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GASB Update

ACBO Conference

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Course Objectives

At the end of this course, you should be able to:

- Describe the latest GASB pronouncements that may impact your District
- Explain what the impacts of the latest GASB pronouncements will be on your District



Course Agenda

- Current GASB pronouncement implementations
 - GASB 75
 - GASB 81
 - GASB 85
 - GASB 86
- Future GASB pronouncement implementations
 - GASB 83
 - GASB 84
 - GASB 87
 - GASB 88
- On the Horizon Issues



GASB 75 – Objective and Effective Dates

- Improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions
- GASB 75 – **Employer Accounting and Reporting for OPEB** – Effective for fiscal years beginning after June 15, 2017
 - Would be 6/30/2018, 9/30/2018, 12/31/18, 4/30/19 depending on fiscal year end

GASB 75 – Applicability

- Defined Benefit Plans:

- Employers participating in single-employer or agent multiple-employer plans will recognize 100 percent of the net OPEB liability for each plan
- Employers participating in cost-sharing, multiple-employer plans will recognize their proportionate share of the net OPEB liability for the plan as a whole

- Defined Contribution Plans:

- Employers required to recognize OPEB expense for amounts of contributions or credits to employees' accounts, net of forfeited amounts that are removed from the employees' accounts

GASB 75 – Reporting: Financial Statements

- Basic Statements
 - Net OPEB liability recorded on Balance Sheet
 - OPEB Expense calculated differently



GASB 75 – Reporting: Financial Statements

Financial Statement Item	With Trust	Without Trust
OPEB Liability	Net OPEB Liability	Total OPEB Liability
Deferred Inflows/Outflows:		
Difference in Experience	X	X
Change of Assumptions	X	X
Difference in Investment Returns	X	N/A
Contributions /OPEB payments subsequent to measurement date	X	X
Expense:		
Change in OPEB Liability	X	X

GASB 75 – Reporting: Footnotes

- Note disclosures – employers
 - Descriptive information
 - Significant assumptions/other inputs in total OPEB liability



GASB 75 – Reporting: Footnotes

- Single/agent employer only
 - Number of employees covered—inactive receiving benefits, inactive not receiving benefits, active
 - Schedule of changes in net OPEB liability by source for current period
 - Service cost, interest, benefit changes, contributions by source, plan investment income, etc.

GASB 75 – Reporting: Footnotes

- Changes in net OPEB liability by source - **Example**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balances at 6/30/X8	\$ 432,472	\$ 418,254	\$ 14,218
Changes for the year:			
Service cost	19,051		19,051
Interest	30,663		30,663
Differences between expected and actual experience	8,925		8,925
Contributions—employer		22,424	(22,424)
Net investment income		44,215	(44,215)
Benefit payments	(7,899)	(7,899)	-
Administrative expense		(148)	148
Net changes	<u>50,740</u>	<u>58,592</u>	<u>(7,852)</u>
Balances at 6/30/X9	<u>\$ 483,212</u>	<u>\$ 476,846</u>	<u>\$ 6,366</u>



GASB 75 – Reporting: RSI

- Single/Agent Employers

- 10-year schedules

- Changes in net OPEB liability by source

- Total OPEB liability, OPEB plan fiduciary net position, net OPEB liability, plan net position as % of total OPEB liability, covered-employee payroll, net OPEB liability as % of covered-employee payroll

- May be presented with changes in net OPEB liability by source

GASB 75 – Reporting: RSI

Changes in net OPEB liability - EXAMPLE

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>
Total OPEB liability				
Service cost	\$ 19,051	\$ 18,190	\$ 16,642	\$ 16,732
Interest	30,663	27,176	26,061	25,394
Changes of benefit terms	-	-	-	(36,889)
Differences between expected and actual experience	8,925	11,845	(18,490)	11,845
Changes of assumptions	-	-	(1,369)	-
Benefit payments	(7,899)	(7,758)	(7,601)	(7,425)
Net change in total OPEB liability	<u>50,740</u>	<u>49,453</u>	<u>15,243</u>	<u>9,657</u>
Total OPEB liability—beginning	<u>432,472</u>	<u>383,019</u>	<u>367,776</u>	<u>358,119</u>
Total OPEB liability—ending (a)	<u><u>\$ 483,212</u></u>	<u><u>\$ 432,472</u></u>	<u><u>\$ 383,019</u></u>	<u><u>\$ 367,776</u></u>

