

GASB Update



North Carolina Office of the State Controller
June 2017



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Agenda

- What Do We Need to Think About for June 30, 2017
 - GASB-82 – Pension Issues - Are you Ready?
 - GASB-74 – OPEB Plans
 - GASB-77 – Tax Abatement Disclosures
 - GASB-80 – Blending Requirements for **Certain** Component Units
 - IGU – 2016 – 1
- June 30, 2018 Issues
 - GASB-75 – OPEB
 - **Breaking News - Omnibus 2017 (GASB-85)**
 - GASB-81 – Irrevocable Split-Interest Agreements
 - **Breaking News - Certain Debt Extinguishments (GASB-86)**
 - IGU-2017-1
- June 30, 2019 and beyond
 - Asset Retirement Obligations (GASB-83)
 - Fiduciary Activities (GASB-84)
 - **Breaking News - Leases (GASB-87)**

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Agenda (Continued)

- Proposed GAAP:
 - **Financial Reporting Model**
 - Revenue & Expense Recognition Project
 - Note Disclosure Reexamination Research?
 - Debt disclosures and direct borrowing (private placement issues)
 - Capitalized Interest
 - Equity Method Interests
 - Going Concern Disclosures
 - Conduit Debt
 - Social Impact Bonds

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Implementation Dates – GASB Statements

Effective Date – Periods Beginning After	Statement	First Fiscal Years Affected	
		June 30th	December 31st
December 15, 2015	GASB-77 - Tax Abatement Disclosures	2017	Already Implemented?
December 15, 2015	GASB-78 - Certain Multiple-Employer Defined Benefit Plans (Taft-Hartley)	2017	Already Implemented?
Pensions not within scope of 68 – June 15, 2016	GASB-73 - Pension and Related Assets not within Scope of GASB-68, (Other than Amendments to GASB 67/68)	2017	2017
June 15, 2016	GASB-74 - OPEB Plans	2017	2017
June 15, 2016	GASB-82 – Pension Issues	2017	2017
June 15, 2016	IGU-2016-1	2017	2017

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Implementation Dates – Other GASB Statements

Effective Date – Periods Beginning After	Statement	First Fiscal Years Affected	
		June 30th	December 31st
June 15, 2016	GASB-80 – <i>Blending Requirements for Certain Component Units</i>	2017	2017
December 15, 2016	GASB-81 – <i>Irrevocable Split-Interest Agreements</i>	2018	2017
June 15, 2017	GASB-75 - <i>OPEB Employers</i>	2018	2018
June 15, 2018	GASB-83 - <i>Asset Retirement Obligations</i>	2019	2019
December 15, 2018	GASB-84 – <i>Fiduciary Activities</i>	2020	2019
June 15, 2017	GASB-85 - <i>Omnibus 2017</i>	2018	2018

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Implementation Dates – Projects Almost Final

Proposed Effective Date – Periods Beginning After	Exposure Draft	First Fiscal Years Affected	
		June 30th	December 31st
June 15, 2017	<i>Certain Debt Extinguishments (GASB-86)</i>	2018	2018
June 15, 2017	<i>IGU-2017</i>	2018	2018
December 15, 2019	<i>Leases (GASB-87)</i>	2021	2020

TOO EARLY TO TELL

- Debt Disclosures, including direct borrowing
- **Financial Reporting Model** (but rumor is 2020 or 2021 implementation)
- Capitalized Interest
- Equity Method Interests
- Going Concern Disclosures
- Revenue & Expense Recognition
- Note Disclosure Reexamination
- Conduit Debt
- Social Impact Bonds

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»» For those who need a calendar

• June 30th year ends..

2017

- GASB-73 (part)
- GASB-74
- GASB-77
- GASB-78
- GASB-79 (part)
- GASB-80
- GASB-82
- IGU 2016-1

2018

- GASB-75
- GASB-81
- GASB-85
- GASB-86
- IGU-2017-1

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»» For those who need a calendar

• June 30th year ends..

2019 GASB-83

2020 GASB-84

2021+ Leases Financial Reporting Model

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What Do We Need to Think About for June 30, 2017



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GASB-82 – Pension Issues – Are You Ready?

- Further Amends GASB-67, 68 and 73
 - Also supersedes or amends 6 *Implementation Guide* questions
- 3 Issues
 - **Payroll-related measures**
 - Selection of Assumptions – Actuarial Standards of Practice
 - Employer-Paid Member Contributions (aka 'pick-ups' or 'EPMC's')
- Effective Date – **Reporting Periods beginning after June 15, 2016, *prior period restatement required***

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»»» GASB-82 – Pension Issues

- Pension Issues
 - Payroll-related measures
 - RSI that includes covered employee payroll information in single and cost-sharing multiple employer plans would now be **covered payroll**
 - **Covered payroll** is the portion of compensation paid to active employees **on which contributions to a pension plan are based – BE CAREFUL**
 - *Covered employee payroll* (GASB-67 / 68 definition) is payroll of employees that are provided with pensions through the pension plan
 - **Confused?? – You’ll see these again later today...**
 - **RSI schedules may need to be adjusted**

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»»» GASB-82 – Pension Issues – Cheat Sheet for EPMCs

Scenario	Plan Treatment (GASB-67 or 73)	Employer Treatment (GASB-68 or 73)	Other Information
Amount is paid by member / government of a plan to satisfy <u>plan member contributions</u> (no IRC 414(h)(2) election made)	Plan member contributions in the Statement of Changes in Fiduciary Net Position	Including to determine proportionate share in cost-sharing plan (and any internal allocations,) employee contributions	Employer’s expense and expenditures for period that contribution is assessed and classified as salaries and wages (adjusting W-2’s)
Employer makes payments to satisfy employee contributions (pick-ups)	Employer contributions in Statement of Changes in Fiduciary Net Position	Contributions are employer pension expense . If made after measurement period, but before year end, deferred outflow of resources .	Employers must align to provisions of Rev. Rul. 2006-43.

RSI Schedules May Change

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Clarifications related to Pensions in IGU-2016-1

- 11 New Q&As related to 67 / 68 (remember they are authoritative – more later) – most important ones
 - 4.16. Q—Should the information that is required by paragraphs 30a(4) and 30a(5) of Statement 67 about the **number of employees** that are covered by the benefit terms and the benefit terms themselves, respectively, be current as of (a) **the actuarial valuation date** that is used as the basis for the total pension liability **or** (b) the **pension plan's fiscal year-end**?
 - A—The requirements of paragraphs 30a(4) and 30a(5) of Statement 67 are intended to result in the disclosure of information about the benefit terms **at the pension plan's fiscal year-end**.

