases would be recorded as a liability and an “intangible” asset except for Short-term leases.
- In governmental funds, also record an other financing source and capital outlay expenditure.

45

Leases

- **Leases:**

- **Short-term Lease**
 - A lease that at its beginning has a maximum possible term under the contract of 12 months or less
 - 12 months includes options to extend
- Record the short-term lease transaction like an operating lease under old standard
 - Debit Expenses/Expenditures
 - Credit Cash

46

Leases

- **Leases:**

- Recognize a lease liability at the beginning of a lease (unless short term)
- Use the present value of certain payments to be made over the lease term
- Recognize an intangible asset for the right to use the capital asset
 - Value of lease liability plus payments to lessor at or before the lease begins
 - Initial direct cost necessary to place the asset into service
- Also recognize Interest expense/expenditure on the lease liability
- Recognize amortization expense for the asset

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Leases

- **Leases:**

- **Lease Term:**

- Period during which a lessee has a noncancellable right to use an underlying asset (the noncancellable period) plus (if applicable) the lessee's optional extension of the lease when exercise of that option is reasonably certain.

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Leases

- **Leases:**

- **Exclude certain transactions:**

- Contracts that transfer ownership of the underlying asset
 - This would be considered a sale
- Leases of intangible assets
- Contracts for exploration/exploitation of non-regenerative natural resources
- Leases of biological assets, including timber
- Contracts that meet the definition of a service concession arrangement (GASB 60)

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Leases

- **Leases:**

- **Summary of Key Changes**

- No distinction between a Capital Lease and Operating Lease
- Distinguish between long-term and short-term leases
- Use lease accounting only if ownership does not transfer otherwise present as Financial Sale/Purchase of an Asset
- Leases report intangible asset for right to use underlying asset, not the underlying asset itself
- Lessors continue to report the underlying capital asset and a lease receivable

- **Several new Disclosures**

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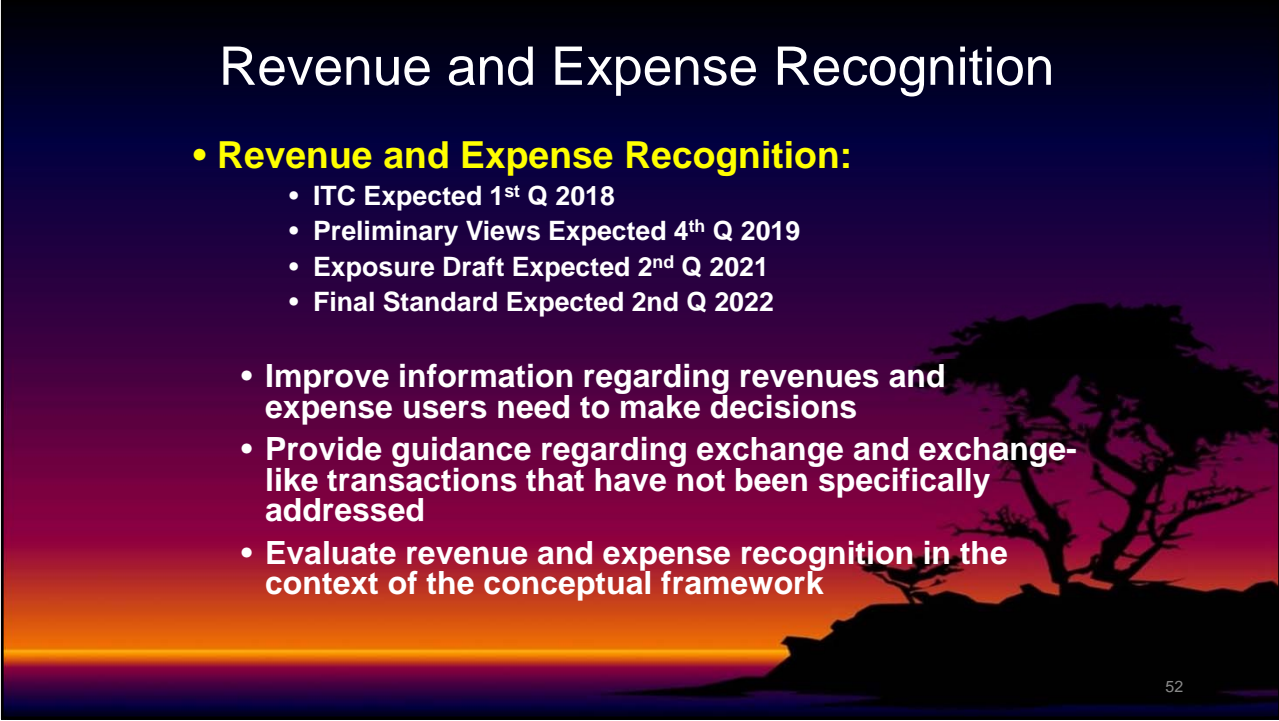
Revenue and Expense Recognition