GASB 75 – Reporting: RSI

Changes in net OPEB liability - EXAMPLE

Plan fiduciary net position				
Contributions—employer	\$ 22,424	\$ 25,255	\$ 28,260	\$ 24,737
Net investment income	44,215	28,698	32,698	25,691
Benefit payments	(7,899)	(7,758)	(7,601)	(7,425)
Administrative expense	(148)	(144)	(137)	(128)
Net change in plan fiduciary net position	<u>58,592</u>	<u>46,051</u>	<u>53,220</u>	<u>42,875</u>
Plan fiduciary net position—beginning	<u>418,254</u>	<u>372,203</u>	<u>318,983</u>	<u>276,108</u>
Plan fiduciary net position—ending (b)	<u><u>\$ 476,846</u></u>	<u><u>\$ 418,254</u></u>	<u><u>\$ 372,203</u></u>	<u><u>\$ 318,983</u></u>
City's net OPEB liability—ending (a) – (b)	<u><u>\$ 6,366</u></u>	<u><u>\$ 14,218</u></u>	<u><u>\$ 10,816</u></u>	<u><u>\$ 48,793</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	98.68%	96.71%	97.18%	86.73%
Covered-employee payroll	\$ 535,043	\$ 524,209	\$ 511,884	\$ 510,760
City's net OPEB liability as a percentage of covered-employee payroll	1.19%	2.71%	2.11%	9.55%



GASB 75 – Journal Entries

To Eliminate Prior Year OPEB Obligation

OPEB Obligation	\$XXX	
Net Position		\$XXX

To Record Beginning OPEB Liability

Net Position	\$XXX	
OPEB Liability		\$XXX

To Record Beginning Deferred Inflows and Outflows of Resources

Deferred Outflows of Resources	\$XXX	
Net Position	\$XXX	
Deferred Inflows of Resources		\$XXX



GASB 75 – Journal Entries

To Record Difference in Experience and Change in Assumptions

(Assuming Loss)

Deferred Outflows of Resources	\$XXX	
OPEB Expense		\$XXX

(Assuming Gain)

OPEB Expense	\$XXX	
Deferred Inflows of Resources		\$XXX

To Record Difference in Investment Returns

(Assuming Loss)

Deferred Outflows of Resources	\$XXX	
OPEB Expense		\$XXX

(Assuming Gain)

OPEB Expense	\$XXX	
Deferred Inflows of Resources		\$XXX



GASB 75 – Journal Entries

Support from Nonemployer Contributing Entity

OPEB Expense	\$XXX	
Revenue		\$XXX

Current Year OPEB Payments/Contributions

OPEB Expense	\$XXX	
Payments/Contributions*		\$XXX

**Assuming these were expensed as paid*

OPEB Payments/Contributions Subsequent to Measurement Date

Deferred Outflows of Resources	\$XXX	
OPEB Expense		\$XXX

Change in OPEB PY to CY

(Assume Increase)

OPEB Expense	\$XXX	
OPEB Liability		\$XXX



GASB 75 – What should you do now?

- Trust or no Trust
- Census data information
- Determine measurement and valuation dates
 - Actuary turnaround time
- Review assumptions used
 - Discount rate
 - Healthcare trend rate
 - Recent experience study?
- Draft disclosure and RSI
- Follow-up from GASB 74 implementation discussions



GASB 81 – Irrevocable Split-Interest Agreements

- A type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments
- Can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary
- Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate

GASB 81 – Irrevocable Split-Interest Agreements

- Requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.
- Requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests.