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Clarifications related to Pensions in IGU-2016-1

- 11 New Q&As related to 67 / 68 (remember they are authoritative – more later) – most important ones
 - 4.18. Q—How should the effects of a **change in the discount rate** on the total pension liability be classified in the schedule of changes in the net pension liability? (*Likely for this current valuation in most plans*)
 - A—A change in the total pension liability arising from a change in the discount rate should be presented as a change of assumption or other input – (*In other words – no restatement just due to this change*).

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Clarifications related to Pensions in IGU-2016-1

- 11 New Q&As related to 67 / 68 (remember they are authoritative – more later) – most important ones
 - 4.23. Q—In 20X5, if an employer reports a **deferred outflow of resources** related to pensions for **contributions made to the pension plan subsequent to the measurement date** and before the end of the reporting period, how should the contributions be accounted for in the subsequent reporting period (20X6)?
 - A—In 20X6, the amount of contributions that was reported as a deferred outflow of resources related to pensions in 20X5 should be accounted for as a reduction of deferred outflows of resources related to pensions and a reduction of the net pension liability.

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OPEB (Part 1) - Plans

OPEB

NO. 74 | JUNE 2013
Governmental Accounting Standards Series

Statement No. 74 of the Governmental Accounting Standards Board

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

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Statement 74
Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

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Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions


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Statement 75
Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

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What is OPEB?

- Other postemployment benefits – all postemployment benefits promised to employees other than pensions
- Principally, retiree health insurance – but also life insurance, disability, legal services, and other benefits
- Includes:
 - Payments made to insurance companies on behalf of retirees,
 - Payments directly to retirees, and
 - Subsidizing retiree premiums by allowing them to be insured in the same group as active employees



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OPEB Reporting—Key Provisions

- Mirrors pension standards
- Measurement may increase size of long-term obligation and annual cost for OPEB
- Recognize the net liability on the face of the financial statements
- Present more extensive note disclosures and supporting schedules



Due to beginning balance restatement – similar effort to GASB-68 in implementation if it applies!!!

Effective Date – Fiscal Years Beginning after	Statement	June 30 th Governments	December 31 st Governments
June 15, 2016	GASB-74, OPEB Plans	2017	2017
June 15, 2017	GASB-75, OPEB Employers	2018	2018

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Other Highlights

- **Identical** in most respects to pension standards in Statements 67 and 68
- Recognize net OPEB liability in accrual-basis financial statements
- Recognize many portions of change in net OPEB liability as OPEB expense immediately; others deferred and recognized as OPEB expense over shorter periods than previously
- Cost-sharing governments and nonemployer contributing entities report proportionate shares of collective net OPEB liability, OPEB expense, and OPEB-related deferrals
- Enhanced notes and RSI – similar to GASB-67 / 68
 - All old GASB-43 Plan schedules / notes removed
- **Caution - most OPEB plans are single employer**

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GASB Implementation Guide 2017-2, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans (GASB-74)*

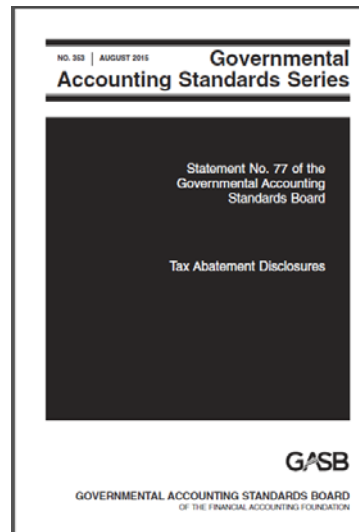
- 160 Q&A's – implementation date is actually periods beginning after June 15, 2017 – **one year later than GASB-74.**
 - **Many OPEB plans may decide to early implement**
- Appendix with 7 Illustrations
 - Determination of Benefit Payments if blended premium rates are stated
 - Determination of the discount rate in circumstances in which benefit payments are made by the employer with its own resources (PAYGO)
 - Calculation of money-weighted rate of return
 - Reconciliation of amounts in the plan statements to money-weighted rate of return
 - RSI schedules
 - Note disclosures and RSI for a cost-sharing multiple-employer OPEB Plan
 - Alternative measurement method calculations

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GASB-77

Tax Abatement Disclosures



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» Objectives of GASB-77

- GASB-77 may provide financial statement users with essential information about tax abatement programs in order to better gauge:
 - Whether current-year revenues were sufficient to pay for current-year services
 - Compliance with finance related legal or contractual requirements
 - Sources and uses of financial resources
 - Financial position and economic condition
- Recognition of accounting events not being considered (e.g.: when abatements occur)

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» Definition and Scope

- GASB-77 applies *only* to transactions meeting this definition:
 - **A tax abatement is a reduction in taxes that results from an agreement between one or more governmental entities and an individual or entity in which**
 - One or more governmental entities promise to forgo tax revenues in which they are otherwise entitled **and**
 - 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
 - Transaction's substance more important than form
 - Scope is very limited – could be mostly related to economic development

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Disclosures Based on Facts & Circumstances

	Government Makes Abatement	Government Required to Abate by Other Government (ex: State – City)
Name of program	Yes	
Purpose of program	Yes	
Name of government		Yes
Tax type abated	Yes	Yes
Authority to abate tax	Yes	
Eligibility criteria	Yes	
Abatement mechanism	Yes	

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Disclosures Based on Facts & Circumstances

	Government Makes Abatement	Government Required to Abate by Other Government (ex: State – City)
Abatement mechanism	Yes	
Recapture provisions	Yes	
Type of <i>recipient</i> commitments (ex: 200 jobs by X day)	Yes	
Dollar amount of taxes abated	Yes	Yes
Amounts received / receivable from other governments	Yes	Yes
Other commitments made by government	Yes	
Quantitative threshold for individual disclosure	Yes	Yes
Information omitted due to legal restrictions	Yes	Yes

