

Illinois Community College Chief Financial Officers Fall 2017 Conference GASB UPDATE

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What has the Governmental Accounting Standards Board (GASB) been up to?

New Pronouncements Effective Dates—June 30

- 2017
 - Statement 73—pensions not within the scope of 67/68
 - Statement 74—OPEB (plans)
 - Statement 77—tax abatement disclosures
 - Statement 78—certain multiple-employer pension plans
 - Statement 79—certain investment pools and participants (§ 18, 19, 23–26, & 40)
 - Statement 80—blending requirements
 - Statement 82—pension issues
 - Implementation Guide 2016-1
- 2018
 - Statement 75—OPEB (employers)
 - Statement 81—irrevocable split-interest agreements
 - Statement 85—omnibus[#]
 - Statement 86—certain debt extinguishment issues
 - Implementation Guide 2017-1
- 2019
 - Statement 83—certain asset retirement obligations
- 2020
 - Statement 84—fiduciary activities
- 2021
 - Statement 87—Leases

GASB Statement 73

Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements 67 and 68

- Issued June 2015
- Addresses pension plans that don't meet the definition of a trust
 - Applies GASB S-68 modified for no pension assets
- Amends certain provisions of GASB S-67 and S-68
 - Disclosure of investment related factors affecting trends
 - Accounting/reporting for separately financed specific liabilities
 - Non employer contributing entities that are not special funding
- Effective for fiscal years ending June 30, 2016, to the extent this amends S-67 and S-68, June 30, 2017, for non-trusted plans

GASB Statements 74 and 75

- *S-74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions*
 - Issued in June 2015
 - Effective for fiscal years ending June 30, 2017 and thereafter
 - Applies to separately issued OPEB plan reports
 - Applies to non-trusted plans regardless of where reported
 - Many OPEB plans are not in a trust
 - Guidance in paragraphs 58-59

GASB Statement 74

- Expands notes to financial statements
 - Similar to GASB S-67
 - Investment disclosures
 - Actuarial disclosures
 - Components of the net OPEB liability
 - Changes in the net OPEB liability
- Expands required supplementary information
 - Ten years of information is required on a prospective basis

GASB Statements 74 and 75

- S-75, Accounting and *Financial Reporting for Postemployment Benefits Other Than Pensions*
 - Issued in June 2015
 - Effective for fiscal years ending June 30, 2018 and thereafter
 - Applies to employers that provide other post-employment benefits (OPEB)

GASB Statements 74 and 75

- Other post-employment benefits (OPEB)
 - Healthcare benefits provided after employment ends (whether or not retired)
 - Medical, dental, vision, prescription
 - Other benefits if provided outside of a pension plan
 - Death benefits, life insurance, disability/long-term care
 - Part of overall benefit package
 - Inducement to attract employees
 - Exchange of benefits for services performed
- Does not include special termination benefits (early retirement incentives)
 - Offer made by employer for a period of time
 - Inducement to leave employment
 - Includes both voluntary and involuntary programs
- Does not include sick leave conversion
 - Follow GASB Statement No. 16
 - Unless restricted for OPEB benefits

GASB Statements 74 and 75

- Other post-employment benefits (OPEB)
 - Includes explicit benefits and implicit benefits
 - Explicit benefits the employer pays all or a portion of the benefit
 - Specific dollar amount
 - Percentage of age adjusted premiums
 - Self-insured claims
 - Implicit benefits generally result from retirees continuing in the employers health plan but not paying an age adjusted premium
- Community rated exemption for implicit subsidy removed

GASB Statement 75

- Recording the net OPEB liability
 - Similar to GASB S-68
 - Single employer plans requires an actuarial valuation
 - Record OPEB liability in accrual basis financial statements
 - Allocate among fund/component units similar to cost sharing plans
 - Impact may be more significant than pensions as many governments do not advance fund OPEB
 - Advance funding requires an irrevocable trust
 - Expanded note disclosures
 - Expanded required supplementary information

How Is the Liability to Employees for OPEB Measured?

- Based on total OPEB liability—the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service, net of retiree contributions
- Is OPEB administered through a trust that meets the specified criteria?
 - Yes—recognize net OPEB liability (total OPEB liability, net of OPEB plan fiduciary net position)
 - No—recognize total OPEB liability

How Is the Timing of Liability to Employees for OPEB Determined?

