

**Case 17-4**  
**Big City**

Big City (the City) is a municipality that prepares financial statements in accordance with guidance promulgated by the Governmental Accounting Standards Board (GASB). The City is implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statement 68), during fiscal year 20X5. This standard requires the City to retrospectively apply the standard to the earliest year presented in the financial statements. The City's financial statements present a single year, and therefore the City will restate the opening net position balance for fiscal year 20X5 (restate January 1, 20X5, opening net position balance) solely to apply the provisions of GASB Statement 68.

Before its implementation of GASB Statement 68, the City followed the pension accounting guidance in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* (GASB Statement 27). Under this guidance, the City would report a net pension obligation, which is a different pension measurement than the net pension liability accounting required by GASB Statement 68. In retrospectively applying the guidance in GASB Statement 68, the City will establish a net pension liability as defined by that standard, the effect of which is material to the financial statements as of January 1, 20X5.

When disclosing the net pension obligation and the pension actuarial accrued liability as of December 31, 20X4, under GASB Statement 27, the City used an actuarial valuation as of December 31, 20X4. The City used the results of the actuarial valuation in the City's 20X4 audited financial statements that it issued on June 15, 20X5. The actuarial valuation incorporated the effects of State Senate Bill XYZ (Senate Bill XYZ) that was signed into law by the governor of the State on May 3, 20X4.

Senate Bill XYZ's amendments to the State's Laborers' Pension Code changed the contribution amounts the City was required to make to the City's pension fund, which resulted in an adjustment of payout amounts to retirees. The overall financial effect of the law was a reduction of approximately \$10 billion in the City's pension liability, as shown in the actuarial valuation for the pension funds as of December 31, 20X4.

On December 9, 20X4, a lawsuit was filed challenging the constitutionality of Senate Bill XYZ. The City was aware of the lawsuit when it was preparing the 20X4 financial statements. On July 12, 20X5, the court system ruled that Senate Bill XYZ was unconstitutional, and the law was repealed at that time. Although the City appealed the 20X5 ruling and change in law, the state supreme court confirmed the lower court ruling on March 14, 20X6.

The City and its legal counsel determined that the law was in full effect on the statement of net position date (December 31, 20X4). It was not uncommon for a bill such as State Bill XYZ to be challenged in the courts, but the City did not have evidence that suggested

it was probable that State Bill XYZ would be repealed before the court ruling on July 12, 20X5.

**Required:**

When reporting its net pension liability as of January 1, 20X5, and retrospectively applying the provisions of GASB Statement 68, should the City apply the laws in effect as of January 1, 20X5, and not take into account the July 12, 20X5, court ruling on Senate Bill XYZ?