For Component Units that Abate – judge whether disclosure is *essential*

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Effective Date & Transition

- The disclosure requirements applied to the current period and all prior periods presented.
- If application for all prior period presented is not practical, the reason for not applying the standards to prior periods presented would be explained.
- Became Effective for periods *beginning* after December 15, 2015

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Blending Requirements for *Certain* (NOT ALL) Component Units

GASB-80

»» Blending Requirements for *Certain* Component Units

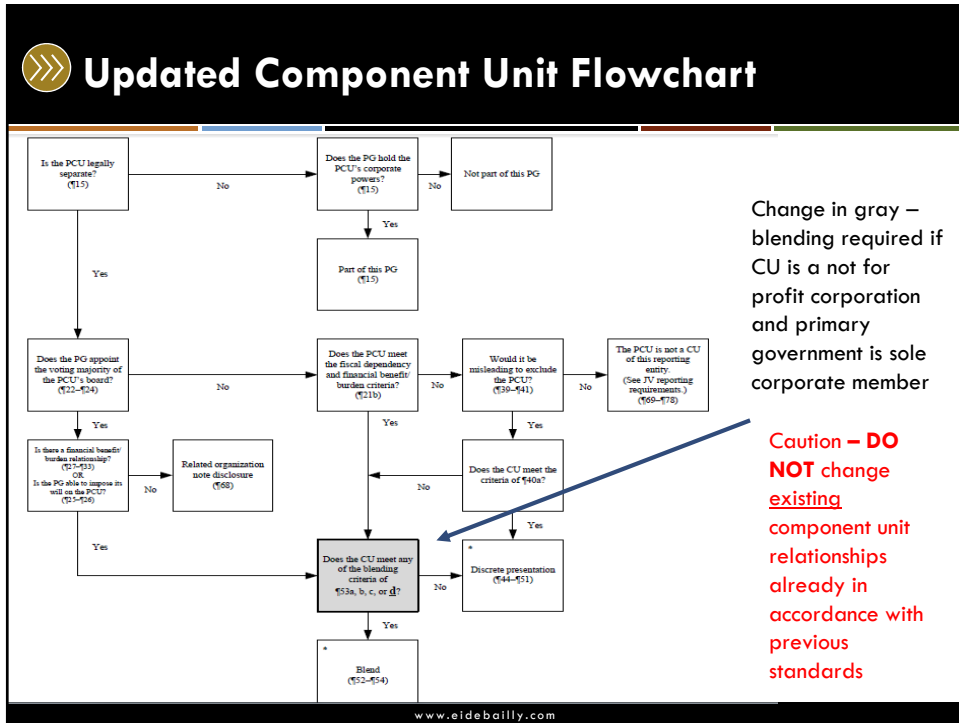
- Could be an issue for Institutions of Higher Education, Hospitals or other BTAs
- Addresses the large diversity in practice in the application of component unit presentation among certain governments primarily engaged in business-type activities.
- Diversity stems from the (lack of) consideration of the corporate structure (LLC, LLP, NFP) of the component unit.
- Component Unit provisions will be amended to require blending for component units incorporated as not-for-profit corporations when primary government is *sole corporate member* of NFP
- Effective date periods beginning after June 15, 2016
 - Requires a restatement (if applies) – change in reporting entity

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»» What is a Sole Corporate Member?

- Membership in a not-for-profit corporation is defined in articles of incorporation or bylaws
- State statutes usually define “member” in each state as it relates to a not-for-profit
- Other structures involving LLC’s / LLP’s are for now, not being included in final standard
 - Consider concepts of control and accountability (*what walks like a duck... quacks like a duck...*)

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A common issue...

- The County General Hospital is the sole corporate member of an LLC that is a legally separate entity that provides rehabilitation services to patients. There is no separate board for the LLC. The public hospital has the approval authority over the LLC's budgets and operations, making the LLC a component unit. Is the LLC required to be blended?
 - **What do you think?**

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Implementation Guide Update – 2016-1

Implementation Guide Update 2016-1

- Part of normal cycle established in GASB-76
- New Q&As – many investment and pension related
 - Relationship of GASB-3, 40 and 72 – 9 questions
 - Component units vs. investments – 4 questions
 - Pensions – 11 questions
 - Investments and External Investment Pools – 28 questions
 - Investments reporting – 11 questions
 - OPEB – 2 questions
 - Derivatives – 2 questions
 - Other (GASB-23, 32, 33, 51, 54, 60, 65, 70, 77)
- Amendments to 2015-1 – 39 questions
- Effective date – periods beginning after June 15, 2016

June 30, 2018 Issues



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Irrevocable Split-Interest Agreements (ISIAs)

GASB-81

Irrevocable Split Interest Agreements (ISIAs)

- Inconsistent reporting of giving arrangements by donors to governments of all types
 - Government may be a trustee, beneficiary or both
- Common types
 - *Charitable lead trusts* – government receives the rights to benefits only during term of agreement
 - *Charitable remainder trusts* – government receives some (or all) benefits remaining at end of agreement
 - *Charitable annuities* – government receives a specific amount or percentage (fixed or variable) throughout agreement (if % of fair value then it's a unitrust)
 - *Life interest in real estate* – very common – government receives right to use asset dependent upon life of donor
 - Upon death, government or beneficiary gets real estate

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What Does This All Mean?

If Government is Intermediary AND Beneficiary



Donors



Government is administrator OR COULD BE 3rd PARTY (bank etc)



Charity and government are beneficiaries

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What Does This All Mean?

Alternative 2 – Charity
Receives Income,
Government gets
remainder after period
of time



Principal
ONLY at a
certain date



Donors

Income
stream
ONLY



Government is
administrator



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What Does This All Mean?