Revenue and Expense Recognition

- **Revenue and Expense Recognition:**

- ITC Expected 1st Q 2018
- Preliminary Views Expected 4th Q 2019
- Exposure Draft Expected 2nd Q 2021
- Final Standard Expected 2nd Q 2022

- Improve information regarding revenues and expense users need to make decisions
 - Provide guidance regarding exchange and exchange-like transactions that have not been specifically addressed
 - Evaluate revenue and expense recognition in the context of the conceptual framework
- 

Revenue and Expense Recognition

- **Revenue and Expense Recognition:**

- Should we recognize exchange transactions when the sale occurs or when (or as) the obligation is fulfilled.
- New FASB guidance introduces a performance obligation approach for revenue. Is this useful for Governments? Should it be applied to revenue and expenses?
- GASB 33 was issued prior to Concept Statement 4. Should the concept statement be applied to revenues?

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Revenue and Expense Recognition

- **Revenue and Expense Recognition:**

- GASB provides guidance for certain exchange transactions such as compensated absences and postemployment benefits. Guidance does not exist for other types of common exchange expenses, including salaries and circumstances when government is the customer. Should guidance be developed?
- Should additional disclosures be made for revenue transactions?
- Should additional disclosures be made for expense transactions that are not described in current GASB literature?

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Questions?

Gerry Boaz, CPA, CGFM, CGMA

Jerry E. Durham, CPA, CGFM, CFE

2016 ASB Update

North Carolina Office of the State Controller

May 17, 2016

Gerry Boaz, CPA, CGFM, CGMA

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Session Objectives

- Recently issued standards and guidance
- ASB active agenda

Slide 2

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Recently Issued Standards

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SSAE #18, Attestation Standards: Clarification and Recodification

- Issued April 2016
- Effective for practitioners' reports dated on or after May 1, 2017
- Clarified, converged and restructured
- Will be codified in AT-C sections

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SSAE #18, Attestation Standards: Clarification and Recodification - Convergence

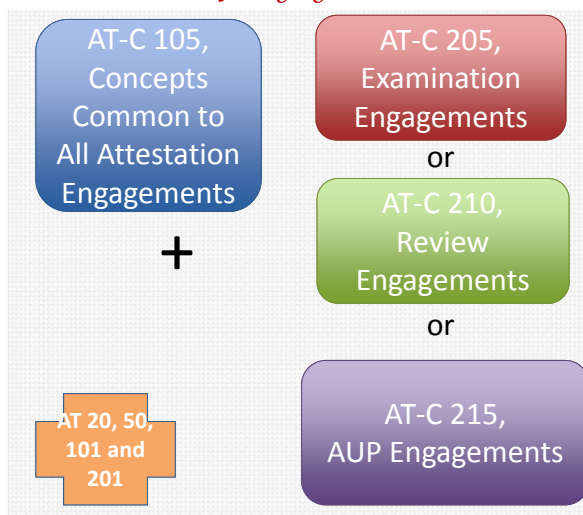
■ Consideration of standards of the IAASB

- *International Standards on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information"* (
- ISAE 3410, *Assurance Engagements on Greenhouse Gas Emissions*
- ISAE 3402, *Assurance Reports on Controls at a Service Organization*
- ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