GASB 81 – Irrevocable Split-Interest Agreements

- Requires that a government recognize revenue when the resources become applicable to the reporting period.
- Effective for financial statements for periods beginning after December 15, 2016 and should be applied retroactively (12/31/17, 4/30/18, 6/30/18, 9/30/18).
 - Earlier application is encouraged.



GASB 85 – Omnibus 2017

- Effective for periods beginning after June 15, 2017 (6/30/18, 9/30/18, 12/31/18, 4/30/19) NOTE: Entities are able to early implement single topics
- Topics include:
 - Component unit blending for entities that are BTAs
 - Goodwill
 - Fair Value Measurement and Application
 - OPEB topics

GASB 85 – Omnibus 2017

- Component unit blending for entities that are BTAs
- Primary government is a business-type activity
 - Option 1) Include in single column reported for the primary government
 - Option 2) Present a separate blended component unit column within the primary government
- Blending only available for certain component units
 - GASB 14, paragraph 53 (as amended)
 - Discrete presentation mandatory if blending criteria not met



GASB 85 – Omnibus 2017

- Goodwill (GASB 69)
 - Compare the amount paid to the net position acquired
 - Positive = deferred outflow
 - Negative = reduction in value of noncurrent nonfinancial assets acquired (e.g. no deferred inflow)
 - Contribution recognition in certain circumstances
 - Issue: Classification of goodwill for acquisitions prior to the effective date of GASB 69
 - Positive
 - Reclassify to deferred outflow of resources
 - Negative
 - Eliminate via adjustment to net position

GASB 85 – Omnibus 2017

- Fair Value Measurement and Application
- Real estate assets
 - Prior guidance – classification based on asset’s predominant use
 - New guidance – classification based on if the asset meets GASB 72 definition of an investment
 - Unit of account
- Investment in External Investment Pools
 - MM Investments and participating interest-earning contracts at amortized cost
 - Use of amortized cost is permitted, but not required



GASB 85 – Omnibus 2017

- OPEB topics
- Measurement of pension and OPEB liabilities in governmental funds
 - At end of the reporting period
 - Liabilities to employees
 - Payables to pension/OPEB plan
 - Administrative costs
- On-behalf payments in governmental funds
 - Intent of GASBs 68, 73 & 75 to retain effects of GASB 24
 - Reflect contributions (benefit payments) made on behalf of the employer
 - In addition to revenue for financial support from nonemployer contributing entities

GASB 85 – Omnibus 2017

- OPEB topics (cont.)
- Payroll related measures in RSI
 - Plan Statements - Are contributions based on pay?
 - Yes = RSI disclosures based on covered payroll
 - No = Payroll measures not disclosed
 - Employers - Trust or no trust
 - Trust
 - Contributions based on pay, RSI disclosures based on covered payroll
 - Contributions not based on pay, use covered employee payroll
 - No trust
 - Always use covered employee payroll
 - Employer paid member contributions
 - Treat as EE contributions
 - Consistency with treatment with pension benefit existing guidance

GASB 85 – Omnibus 2017

- OPEB topics (cont.)
- Alternative Measurement Method
 - Certain simplified assumptions are permitted
 - When active plan members will begin to receive benefits
- Multi Employer OPEB Plans
 - Plans not established primarily by/for the government



- Parallel guidance for pension in GASB 78 regarding inability to access cost-sharing information

GASB 85 – Key Takeaways

- Component unit blending for entities that are BTAs
 - Requirements for blending component units into a BTA presentation similar to those of non-BTA presentation
- Goodwill
 - Review goodwill and adjust the financial statements if positive (deferred outflow) or negative (eliminate via net position)
- Fair Value Measurement and Application
 - Real Estate classification based on if the asset meets GASB 72 definition of an investment
 - Investment in External Investment Pools - use of amortized cost is permitted, but not required
- OPEB topics
 - Similar discussion on covered payroll vs covered-employee payroll that GASB 82 discussed with pensions
 - Similar discussion on employee contributions made on behalf of employer that GASB 82 discussed with pensions