Alternative 3 –
Government Receives
Income, Charity gets
remainder after period
of time



Income
Stream
ONLY



Donors

Principal
ONLY at
a Certain
Date



Government is
administrator



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Scope of GASB-81

- **Irrevocable split-interest agreements** for which the government is the intermediary (trustee or agent) and a beneficiary
 - Donor gives resources to government that also is a beneficiary in the agreement – government could be:
 - **Lead interest:** payments during the life of the agreement, generally to non-governmental beneficiary (donor or donor’s relative)
 - **Remainder interest:** assets remaining at termination of the agreement; generally goes to government
- **Beneficial interests** in resources held and administered by 3rd parties
 - Refers to the right to receive resources in a future reporting period, from resources administered by a 3rd party

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Irrevocable Split Interest Agreements (ISIAs)

	When to Measure	Assets	Liabilities	Deferred Inflows of Resources
If held by Government	Initial Agreement Date	Fair Value	If <i>nongovernmental</i> beneficiary – settlement amount	Remainder if to the government – assets less liability
	Subsequent reporting dates	Investments in accordance with GASB-72 at fair value Changes in fair value in deferred inflow of resources	Distributions to lead interest beneficiary would reduce liability	Net of asset and liability (including fair value change)
Held by 3 rd Parties	Initial Agreement Date	Fair Value		Same as Asset
	Subsequent reporting dates	Same as above	Should be none	Net amount

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Irrevocable Split Interest Agreements (ISIAs)

- Life interest in real estate – most common
 - If capital asset – per GASB-72, asset = acquisition value, NOT fair value
 - If investment – record at fair value per GASB-72
 - Liabilities could be present for obligations assumed (maintenance, repairs, mortgage...)
 - Deferred inflow of resources = value of right to use property
 - Value would be present value of rent payment if the donor was to ever pay rent
 - Second deferred inflow of resources could be present if there is a difference between assets, liabilities and value of right to use property.

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Irrevocable Split Interest Agreements (ISIAs) – Recap on Asset Recognition

- *In general* - assets would be recognized by reporting government if ALL are met:
 1. Government is named as the beneficiary legally
 2. Government has an unconditional interest
 3. Interest is irrevocable
 4. Donor cannot vary the resources
 5. Government is not under the control of the donor
 6. Government may assign interest without approval of the donor, and
 7. If interest is assigned, the government's interest is not terminated / invalidated
- Effective date for periods beginning after 12/15/16

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Certain Debt Extinguishments ED (Defeating debt with cash *not* bonds)

GASB-86

Implementation for Periods *Beginning* after June 15, 2017



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What GASB-86 Entails

- Placement of only existing resources in a trust
 - Would be accounted for as in-substance defeasance as long as all criteria in the existing standards are met
 - Would recognize the difference between the net carrying value of the debt and the reacquisition price as a gain or loss in the period of defeasance
 - Notes to the financial statements:
 - Would describe the transaction in the period it occurs
 - Would disclose the remaining outstanding balance in each period as long as the debt remains outstanding
- Prepaid insurance
 - At the time debt is extinguished, any related prepaid insurance that remains would be included in the net carrying amount of the debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount

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»»» What GASB-86 Entails

- If substitution of the essentially risk-free monetary assets in escrow with monetary assets that are not essentially risk-free is *not* prohibited, a government would disclose in the notes to the financial statements:
 - In the period of the defeasance: the fact that substitution is not prohibited
 - In subsequent periods: the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists
- Effective date - periods beginning after June 15, 2017

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»»» Implementation Guide Update 2017-1

- 41 new questions and answers
 - 1 on cash flow and OPEB
 - 1 on GASB-80
 - 33 on pension plan accounting and financial reporting (GASB-67, 68, 71, 73, 78)
 - 2 on GASB-79
 - 1 on GASB-54 (*still there's questions??*)
 - 3 on GASB-77
- 33 questions amended in existing guide – some amending 2016-1!
- Implementation for periods beginning after June 15, 2017

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Key question on GASB-72 and 79 – 4.36

- How should a local government's investment position in an external investment pool be categorized within the fair value hierarchy for purposes of the note disclosure requirement of paragraph 81a(2) of Statement No. 72, *Fair Value Measurement and Application*?
 - If the pool elects at amortized cost – investments then not measured at fair value –
 - Should not be categorized within the fair value hierarchy.
 - If the pool is at fair value – (either floating value or stable \$1)
 - Should also not be categorized within the fair value hierarchy
 - Do not look through to underlying investments
 - Present below the levels or as cash / cash equivalents

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Let's Take a Break...

OPEB Part II - Employers

NO. 74 | JUNE 2016

Governmental Accounting Standards Series

Statement No. 74 of the Governmental Accounting Standards Board

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

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Statement 74

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

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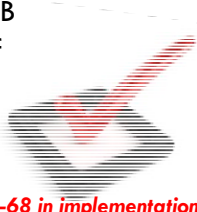
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Statement 75

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

OPEB Reporting—Key Provisions - Reminder

- Mirrors pension standards
- Measurement may increase size of long-term obligation and annual cost for OPEB
- Recognize the net liability on the face of the financial statements
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Due to beginning balance restatement – similar effort to GASB-68 in implementation if it applies!!!

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Understanding the Differences Between Pensions and OPEB – Key Differences

Pensions	OPEB
Salary and time are vital in projection of benefits (longer you work, the more your salary, the more benefit)	Based on healthcare claims – years of service do not impact in many cases
Pension actuaries are common	OPEB actuaries must have experience in both pensions <i>and</i> healthcare claims development or have 2 certifications
Actuarial assumptions are relatively stable	Actuarial assumptions include pension assumptions, plus healthcare cost trend rate, effects of taxation, insurance and Medicare (as well as law) – pension assumptions may not be that significant in OPEB
Benefits are well documented and change infrequently	Much more informal – may change annually based on budget / healthcare trends / laws / bargaining

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Understanding the Differences Between Pensions and OPEB – Key Differences

Pensions	OPEB
Base benefit is defined in advance with potential COLAs (if allowed)	Benefit may be adjusted by administrative policy, collective bargaining, etc.
Usually a separate plan, usually an irrevocable trust	Most often part of the employer, potentially part of HR – irrevocable trust is not common
Annual valuations most often done	Biennial (or triennial) valuations performed
Data sources / internal controls are usually well documented, even if some is at the employer(s) and some at the plan	Data sources / internal controls less documented, especially if a third-party administrator / insurer is involved
Actuarial valuations use entry-age normal method – focusing on projecting the future benefits, discounting payments to present value and attribute amounts to future periods	Same method as pensions, but adds healthcare claims development and effect of laws, insurance etc.

