

GAAP UPDATE 2018

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GAAP Update – Current Topics

- GASB 75 – OPEB Reporting for Employers
- GASB 81 – Irrevocable Split-Interest Agreements
- GASB 85 – Omnibus 2017
- GASB 86 – Certain Debt Extinguishment Issues

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits other than Pensions

- Effective for periods beginning after June 15, 2017 (Fiscal Year Ending June 30, 2018)
- Improves consistency for the reporting of benefits earned during employees' years of service but paid subsequent to retirement date
- Mirrors Reporting Requirements of GASB 68 on Pension Reporting
- Requires governments that offer medical, dental, vision, hearing, life insurance, disability, or other similar benefits to retirees to report a long-term obligation on all full accrual financial statements
- Additional note disclosures and RSI similar to GASB 68
- Effective for periods beginning after June 15, 2017 (Fiscal Year Ending June 30, 2018)

GASB 75, Continued – OPEB Liability

- Total OPEB Liability (actuarial liability vs unfunded contributions)
 - Project future benefits
 - Discount benefits to present date
 - Allocate benefits to past and future service
- OPEB Plans Administered through a Qualified Trust will recognize the Net OPEB Liability (or proportionate share thereof for cost-sharing plans)
 - Total Liability LESS Fiduciary Net Position
- OPEB Plans NOT Administered through a Qualified Trust will recognize the Total OPEB Liability (or proportionate share thereof for cost-sharing plans)

GASB 75, Continued – OPEB Liability (then vs. now)

Prior Guidance (GASB 45) - Funding Method	
Annual Required Contribution	\$ 20,000
Less: Actual Contributions	(15,000)
Net OPEB Obligation	\$ 5,000
Current Guidance (GASB 75) - Total Cost Method	
Total OPEB Liability	\$ 1,000,000
Less: Fiduciary Net Position	(150,000)
Net OPEB Liability	\$ 850,000

GASB 75, Continued – Actuarial Valuations for OPEB Plan

- Actuarial Valuations
 - Required to be performed at least every two years
 - Measurement Date is required to be within one year of fiscal year-end
 - Valuation Date must be within 30 months of fiscal year-end (measurement date may be rolled forward if biennial valuations are performed)
 - Must use entry age method and level percentage of pay
- Discount Rate
 - The higher the discount rate, the lower the total OPEB liability
 - Discount rate should be the lower of the long-term rate of return on investments held in qualified trust OR the 20 year tax exempt municipal bond rate

GASB 75, Continued – Reporting Changes in OPEB Liability

- Most Changes are Recognized in the Current Period
 - Annual service cost
 - Interest on the total OPEB liability
 - Changes in benefit terms
 - Projected earnings on OPEB plan's investments
 - Amortization of deferred outflows/inflows
- Some Changes are Recognized over the Expected Remaining Service Lives
 - Changes in economic and demographic assumptions
 - Differences between expected and actual experience
- Differences between Projected Earnings on OPEB investments and Actual Earnings are Recognized over a Period of Five Years

GASB 75, Continued – OPEB Deferred Outflows/Inflows

- Certain Amounts are excluded from OPEB expense in the current period and instead reported as deferred outflows or inflows of resources, including:
 - Changes in the net OPEB Liability that are not included in OPEB Expense in the current period
 - Employer Contributions Subsequent to the Measurement Date of the Net OPEB Liability

GASB 75, Continued – OPEB Disclosures & RSI

- Required Note Disclosures
 - Plan description
 - Information about Net OPEB Liability, OPEB Expense, and Deferred Inflows/Outflows
 - Actuarial assumptions
 - Proportionate share
 - Sensitivity Analysis (+/- 1%) for Discount Rate and Healthcare Cost Trend Rate
- RSI Schedules – to be provided for 10 years
 - Changes in Net OPEB Liability
 - Ratios of Funded Status and Covered Payroll
 - Actuarially determined or contractually required contributions

GASB 75, Continued – Nonemployer Contributions

- Contributions made by the State on behalf of participating entities in accordance with State statute
- Revenues and expenditures should be reported on the fund level financial statements using Fund Code 994 – PEBA Nonemployer Contributions
 - Revenue Code 3994 “Nonemployer Contribution Revenues”
 - Expenditure Code 419-720 “Payments from Nonemployer Contributions”
- Note that this reporting differs from the reporting of the 1% PEBA Credit
 - Reported in General Fund
 - Revenue Code 3993

GASB 81 – Irrevocable Split Interest Agreements

- Effective for periods beginning after December 15, 2016 (Fiscal Year Ending June 30, 2018)
- Provides guidance for recognition and measurement in situations in which a government is a party to a giving arrangement whereby an irrevocable trust has been created to provide benefits to two or more beneficiaries
- If government is the intermediary (administers the assets), the government should recognize an asset for the resources received or receivable from the trust, a liability for the interest assigned to other beneficiaries, and a deferred inflow of resources for the government's interest; changes in asset value are recognized as changes in the deferred inflows
- If a third party is the intermediary, the government should report an asset and a deferred inflow upon notification of the agreement and at which time the interest is considered measurable