GASB 86 – Certain Debt Extinguishment Issues

- Effective for fiscal years beginning after June 15, 2017
 - Would be 6/30/18, 9/30/2018, 12/31/18, 4/30/19 depending on fiscal year end
- In-Substance Defeasance of Debt Using Only Existing Resources
 - When to derecognize the debt liability
 - Assets placed in trust solely for debt repayments (P&I)
 - Remote chance of additional payments by the government
 - Monetary assets essentially risk-free (amount, timing, collection of interest and principal)
 - Monetary assets denominated in same currency as debt payments
 - Monetary assets required cash flows coincide with scheduled debt P&I payments
 - Callable securities in escrow are not risk-free due to timing of collection of interest and principal
 - Disqualification for defeasance purposes



DEBT



Crowe Horwath.

GASB 86 – Certain Debt Extinguishment Issues

- In-Substance Defeasance of Debt Using Only Existing Resources (cont.)
- Financial Statement Recognition – Economic Resources Measurement Focus
 - $\text{Reacquisition price less net carrying value of old debt} = (\text{loss})/\text{gain}$
- Financial Statement Recognition – Current Financial Resources Measurement Focus
 - Report debt service expenditures when payments are made to escrow agent
- Note Disclosures
 - General description of the transaction in period of defeasance
 - Amount of debt
 - Amount of cash/other assets acquired w/ existing resources placed with escrow agent
 - Reasons for defeasance
 - Cash flows required to service defeased debt
 - Periods following defeasance
 - Amount of the debt defeased in substance that remains outstanding at year-end (if any)

GASB 86 – Certain Debt Extinguishment Issues

- In-Substance Defeasance of Debt Using Only Existing Resources (cont.)
- Prepaid Insurance
 - Include amount in the net carrying amount for purposes of calculating the difference between the reacquisition price and the net carrying amount of the extinguished debt.
- Additional Disclosures
 - If there is a risk of substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited
 - In period of defeasance – disclose
 - Post-period of defeasance – amount of debt defeased in substance that remains outstanding, if any, for which the substitution is not prohibited

GASB 86 – Key Takeaways

- In-Substance Defeasance of Debt Using Only Existing Resources
 - When to derecognize the debt liability based on measurement focus of the opinion unit
 - Additional disclosures required for the transaction in addition to reporting on the financial statements

GASB 83 – Certain Asset Retirement Obligations

- Effective date - are effective for financial statements for periods beginning after June 15, 2018. (6/30/2019, 9/30/2019, 12/31/2019, 4/30/20)



GASB 83 – Certain Asset Retirement Obligations

- Definition of Asset Retirement Obligations (ARO) :
 - A legally enforceable liability associated with the retirement of a tangible capital asset.



GASB 83 – Certain Asset Retirement Obligations

- Establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources
- Requires the measurement occur when the liability is both incurred and reasonably estimable.
- Requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred
- Requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement

GASB 84 – Fiduciary Activities

- Effective for periods beginning after December 15, 2018 (12/31/19, 4/30/20, 6/30/20, 9/30/20)
- Improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported



GASB 84 – Fiduciary Activities

- Criteria for identifying fiduciary activities of all state and local governments
 - Focus of the criteria:
 - (1) whether a government is controlling the assets of the fiduciary activity
 - (2) the beneficiaries with whom a fiduciary relationship exists
 - Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities

GASB 84 – Fiduciary Activities

- Activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements
- Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position
 - Exception is provided for a business-type activity that normally expects to hold custodial assets for three months or less

GASB 84 – Fiduciary Activities

- Four fiduciary funds that should be reported
 - Pension (and other employee benefit) trust funds
 - Investment trust funds
 - Private-purpose trust funds
 - Custodial funds