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Understanding the Differences Between Pensions and OPEB – Key Differences in Assumptions

Pensions	OPEB
Long-term investment rate of return is usually key driver in discount rate	Investment rate of return is usually immaterial due to lack of funding and no trust available
Mortality rate is critical in projection of liability	Mortality rate is less critical as plan is usually pay as you go (PAYGO) meaning much of the liability is pre-age 65 / 67 (after that age – Medicare or other insurance?)
Retirement age is where liability is to be ready to be paid	Retirement age is crucial to determine cash flows, but years of service harder to determine
Inflation and COLAs may be present	Healthcare cost trend rate may be a larger driver than investment return
Multiple retirement benefit options may exist for survivors	Plan choice, number of dependents / beneficiaries may significantly change liabilities

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Understanding the Differences Between Pensions and OPEB – Key Differences in Assumptions

Pensions	OPEB
Not a factor	Utilization by Age is key – the older you get, the more healthcare costs
Not a factor	Retirees may have to pay for / share in costs of healthcare (premiums). Higher premiums = lower participation rates. May convert to Medicare or other insurance after age 65 / 67
Not a factor unless GASB in the future revisits decision not to include social security as a liability	Excise tax exists (ACA “Cadillac Tax”)

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 **As a Result...**

- Detailed Plan documentation and ensuring that the plan as documented is the plan as administered is critical
 - HR and Finance (and others) must talk to each other!
- Interfacing the OPEB valuation with the pension valuation is important
 - Certain assumptions should be the same such as mortality, retirement rates, etc.
 - The plan may be the only source of key information such as total years of service

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 **As a Result...**

- Audit procedures that worked well for pensions may be totally ineffective for OPEB
 - Truly understanding the benefits, key assumption drivers, sources of data, and key census data will be critical to designing procedures and gathering audit evidence.
- **What do you think the key reason why the model for allocating pension costs from cost-sharing multiple-employer plans to employers may not work for OPEB multiple-employer plans?**

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»» Big Deals for OPEB Employers

- GASB-75 replaces all provisions of GASB-45 (and 57) as applicable
 - Discount rate will no longer be blended like GASB-45 – for most employers that are not funded, AA bond index rate like GASB-68 (may be a benefit by the way...)
 - OPEB expense will likely be more volatile due to funding levels
 - Slightly different terminology (Normal Cost = Service Cost)
 - Nearly all other aspects similar to GASB-68 as amended
 - Note disclosure and RSI all replaced upon implementation
 - Beginning balance restatement required like GASB-68

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»» Additional Big Deals for OPEB Employers

- Liability may be heavily influenced by
 - Excise taxation (ACA 'Cadillac Tax' – now delayed to 2020?)
 - Medicare 'toggle' (conversion to Medicare upon being eligible)
 - Insured plans (where insurer assumes risk of healthcare liability and employer only risk is for premiums)

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»» Note Disclosure Requirements

- ✓ Basic information (name of plan, PERS, type of plan)
- ✓ Brief description of benefits including census data
- ✓ Availability of standalone report and how to obtain
- ✓ Authority to establish / change contributions and contribution rates
- ✓ Contributions to the plan
- ✓ Significant assumptions and other inputs to measure OPEB liability (include healthcare cost trends, COLAs, mortality, etc.)
- ✓ Experience study dates
- ✓ Sensitivity analyses
- ✓ Discount rate disclosures
- ✓ Schedule of changes in Net OPEB liability

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»» Note Disclosure Requirements

- ✓ Measurement date information
- ✓ Deferred inflows / outflows of resources amortizations
- ✓ OPEB expense
- ✓ RSI Schedules – 10 years (instead of schedule of funding progress and three valuations)
- ✓ Schedule of changes in NOL
- ✓ Contributions schedules
- ✓ Notes on trends changes that are result of elements under management's control

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Tools You Can Use

- **Documentation for today includes 17+ pages of 'rolling' FAQs that our firm receives on OPEB**
 - Includes questions related to GASB-74, 75 and 85 (see next section)
 - Questions related to
 - Implementation Dates and Transition
 - Differences between OPEB and Pensions
 - Reporting by Plans and Employers and RSI
 - Subsidy provisions
 - Early Retirement Incentive Programs, Sick Leave and Termination conversions, Disability, Workers' Compensation
 - Types of Plans
 - Set of Notes and RSI for this year only (includes GASB-45 disclosure) (Not to be used upon GASB-75 implementation)

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Omnibus 2017

GASB-85

Effective Date – Periods Beginning After June 15, 2017



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OPEB Topics Addressed

- Pensions and other postemployment benefits (OPEB)
 - Timing of the measurement of pension and OPEB liabilities and related expenditures in financial statements prepared using the current financial resources measurement focus
 - Recognition of on-behalf payments for pensions or OPEB in employer financial statements
 - Presentation of payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB

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OPEB Topics Addressed

- OPEB
 - Requirements for employer-paid member contributions for OPEB
 - Simplifications related to the alternative measurement method
 - Applicability of Statement 75 for employers whose employees are provided with OPEB through multiple-employer defined benefit OPEB plans that have characteristics similar to those identified in Statement 78 (aka 'Taft-Hartley' or VEBA's)

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Key Points of Focus – For OPEB Changes

- Payroll Measures for Defined Benefit OPEB plans – Similar to GASB-82
 - Covered payroll is the payroll on which contributions to the OPEB plan are based
 - Single and Cost-Sharing Multiple-Employer **Plans**- measure of payroll used in RSI should be **covered payroll unless contributions to plan ARE NOT based on a measure of pay**
 - If not based on measure of pay, **do not present ratio** (could be common)
- Payroll Measures for Defined Benefit OPEB Employers administered through Trusts
 - Use covered payroll if based on a measure of pay
 - Use covered-employee payroll if NOT based on measure of pay
- EPMC's – same as GASB-82 – but could be more prevalent

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Other Topics Addressed in GASB-85

- Component unit presentation
 - Requirements for blending component units for single-column business-type activities
- Government combinations
 - Amounts reported as goodwill and “negative” goodwill
- Fair value measurement and application
 - How to classify real estate held for both operations and investment purposes by insurance entities
 - Measuring certain money market investments and participating interest-earning investment contracts at amortized cost