GASB 85 – Omnibus 2017

- Effective for periods beginning after June 15, 2017 (Fiscal Year Ending June 30, 2018)
- Addresses a variety of practice issues identified during implementation of recent pronouncements, including:
 - Blending Component Units
 - Goodwill
 - Fair Value Measurement
 - OPEB

GASB 85 – Omnibus 2017, Continued

- **Blending Component Units** – Provides guidance on blending component units when the primary government is a business-type activity with a single column financial statement presentation
- **Goodwill** – Extends guidance provided by GASB 69 to transactions that occurred prior to its implementation; requires excess consideration paid in an acquisition be reported as a deferred outflow of resources (prohibits reporting negative goodwill and instead requires reducing the carrying value of nonfinancial assets acquired if price paid is less than net position acquired)
- **Fair Value Measurement** – Provides guidance on accounting for real estate held by insurance entities and allows money market investments and participating investment-earning investment contracts to be measured at amortized cost

GASB 85 – Omnibus 2017, Continued

- **OPEB** – includes a variety of updates to GASB 75, as follows:
 - Timing of measurement of pension or OPEB liabilities for entities using the current financial resources measurement focus (liabilities should be measured at end of reporting period)
 - Recognition and measurement of On-Behalf Payments for Pension or OPEB
 - Presentation of Payroll-Related Measures in RSI Schedules (Covered payroll vs Covered-Employee Payroll)
 - Classification of Employer-paid Member Contributions for OPEB (should be reported as employee contributions)
 - Alternative Measurement Method for OPEB – Simplifies application of this method
 - Accounting & Financial Reporting for OPEB Provided through Certain Multiple-Employer Defined Benefit OPEB Plans

GASB 86 – Certain Debt Extinguishment Issues

- Effective for periods beginning after June 15, 2017 (Fiscal Year Ending June 30, 2018)
- Aligns treatment of transactions in which cash and other existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt with treatment of debt refundings
- Debt and assets placed in the irrevocable trust are no longer reported on financial statements
- Difference between reacquisition price and net carrying value should be reported as a gain or loss in the period of defeasance
- Disclosure is required to describe the debt that is considered defeased in substance (required until the debt has fully matured)

GAAP Update – Future Implementation

- GASB 83 – Asset Retirement Obligations
- GASB 84 – Fiduciary Activities
- GASB 87 – Leases
- GASB 88 – Certain Disclosures Related to Debt
- GASB 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period
- GASB 90 – Majority Equity Interests

GASB 83 – Certain Asset Retirement Obligations

- Effective for periods beginning after June 15, 2018 (Fiscal Year Ending June 30, 2019)
- Provides guidance over how to account for asset retirement obligations not covered by previous GASBs (legally enforceable liabilities associated with the retirement of a tangible capital asset)
- An ARO should be recognized as a liability and corresponding deferred outflow of resources when the liability is incurred and is reasonably estimable and should be adjusted at least annually
- Examples:
 - Removing sewage treatment plants
 - Nuclear power plant decommissioning

GASB 84 – Fiduciary Activities

- Effective for periods beginning after December 15, 2018 (Fiscal Year Ending June 30, 2020)
- Enhances the consistency and comparability of fiduciary activity reporting by state and local governments
- Establishes criteria for identifying and reporting fiduciary activities in one of four types of fiduciary funds:
 - Pension (and OPEB) Trust Funds
 - Investment Trust Funds
 - Private-Purpose Trust Funds
 - Custodial Funds

GASB 84 – Fiduciary Activities, Continued

- **Custodial Funds** (formerly known as Agency Funds) are used to report fiduciary activities that are not held in a trust and thus not required to be reported in one of the other three types of fiduciary funds.
 - Report net position (a liability will only be reported when an event has occurred that compels the government to disburse fiduciary resources (when no further action is required by the beneficiary to release the assets))
 - Report both a statement of net position AND a statement of changes in fiduciary net position

GASB 84 – Fiduciary Activities, Continued

- Fiduciary activities must meet all of the following criteria:
 - The assets are controlled by the government (the government either holds the assets or has the ability to direct the use of the assets)
 - The assets are not derived from the government's own-source revenues or from government-mandated non-exchange transactions
 - The assets are either
 - Administered through a trust in which the government is not a beneficiary, dedicated to providing benefits to recipients in accordance with benefit terms, and legally protected from the creditors of the government
 - OR
 - Held for the benefit of individuals and the government does not have administrative or direct financial involvement with the assets (does not monitor or exercise discretion over how assets are used)