- Measurement date
 - As of date no earlier than end of prior fiscal year
- Actuarial valuation date of total OPEB liability
 - Actuarial valuations at least every 2 years (more frequent valuations encouraged)
 - If not measurement date, as of date no more than 30 months (+1 day) prior to FYE
- Should reflect changes between the date of the actuarial valuation and the measurement date

Measurement of the Total OPEB Liability—General Approach

- Three broad steps
 - Project benefit payments
 - Discount projected benefit payments to actuarial present value
 - Attribute actuarial present value to periods
- Methods and assumptions
 - Generally, assumptions in conformity with Actuarial Standards of Practice
 - Single attribution method—entry age, level percentage of pay
- Discount Rate
 - Investment rate
 - Blended rate
 - Bond index rate

What Are the Disclosure Requirements for OPEB?

- Disclosure of effect on net OPEB liability of a discount rate +/- 1 percent
- Disclosure of effect on net OPEB liability of a healthcare cost trend rate +/- 1 percent
- Single and agent plans: 10-year RSI schedules for changes in the net OPEB liability, ratios, and actuarially determined contributions (statutorily or contractually determined contributions, if no actuarially determined contribution is calculated)
- Cost-sharing plans: 10-year RSI schedules of statutorily or contractually determined contributions

Cost-Sharing Employers

- Relevant only for OPEB administered through trust in which specified criteria are met
- Recognize proportionate shares of collective net OPEB liability, OPEB expense, and deferred outflows of resources/deferred inflows of resources related to OPEB
- Proportion (%)
 - Basis required to be consistent with contributions
 - Use of relative long-term projected contribution effort encouraged
- $\text{Collective measure} \times \text{proportion} = \text{proportionate share of collective measure}$

GASB Statement 77

- Tax Abatement Disclosures
 - Issued August 2015
 - Effective for fiscal years ending December 31, 2016 and thereafter (June 30, 2017)
- Applies to your government's agreements as well as agreements of other governments that reduce your government's revenue
- Disclosures
 - Your agreements, other governments
 - Names and purposes of tax abatement programs
 - Specific taxes being abated
 - Authority for entering into agreements
 - Eligibility requirements
 - Abatement mechanism
 - How taxes are reduced
 - Commitments made by recipients
 - Gross amount of revenue reduction your agreements, other governments
 - Commitments under the agreements in addition to tax abatement
 - Include all other incentives

GASB Statement 78

- *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
 - Issued December 2015
 - Effective for reporting periods beginning after December 15, 2015
 - Defined benefits provided by a pension plan that is not a state or local government pension plan
 - Federal plans, union plans
 - Plan provides benefits to both employees of state or local governments and non state and local government employees
 - Reduces reporting requirements as the pension plan does not follow GASB pronouncements

GASB Statement 80

- *Blending Requirements for Certain Component Units, an Amendment of GASB Statement No. 14*
 - Issued January 2016
 - Effective for fiscal years ending June 30, 2017 and thereafter
 - Incorporated as not-for-profits and primary government is sole corporate member
 - Blend with primary government
 - Does not apply to Foundations included under GASB S-39

GASB Statement 81

- *Irrevocable Split-interest Agreements*
 - Issued March 2016
 - Effective for fiscal years ending December 31, 2017 and thereafter
 - Split interest agreements are a specific type of giving arrangements by donors to provide resources to two or more beneficiaries
 - Recognize assets, liabilities and/or deferred inflows at the inception of the agreement
 - GASB S-72 may apply
 - Revenue is recognized at termination of the agreement if remainder interest beneficiary
 - Revenue recognized for amount of benefit for the period lead interest beneficiary
 - Life-interests in real estate, capital asset or investment

GASB Statement 82

■ *Pension Issues*

- Issued March 2016
- Effective for fiscal years ending June 30, 2017
- Amends GASB S 67, 68 and 73
- Payroll related measures for single employer and cost-sharing plans
- Disclosures of Covered Payroll, payroll on which contributions to the plan are based
- Selection of assumptions, a deviation as defined in Actuarial Standards of Practice is not in conformance with GASB S 67, 68 or 73
- Classification of employer-paid member contribution, classify as plan member contributions

GASB Statement 83

■ *Certain Asset Retirement Obligations*

- Issued November 2016
- Effective for fiscal years ending June 30, 2019
- Accounting and reporting for legal obligations to retire certain capital assets
 - Decommissioning nuclear power plants
 - Contractually required land restoration
 - Other similar obligations
- Asset retirement obligation—Legally enforceable liability associated with the retirement of a tangible capital asset
- Retirement of a tangible capital asset—The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)

GASB Statement 83

- Recognition and Measurement
 - Initial - ARO liability when incurred and reasonably estimable
 - Deferred outflow of resources—same amount as the ARO liability
 - Subsequent - At least annually, adjust for general inflation or deflation and evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant
 - An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned.
- Disclosures
 - General description of ARO and associated tangible assets
 - Methods and assumptions used to measure ARO liabilities
 - Estimated remaining useful life of tangible capital assets
 - How financial assurance requirements, if any, are being met
 - Amount of assets restricted for payment of ARO liabilities, if not separately displayed in financial statements
 - If a government has an ARO (or portions of an ARO) that is incurred but not yet recognized because it cannot be reasonably estimated, that fact and the reasons therefor