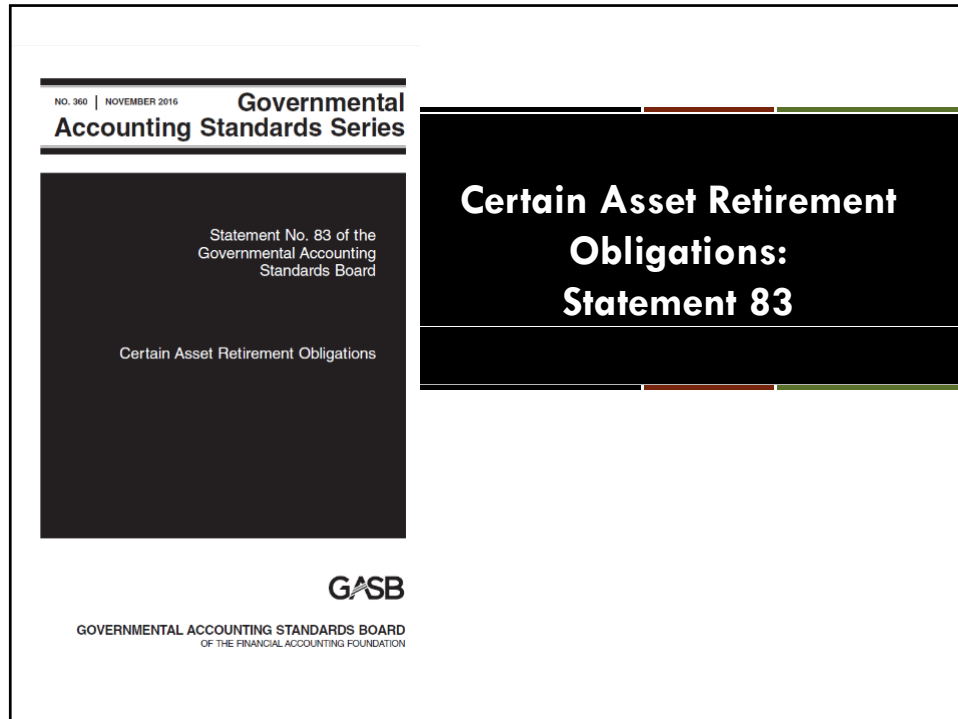
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Adjustments to GASB-72 by GASB-85

- Governmental insurance entities may hold real estate
 - GASB-85 allows *either* capital asset or investment, depending on if it meets the definition of an investment in GASB-72
- Money market investments and participating interest-earning investment contracts (adjust with rate changes)
 - Can be measured at amortized cost per GASB-31, par. 9
 - Must have a remaining maturity of less than 1 year
 - Must have minimal credit risk in investment

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**June 30, 2019 and Beyond
(Issued Standards)**



»»» What Is the Definition of an ARO?

- 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)
 - Doesn't matter if capital asset was acquired or constructed
 - May also occur when government is a lessor
 - Legal obligation must be enforceable

What Is the Scope of Statement 83?

- Retirement of tangible capital assets, for example:
 - Nuclear power plant decommissioning
 - Coal ash pond closure (those that are not landfills)
 - Contractually required land restoration such as removal of wind turbines
 - MRI's / X-Ray Machines
 - Other similar obligations
- Disposal of a replaced part that is a component of a capital asset
- Environmental remediation associated with a requirement of tangible capital assets that results from the normal operations of those tangible capital assets

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What Is Excluded From the Scope of the Statement 83?

- Obligations associated with:
 - Plan to solely sell or otherwise dispose of a tangible capital asset
 - Preparation of a tangible capital asset for an alternative use
 - Asbestos removal or pollution remediation (GASB-49) that result from the other-than-normal operation of a tangible capital assets
 - Maintenance, rather than retirement, of a tangible capital asset
- Cost of replacement part that is a component of a capital asset
- Landfill closure and postclosure care obligations, including those not covered by Statement 18
- Conditional obligations to perform asset retirement activities

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»»» Recognition of Liabilities

- Similar to GASB-49
 - Liability has to be incurred and *reasonably estimable*
 - Must be external **and** internal events to obligate the government
 - External events
 - Federal, state, local laws / regulations
 - Legally binding contracts
 - Court judgment imposing legally enforceable liability
 - Internal events
 - For **contamination related** events – occurrence
 - Non-contamination
 - Pattern of incurrence based on use (mine excavation)
 - Placing of capital asset into service
 - Abandonment before use (permanent construction stoppage)
 - Acquisition of a capital asset with existing ARO

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»»» Recognition of Rest of Accounting Elements

- Once liability is recognized, **deferred outflow of resources** is debit *unless* capital asset is abandoned before use
- Liability is recognized based on legal requirements as of reporting date
 - Based on **current value of outlays** to settle liability
 - Current value is amount that would be paid if all equipment, facilities, services etc., in estimates during the current year
 - Based on best estimate of all available evidence
 - Outcomes weighed just like GASB-49 (probability)

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Putting it all Together - Recognition & Measurement

Initial Recognition	ARO liability when incurred and reasonably estimable—measured based on the best estimate of the current value of outlays expected to be incurred	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	<ul style="list-style-type: none"> • At least annually adjust the current value for the effects of inflation or deflation • At least annually evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant 	Recognize a reduction as an outflow of resources (for example, expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset

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Asset Retirement Obligations – GASB-83

- Implementation –
 - Periods beginning after June 15, 2018
 - Prior period adjustment / restatement
- Auditing of ARO will focus on recognition and estimation process
 - Independent verification of estimates
 - Potential engineering specialist needed
 - Confirmation of restricted assets

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Accounting and Financial Reporting for Fiduciary Activities

GASB-84
Effective Date – Periods Beginning After
December 15, 2018



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NO. 84 | JANUARY 2017
Governmental Accounting Standards Series

Statement No. 84 of the
 Governmental Accounting
 Standards Board

Fiduciary Activities

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
 OF THE FINANCIAL ACCOUNTING FOUNDATION

» You Might Be a Fiduciary If....

The government has All Three of the following:

- The government **controls** the assets (see slide after next)
- Those assets are *not* derived solely from:
 1. The government's own-source revenues
 2. Government-mandated and voluntary nonexchange transactions that
 - a) **are not** pass-through grants **and**
 - b) for which the government **does not** have administrative or direct financial involvement in the program
- **One** of the criteria on the next slide is met



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» You Might Be a Fiduciary If...

- **One** of the following criteria
 1. The assets are administered through a trust agreement or equivalent arrangement in which the government itself is *not* a beneficiary.
 2. The assets are for the benefit of individuals that are *not* required to be residents or recipients of the government's good and services as a condition of being a beneficiary, and the use of those assets does not require substantive approval by the government. In addition, the assets are *not* derived from the government's provision of goods or services to those individuals.
 3. The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the government's provision of goods or services to those organizations.