GASB 87 – Leases

- Effective for periods beginning after December 15, 2019 (Fiscal Year Ending June 30, 2021)
- Establishes a **single model for lease accounting** and eliminates current capital and operating lease classifications
- Defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time
 - This standard does not apply to short-term leases (contract terms of 12 months or less)
- Lease term is defined as the period during which a lessee has a noncancelable right to use an asset, including periods covered by a lessor or lessee's option to extend or terminate the lease if it is reasonably certain, based on all relevant factors, that the option will be exercised
- Differs from current FASB guidance which still classifies leases as capital and operating

GASB 87 – Leases, Continued

Lessee Accounting:

- Record a long-term lease liability and an intangible asset at the start of the lease
- Lease liability is equal to the present value of lease payments over the lease term
- Intangible asset is equal to the lease liability adjusted for any prepayments and indirect costs (including lease incentives)
 - Lease asset should be amortized on a straight-line basis over the lease term
 - Should be disclosed separately from other long-term assets
- Interest expense should be recognized as incurred

GASB 87 – Leases, Continued

Lessor Accounting:

- Record a long-term lease receivable and deferred inflow of resources at the start of the lease
- Lease receivable is equal to the present value of lease payments to be received over the lease term
- Deferred inflow is equal to the lease liability plus any prepayments
 - Deferred inflow should be amortized (and revenue recognized) on a straight-line basis over the lease term
- Interest revenue should be recognized as earned
- Lessor should continue reporting the underlying asset (should generally continue to depreciate the asset)

GASB 87 – Leases, Continued

Lease Contracts with Multiple Components:

- A lease contract may include both a lease component (right to use an asset) and a non-lease component (such as maintenance services)
- The lease and nonlease components should be accounted for separately
- Components should be allocated based on prices included in lease contract or based on other observable information and professional judgment

Lease Modifications:

- A lease modification (such as a change in the contract price or lease term) should result in the remeasurement of the lease liability and lease receivable by the lessee and lessor

GASB 87 – Leases, Continued

Note Disclosures:

- General description of the lease agreement
- Total amount of intangible lease assets and the related accumulated amortization (lessee)
- Total cost of assets on lease, by major class, and the related accumulated depreciation (lessor)
- Current year expense (lessee) or revenue (lessor)
- Schedule of future lease payments to be paid or received in each of the five subsequent years and in five-year increments thereafter

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

- Effective for periods beginning after June 15, 2018 (Fiscal Year Ending June 30, 2019)
- Clarifies which liabilities governments should include when disclosing information related to debt
- Debt disclosures should be included for any liability that arises from a contractual obligation to pay cash to settle an amount that is fixed and the date the contractual obligation is established (excluding leases and accounts payable)
- Governments should also disclose the amount of unused lines of credit, assets pledged as collateral for debt, terms specified in debt agreements related to significant events of default, termination, or subjective acceleration clauses
- Direct borrowings or direct placements of debt should be reported/disclosed separately from other debt

GASB 89 – Accounting for Interest Costs Incurred Before the End of a Construction Period

- Effective for periods beginning after December 15, 2019 (Fiscal Year Ending June 30, 2021)
- Improves consistency of reporting for governmental and business-type activities and simplifies accounting for interest costs related to construction
- In financial statements prepared using the economic resources measurement focus (full accrual statements), interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred; interest should no longer be capitalized as part of the asset cost

GASB 90 – Majority Equity Interests – An Amendment of GASB 14 and 61

- Effective for periods beginning after December 15, 2018 (Fiscal Year Ending June 30, 2020)
- Modifies previous guidance for reporting a government's majority equity interest in a legally separate organization
- Majority equity interest should be reported as an investment if it meets the definition of an investment, as provided by GASB 72
- A majority equity interest that does not meet the definition of an investment should be reported as a component unit

GAAP Update – Projects on the Horizon

Exposure Drafts:

- Conduit Debt (proposed Statement would be effective for FY2022)

Preliminary Views:

- Financial Reporting Model Improvements
- Recognition of Elements of Financial Statements

Other Projects:

- Implementation Guides for GASB 84 and 87
- Public-Private Partnerships
- Subscription-Based IT Arrangements

GAAP Update – Projects on the Horizon

Pre-Agenda Research:

- Compensated Absences
- Deferred Compensation Plans
- Going Concern Disclosures
- Prior-Period Adjustments, Accounting Changes, and Error Corrections

Financial Reporting Model Improvements

Significant Proposed Changes:

- Replace current financial resources measurement focus with “short-term” financial resources measurement focus
- Governmental Fund Financial Statements reported on current and noncurrent activity format (separate capital and debt activity from operations)
- Budgetary Comparison Information reported as RSI only and would include variances between original and final budget amounts as well as variances between final budget and actual
- Schedule of government-wide expenses by natural classification for CAFRs

Questions?

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