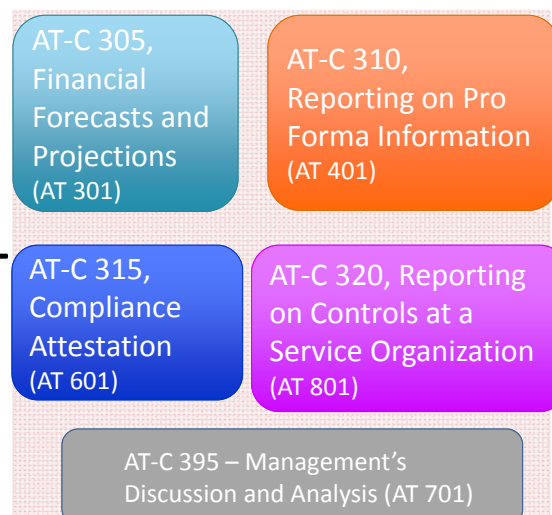


SSAE #18 – Recodification and Structure

Every engagement



When applicable



SSAE #18: Key Changes

- **Requires a written assertion from responsible party.**
 - If the responsible party is not the engaging party, the written assertion is not required but report is required to be restricted and include a statement that that the responsible party did not provide an assertion.
- **Required representation letter.**
- **Risk assessment for examination engagements.**
- **More detailed requirements, such as to obtain an engagement letter.**
- **Moves guidance for reporting on internal control in an integrated audit (AT 501) to SASs.**
- **Retains guidance for MDA examinations (AT701) “as is”.**

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SAS No. 130: Audit of ICFR Integrated with Audit of Financial Statements

- **Moved from attestation standards (AT 501) to auditing standards.**
- **Applies when auditor is required to examine and report on effectiveness of internal control over financial reporting.**
- **Effective for integrated audits for periods ending on or after December 15, 2016.**

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Key Provisions of SAS No.130

- Removes option to examine and report on management's assertion about the effectiveness of internal control; required to examine and report directly on the effectiveness of ICFR.
- Highlights that COSO's *Internal Control – Integrated Framework* and the GAO's *Standards for Internal Control* in the Federal Government, provide suitable and available criteria.
- Clarifies that the risk factors considered in audit of ICFR are the same as those in the financial statement audit.
- Allows the auditor to use the work of internal audit

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SAS No. 131 - *Amendment to SAS No. 122* **Section 700, Forming an Opinion and Reporting on Financial Statement Audits**

- Issued January 2016; effective for audits for periods ending on or after June 15, 2016
- Clarifies that unless an audit is within the jurisdiction of the PCAOB, the auditor is required to conduct the audit in accordance with GAAS
- When the audit is not within the jurisdiction of the PCAOB, use the form of the report required by PCAOB standards with reference to GAAS
 - “We conducted our audits in accordance with the [auditing] standards of the Public Company Accounting Oversight Board and in accordance with auditing standards generally accepted in the United States of America”

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Auditor Reporting, Including Going Concern

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Auditor Reporting

■ GOAL:

- Enhancing the communicative value and relevance of the auditor's report

■ IAASB Auditor Reporting Project

- New section:
 - ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
- Amendments to other auditor reporting sections:
 - ISA 700
 - ISA 705
 - ISA 706
 - ISA 260
 - ISA 570

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IAASB Auditor Reporting Standards

- **Opinion section mandated first**
- **New sections:**
 - **Key Audit Matters**
 - **Applicable to audits of listed entities**
 - **“What keeps the auditor up at night”**
 - **Going Concern**
 - **Other Information**
 - **When presented with the audited financial statements**
 - **Separate project to revise ISA 720**
- **Other proposed improvements to enhance transparency and clarify responsibilities**

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Illustrative Report

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, *(or give a true and fair view of)* the financial position of the Company as at December 31, 20X1, and *(of)* its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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Illustrative Report

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Illustrative Report

Key Audit Matters [Not Required for a Non-Listed Company – May be Included at the Auditor's Discretion]

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA 701.]

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Illustrative Report

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Illustrative Report

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial is located at [Organization's] website at: [website link]. This description forms part of our auditor's report.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

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Additional Information

- Additional information is available on the IFAC website at:

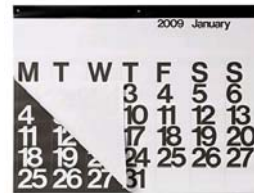
<https://www.ifac.org/auditing-assurance/new-auditors-report#node-32410>

Auditor Reporting - DOL

- Revisions to auditor's report on EBPs to help auditors better understand their responsibilities and to provide users with more information about what auditors do, especially in the case of the limited scope audit
- Reporting on compliance with certain provisions of laws, regulations, plan documents, and other agreements
- Required procedures for reporting on compliance

Going Concern – Differences between GAAP and GAAS

- Period of time related to the going concern assessment
 - GAAS – “reasonable period of time”: not to exceed one year from date of financial statements.
 - GAAP – one year from date of issuance of financial statements