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» You Might Be a Fiduciary If...

- A government has **control**
 - A government controls the assets of an activity if:
 - The government *holds* the assets.
 - The government has the ability to *direct* the
 - Use,
 - Exchange, or
 - Employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

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Fiduciary Fund Type Changes

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
 - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- *Custodial funds* will report fiduciary activities for which there is no trust agreement or equivalent arrangement.
 - External portions of investment pools that are *not* held in trust should be reported in a separate column under the custodial fund umbrella
 - Use “*external investment pool fund*” to distinguish from other custodial funds

Agency Funds Currently in Stand-alone BTAs

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows



Other Fun Stuff – Reporting – Not Much Changing other than Agency Funds

- Present additions disaggregated by source and, if applicable, separately display investment income and investment costs
- Present deductions disaggregated by type and, if applicable, separately display administrative costs
- Applies to statement of changes in fiduciary net position for all fiduciary funds *except* custodial funds held for three months or less
 - For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

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Other Fun Stuff...

- Liabilities would be recognized in fiduciary funds when an event has occurred that compels the government to disburse fiduciary resources.
 - No further action would be needed to pay a beneficiary that is entitled to receive the resources
 - Example – state government collects taxes on behalf of other governments but must make transfers to other governments within 5 days – liability would be declared upon collection
 - Example – 529 plan that qualifies as a fiduciary fund (many may not be) when a participant requests tuition
 - GASB-32 rescinded upon implementation (457 Plans) – use GASB-84

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Other Fun Stuff...

- Student Activity Funds generated a lot of buzz –
 - Holding resources for the benefit of students *could* result in the school district being an administrator of the funds
 - **Would be a Fiduciary = Fiduciary Fund**
 - If activity is similar to providing goods and services as a result of fees paid, *may not be a fiduciary – may be a governmental fund*
- In Basis for Conclusions (pars. B20 and B21) – GASB concludes no specific requirements addressing all student activities included in GASB-84
 - Likely *Implementation Guide* questions in the future?

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Leases

Proposed Implementation – periods beginning after
December 15, **2019**
BEING APPROVED BY JUNE 30
GASB-87



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Leases – Big Deals

- Single approach—right of use
 - No classification of leases into operating/capital or other categories
 - Potentially develop some exceptions
 - Underlying assumption that leases are financings
- Practicality exceptions—short-term lease
 - Lease that, at the beginning of the lease, has maximum possible term under the contract, including any options to extend, of 12 months or less
- All standard setters changing, but not all at once

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Exceptions from Lease Accounting

- Leases for Intangible Assets
 - Exploration / mining rights for natural resources
 - Licenses for performing arts, copyrights, patents, software, other than subleases
- Biological assets / timber / living plants or animals
- Inventory
- Power purchase agreements that are leases
- Service Concession Arrangements (GASB-60)
- Leases where underlying asset is financed with conduit debt *unless* asset and conduit debt are reported by lessor
 - Conduit debt is common in state revolving fund loans
- Regulated leases (airports) where cost recovery is controlled – lessor only recognizes payment provisions in contract and limited disclosures
- Ownership transfers without termination options = financed sales (notes receivable)
- Leases that are investments – limited disclosure

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Leases

- What is a Lease?
 - Contract that conveys control of the right the right to use
 - Another entity's nonfinancial asset (the underlying asset)
 - For a period of time as specified in the contract
 - In an exchange or exchange – like transaction
 - Control of the right is evidenced by both:
 - Obtaining of service capacity from the use of the asset as specified in the contract
 - Ability to determine the nature / use of the asset as specified in the contract
- Bottom line
 - No capital vs. operating leases
 - Other exceptions may occur
 - Underlying assumption that nearly all leases are financing driven (financings)
 - **Transfers of ownership without termination also are financings**

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Leases

- Lessees – Recognition and Measurement
 - Intangible asset for **the right to use** the underlying asset and
 - Liability for future payments
 - Day 0 liability =
 - Fixed payments over lease term
 - Variable payments based on an index / rate in effect at that date
 - Variable payments that are in-substance fixed
 - Residual value guarantees that are *probable* of being required
 - Termination penalties if based on the determination of the lease term, the termination option is *probable* of being exercised
 - Liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset

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Leases

- Lessees – Recognition and Measurement
 - Liability remeasured by calculating interest and reducing liability for actual payments *less* interest
 - Lease asset amortized using a systematic and rational basis over the *shorter* of
 - the useful life of the underlying asset or
 - the lease term
 - Amortization is based on lessee's depreciation policy if the lease transfers ownership or if a purchase option is determined to be *probable* of being exercised
 - Amortization of the lease asset classified as amortization expense
 - Amortization of the discount is interest expense in statement of activities

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Leases

- Lessees – Recognition and Measurement
 - Short-term leases
 - Measured at beginning of lease
 - Has a maximum possible term, including options to extend < 1 year
 - Regardless of probability of being exercised
 - End result may be very few operating leases
 - Leases in Business-Type Activities – Statement of Cash Flows
 - If lease asset recognized, cash flows is in capital and related financing (including interest)
 - Short-term leases in operating activities

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Other Lease Provisions on Term of Lease

- Lessee's or lessor's options to extend and terminate the lease evaluated throughout lease term **at the point when a renewal or termination option is elected contrary to original lease term determination**
 - **Likelihood of occurrence of options is proposed to be at a reasonably certain standard (more than probable)**
- Options include all relevant factors including penalties (economic disincentives)
 - Fiscal funding clauses would be considered like any other termination option – only if it is reasonably certain the clause will be exercised

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Leases

- **Governmental lessor**
 - Board has proposed symmetry
 - Lessor would recognize receivable for the right to receive payments
 - Payments discounted by the rate charged lessee
 - No de-recognition of underlying asset
 - No recognition of performance liability (e.g. security)
 - Deferred inflow of resources is credit = [receivable + cash received]
 - Lease revenue recognized systematically & rationally over lease term (e.g. effective interest method)
 - If in Business-Type Activities, Lessor's Statement of Cash Flows would show lease consistent with how underlying asset is shown (investing or capital and related financing)
 - Short-term lease would be operating cash flow like lessee