GASB 84 – Fiduciary Activities

- Fiduciary component unit should:
 - Combine its information with its component units that are fiduciary component units
 - Aggregate that combined information with the primary government's fiduciary funds

GASB 84 – Fiduciary Activities

- Provides for recognition of liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources
- Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets

GASB 84 – Key Takeaways

- Clients need to review their current fiduciary funds and agency funds to document what the correct reporting should be with the new reporting requirements
- Accounting systems may need to be modified to capture all of the data to be reported on the financial statements

GASB 87 – Leases

- Lease definition

- A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

- Examples of nonfinancial assets

- Buildings
- Land
- Vehicles
- Equipment



- Short-term leases

- A lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.
- Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

GASB 87 – Leases

- Lease Term

- The period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:
 - Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option
 - Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option
 - Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option
 - Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option
- A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised

GASB 87 – Leases

- Lease Term (Reassessment)

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option
- An event specified in the lease contract that requires an extension or termination of the lease takes place



GASB 87 – Leases (Lessee Accounting)

- Lease liability and a lease asset at the commencement of the lease term
 - Unless short-term lease or transfer of ownership of the underlying asset
- Lease liability measured at the present value of payments expected to be made during the lease term (less any lease incentives).
- Lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs



GASB 87 – Leases (Lessee Accounting)

- Reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability
- Amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset
- Footnotes - include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made



GASB 87 – Leases (Lessor Accounting)

- Recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term
 - Exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset.
 - Do not derecognize the asset underlying the lease
- Lease receivable measured at the present value of lease payments expected to be received during the lease term
- Deferred inflow of resources measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods
- Recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease
- Notes should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases

GASB 87 – Leases

- **Effective Date and Transition**

- Reporting periods beginning after December 15, 2019 (i.e. year-ends 12/31/2020; 4/30/2021; 6/30/2021; 9/30/2021)
- Recognition/Measurement
 - Use facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated)
 - Lessors should not restate the assets underlying their existing sales-type or direct financing leases.
 - Any residual assets for those leases become the carrying values of the underlying assets.

- **Exclusions under GASB 87**

- Most intangibles (including computer software)
- Inventory
- Biological assets
- Service concession agreements
- Supply contracts (power purchase agreements)
- Leases with the underlying asset financed with conduit debt *

GASB 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

- Released March 2018
- Enhance debt-related disclosures in notes to financial statements, including those addressing direct borrowings and direct placements.
- Defines debt for purposes of disclosure in notes to financial statements:
 - A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.
 - Does not include accounts payable or leases



GASB 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

- Requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt.
 - The policy underlying this requirement is that direct borrowings and direct placements may expose a government to risks that are different from or additional to risks related to other types of debt.
- Requires governments to disclose additional essential debt-related information for all types of debt, including:
 - Amounts of unused lines of credit;
 - Assets pledged as collateral for debt; and
 - Terms specified in debt agreements related to significant:
 - Events of default with finance-related consequences
 - Termination events with finance-related consequences
 - Subjective acceleration clauses
- Effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. (i.e. year-ends 6/30/19, 9/30/19, 12/31/19, 4/30/20)



On the Horizon Issues

- Financial Reporting Model (ITC redeliberations)
 - Touches entire financial statements; intended to reduce complexity
- Revenue and Expense Recognition (Open for ITC comments)
 - Exchange transaction guidance - follow FASB model???
- Capitalization of Interest Costs (ED redeliberations)
 - Should cap interest be reported as a DO?
- Conduit Debt (Initial Deliberations)
 - Definition of a conduit debt obligation; should it be reported as a liability
- Equity Interest Ownership Issues (ED redeliberations)
 - Majority ownership reporting – investment vs. component unit
- Implementation Guides
 - GASB 84 (Fiduciary Activities; Agenda item)
 - GASB 87 (Leases; Agenda item)
 - 2018-1 (ED redeliberations)

Thank you

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