GASB Statement No. 84, *Fiduciary Activities*

- Issued in January 2017
 - Effective for fiscal years ending December 31, 2019 and thereafter (June 30, 2020)
- Clarifies when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements
- Existing standards require reporting of fiduciary responsibilities but do not define what they are
 - use of private-purpose trust funds and agency funds is inconsistent
 - business-type activities are uncertain about how to report fiduciary activities
- Criteria for identifying fiduciary activities to be reported in a fiduciary fund in the basic financial statements
 - whether a government is controlling the assets of the fiduciary activity
 - the beneficiaries with whom a fiduciary relationship exists
- Provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

GASB Statement 85, Omnibus 2017

- Blending component units
 - BTA – blend CU if paragraph 15 of GASB S-14 is met
 - Same governing body, services almost entirely to the BTA
- Goodwill
 - Consideration exceeds net position acquired
 - Do not report negative goodwill
- Fair value measurement and application
 - Unit of account of real estate by insurance entities – determine classifications individually (investment versus capital asset)
 - Money market investments and short term investments – amortized cost
- OPEB/PENSIONS
 - Recognition in CFRMF financial statements (governmental funds)
 - Recognition of on-behalf payments in governmental funds
 - OPEB plans measure of payroll – covered payroll or covered, employee payroll
 - OPEB employer paid member contributions – plan member contributions
 - Other OPEB Guidance
- Effective June 30, 2018

GASB Statement 86, Certain Debt Extinguishment Issues

- Effective for fiscal years ending June 30, 2018.
- Refunding debt
 - Advance refunding or current refunding
 - In-substance defeasance
 - Only existing resources placed in trust
 - No new bond issue/proceeds
 - Other criteria met
 - Irrevocable trust
 - Risk free assets
 - Guaranteed as to timing of cash
- Accounting guidance
 - Meet the definition of a defeasance
 - Remove escrowed assets/bonds from financial statements
 - MABOA - expenditure for amount placed in escrow
 - ABOA - gain (loss) on refunding in period
 - Prepaid insurance – include in gain/loss calculation
- Note disclosure
 - General description of the transaction
 - Amount of resources placed in escrow
 - Cash flow required to service the debt
 - Amount of defeased bonds outstanding
 - As long as the defeased bonds are outstanding

GASB Statement 87, Leases

- Re-examine issues associated with lease accounting
 - Issued June 2017
 - Effective for fiscal years ending December 31, 2020 and thereafter (June 30, 2021)
- Single model for lease accounting based on the principal that leases are financing of rights to use an underlying asset
 - No more operating versus capital lease
 - Underlying assumption that leases are financings
 - Exceptions: short-term leases and those that transfer ownership
- Lease definition – a contract that conveys the right to use a nonfinancial (underlying) asset for a period of time in an exchange or exchange like transaction
 - Land, buildings, offices vehicles, equipment

How Should Leases Be Initially Reported?

	Assets	Liability	Deferred Inflow
Lessee	Intangible asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are necessary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	<ul style="list-style-type: none"> • Lease receivable (generally including same items as lessee liability) • Continue to report leased asset 	NA	Equal to lease receivable plus any cash received up front that relates to a future period

How Should Leases Be Subsequently Reported?

	Assets	Liability	Deferred Inflow
Lessee	Amortize over shorter of useful life or lease term	Reduce by lease payments (less amount of interest expense)	NA
Lessor	<ul style="list-style-type: none">• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)• Reduce receivable by lease payments (less payment needed to cover accrued interest)	NA	Recognize revenue over the lease term on a systematic and rational basis

What Are Short-Term Leases and How Should They Be Reported?

- At beginning of lease, maximum possible term under the contract is 12 months or less
- Lessees recognize expenses/expenditures based on the terms of the contract
 - Do not recognize assets or liabilities associated with the right to use the underlying asset for short-term leases
 - Disclose short-term leases expense/expenditure recognized during the reporting period
- Lessors recognize lease payments as revenue based on the terms of the contract
 - Do not recognize receivables or deferred inflows associated with the lease

What will the Governmental Accounting Standards Board (GASB) be up to?

Current Projects & Pre-Agenda Research

- Major Projects
 - Financial reporting model (reexamination)
 - Revenue and expense recognition
- Pre-Agenda Research
 - Going concern disclosures
 - Information technology arrangements, including cloud computing
 - Note disclosures (reexamination)
 - Public-Private partnerships, including reexamination of Statement 60
 - Social impact bonds



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