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Leases

- **Governmental lessor**
 - Receivable includes
 - Residual value guarantees
 - Purchase options
 - Termination penalties (if measured, exercised and unpaid)
 - Direct costs expensed (just like GASB-65)
- Sub-lease situations
 - **2 separate transactions**
 - **Do not net**
 - **Apply all applicable guidance**
- Sale-Leasebacks, Lease-Leasebacks and Intra-entity leases all have provisions in exposure draft

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Debits and Credits on One Sheet

	Party	Assets	Liabilities	Deferred Inflow of Resources
Initial Reporting	Lessee	Intangible asset (lease liability + prepayments + initial direct costs placing asset into use)	Present value of future lease payments (fixed, variable, including guarantees etc.)	Should be none
	Lessor	Lease receivable, capital asset remains on books	Should be none	Lease receivable + cash that relates to future period
Subsequent Reporting	Lessee	Amortize intangible over shorter of useful life or term of lease	Reduce by lease payments (effective interest)	Should be none
	Lessor	Depreciate capital asset unless required to be returned in original or better condition Reduce receivable, taking into account accrued interest	Should be none	Recognize revenue in effective interest method (systematic & rational)

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Effective Date

- Periods *beginning* after December 15, **2019**
- Existing Leases –
 - Adjust based on the *remaining lease payments as of the beginning of the period of implementation or the beginning of any earlier periods restated*
 - June 30, 2021 = July 1, 2020
 - Airports –
 - Leases bound by regulatory language follow that language
 - Other concessions would use GASB
- Preparers may want to start reviewing software now that determines capital vs. operating lease (if applicable)

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**And GASB's Just Getting Started...
PROPOSED GAAP**

Financial Reporting Model

- Key focus areas:
 - MD&A – most valuable piece of reporting model but frequently last to get prepped / boilerplate / copied
 - Government-wide statements – users love them, preparers don't, auditors mixed
 - Biggest problem – *internal* decision-makers don't use them
 - Statement of Activities is weakest link
 - Government-wide statement of cash flows in our future?
 - Funds
 - All tend to like them, except for lack of comparability
 - Some call for governmental funds to be full accrual
 - Others called for governmental funds to be RSI
 - Budgetary comparisons, modified approach, capital assets and debt are all on the table (among others)

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ICYMI (In Case You Missed It) – What Was in the ITC?

- First of **3** rounds of public comment periods
- ITC addressed these topics:
 - Measurement focus and basis of accounting for governmental fund financial statements
 - Format of governmental fund resource flows statement (currently statement of revenues, expenditures and changes in fund balance)
 - Governmental funds cash flows statement
 - Format of the government-wide statement of activities

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»» On To Round 2 – Preliminary Views

- **Management's Discussion and Analysis (MD&A)**—options for enhancing the financial statement analysis component, eliminating requirements that are boilerplate and no longer necessary for understanding the financial reporting model, and clarifying guidance for presenting currently known facts, decisions, or conditions
- **Major Funds**—explore options for providing additional information about debt service funds, either individually or in aggregate in the financial statements or the notes
- **Proprietary Fund and Business-Type Activity (BTA) Financial Statements**—explore operating performance measure alternatives in conjunction with evaluating the guidance for the separate presentation of operating and non-operating revenues and expenses.
- **Permanent Funds** – should these be still reported and if yes, where? Fiduciary Funds?

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»» On To Round 2 – Preliminary Views

- **Extraordinary and Special Items**—explore options for clarifying the guidance for more consistent reporting
- **Fiduciary Fund Financial Statements**—explore where these financial statements should be presented in the basic financial statements
- **Budgetary Comparisons**—explore the appropriate method of communication (either as basic financial statements or required supplementary information) and which budget variances, if any, should be required to be presented
- **Any Elements from ITC requiring carried forward**

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Round 3 – Exposure Draft

- Elements Tentatively OK'd by GASB from Invitation to Comment that may also have been included in Preliminary Views
- Preliminary Views Elements that were Tentatively OK'd
- Any other elements added late
- In other words... it's the last shot before final, except if major changes needed (then reexposed)

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Tentative Remaining Timeline

Preliminary Views	3 rd Quarter - 2018
Exposure Draft	2 nd Quarter - 2020
Final Statement Expected	4th Quarter - 2021
Implementation	Anyone's guess....

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Revenue and Expense Recognition Project

- Reexamination of exchange and exchange-like transactions (GASB-33 and 36)
 - All standard setters redoing revenue recognition
 - Current guidance does not take into account multiple events or performance obligations clearly
 - Very long timeline due to other standard setters timelines –
 - ITC January 2018
 - PV October 2019
 - ED April 2021
 - Final June 2022

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Note Disclosure Reexamination

- Note Disclosure Reexamination – **Please GASB say YES!**
 - Initial research going on but strong support from Board to add as a full project
 - How to reduce repetition **and length of notes**
 - Do current notes meet intended objectives and provide decision-useful information / accountability?
 - Disclosure related to standards issued from GASB-72 and forward *potentially excluded*
 - Can the nature / extent of notes be improved?
 - Can component unit notes in primary government statement's improve?
 - Initial research now, full addition of project by November 2017

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Total Projects Timeline (as of December 2016)

	Financial Reporting Model	Revenue / Expense Project	Note Disclosure Project	Recognition Concepts Statement
2017	ITC	Research	Project Approved?	Research
2018	Preliminary Views	ITC	Research?	Preliminary Views
2019	Deliberations	Preliminary Views	Due Process Document?	Deliberation
2020	Exposure Draft	Deliberations	Unclear	Exposure Draft
2021	Deliberations	Exposure Draft	↓	Final
2022	Final	Final		
Unknown	Implementation			
<i>Tentative – Subject to Change at Any Time</i>				

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Just a Mention of GASB's Other Projects

- Debt Disclosures and Direct Borrowing (Private Placement)
 - Exposure Draft out by July 1
- Capitalized Interest – ED – 4th Quarter 2017
- Equity Method Interest – ED – 1st Quarter 2018
- Still Being Researched
 - Going Concern – needed change due to Puerto Rico and SAS-132 (Audit Standards) Changes
 - Conduit Debt
 - Social Impact Bonds
 - Cloud Computing / Software
 - Update to Service Concession Arrangements?

Questions and Thank You!



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