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Going Concern Interpretations

- Use applicable financial reporting framework - if GAAP, then FASB or GASB
 - Definition of *substantial doubt*
 - Definition of *reasonable period of time*
 - Interim financial statements
 - Disclosures & management’s plan
- ASB looking to amend AU-C 570

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ENHANCING AUDIT QUALITY

A FOCUS ON PROFESSIONAL SKEPTICISM,
QUALITY CONTROL AND GROUP AUDITS

#AICPAnaats

KEY PUBLIC INTEREST ISSUES TO ADDRESS

- **Auditing standards need to better address increasing complexity and new technologies in the business and audit environment, and deliver against the public's heightening expectations of audit quality**
- **The profile of tomorrow's auditor is to continue to be a critical challenger, supported by a regime focused on public interest and quality management, and well observable for stakeholders**



PROFESSIONAL SKEPTICISM: KEY QUESTIONS BEING CONSIDERED

- What is professional skepticism?
- What are the skills/competencies required to exercise PS?
- What are the impediments affecting the consistent application of PS?
- How can the concept of PS be emphasized in the context of the projects on quality control, group audits, and accounting estimates (ISA 540)?
- What other actions may be necessary? Framework? Guidance? Training?

How Professional Skepticism Drives Action



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QUALITY CONTROL–QUALITY MANAGEMENT APPROACH

- Exploring a more proactive, scalable and robust response to managing quality:
 - More easily adaptable to rapidly changing business environment
 - Focus on monitoring and remediation – investigating root causes of identified deficiencies, reassessment of quality risks and implementing remedial actions
 - Emphasis on importance of firm governance, including leadership responsibilities for quality
 - Tone at the top – where is more emphasis needed?



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QUALITY CONTROL (cont.)

- **Emphasis on importance of the role and responsibilities of the engagement partner**
- **Exploring transparency reporting trends, including feasibility of international requirements**
- **The impact on audit quality of evolving audit delivery models**
- **Involving other auditors that are not component auditors – is more guidance needed?**
- **Firms that operate as networks – are more requirements and guidance needed?**
- **Monitoring and remediation (including “root-cause” analysis)**
- **Engagement quality control reviews – reinforce importance and elevate prominence**

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GROUP AUDITS – NEED FOR A FRESH LOOK?

- **How to drive a “top-down” approach as groups become more complex and structures continue to evolve**
- **Focus on roles and responsibilities of the group engagement partner and group engagement team, including sufficient and appropriate involvement in component auditor’s work**
- **Acceptance of a group audit (including access issues)**
- **Component materiality**
- **Work on components that are not significant**
- **Consolidation procedures**
- **Emphasis on importance of strong two-way communication between group engagement team and component auditors**
- **Requirements and guidance for component auditors?**

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Next Steps

- **Comment period closes: May 16, 2016**
- **May–Dec 2016: Analysis of comments; IAASB discussions**
- **Dec 2016 IAASB meeting: Presentation of project proposals for Quality Control and Group Audits; discussion about way forward on Professional Skepticism**
- **2017 onwards: Standard-setting activities –**
 - IAASB developing exposure drafts of changes to the ISAs and ISQC 1 for Quality Control and Group Audits
 - ASB developing exposure drafts of changes to GAAS and SQCS 8 for Quality Control and Group Audits

Other Current and Upcoming Projects

Current and Upcoming Projects

■ Non-Registered Securities Filings

- Municipal and other exempt securities; Exposure Draft by Summer 2016

■ Sustainability Reporting

■ Direct Engagements

- New Attestation section that would not require an assertion from the responsible party.

■ Specified Procedures Engagements

■ Generic Internal Control Attestation Standard

Related Assurance Services

■ Data Analytics

- New auditing guide to replace Analytical Procedures Guide
- Address use of data analytics and other analytical procedures

■ Cyber Security

- What's the effect on the audit of historical financial statements?
- What types of attestation engagements could be performed?

Helpful Information and Resources

- Authoritative standards for non-issuers (SASs, SSARs, SSAEs, SQCSs) as of June 1 are available at

<http://www.aicpa.org/RESEARCH/STANDARDS/Pages/default.aspx>

- AICPA Accounting and Auditing Technical Hotline

(877) 242-7212 - techinquiry@aicpa.org

<http://www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx>

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Questions

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