GASB UPDATE

UGFOA

April 19, 2017

Effective Dates

GASB Statement	Effective Date	Fiscal Year Effective
74 – OPEB – Other Post-Employment Benefits - Plans	Periods beginning after June 15, 2016	FYE June 30, 2017
75 – OPEB - Employers	Periods beginning after June 15, 2017	FYE June 30, 2018
77 – Tax Abatement Disclosures	Periods beginning after December 15, 2015	FYE December 31, 2016
78 – Pension amendments	**Periods beginning after December 15, 2015**	**FYE December 31, 2016**
80 - Blending Requirements for Certain Component Units	Periods beginning after June 15, 2016	FYE June 30, 2017

Effective Dates

GASB Statement	Effective Date	Fiscal Year Effective
81 - Irrevocable Split-Interest Agreements	Periods beginning after June 15, 2016	FYE June 30, 2017
82 - Pension Issues	Periods beginning after June 15, 2016	FYE June 30, 2017
83 - Certain Asset Retirement Obligations	Periods beginning after June 15, 2018	FYE ending June 30, 2019
84 – Fiduciary Activities	**Periods beginning after December 15, 2018**	**CYE December 31, 2019**
85 – Omnibus 2017	Periods beginning after June 15, 2017	FYE June 30, 2018

OTHER POSTEMPLOYMENT BENEFITS – OPEB

GASB 74 & GASB 75

Effective date

- Plans
  - Fiscal year ending 6/30/17
- Employers
  - Fiscal year ending 6/30/18

Background

- Economic substance of OPEB
  - Employee compensation paid in a later period
  - Substantively equivalent to pensions
- Treatment until now
  - Parallel treatment for pensions and OPEB
    - Compromised by new pension guidance
- New GASB OPEB standards
  - Restore parallel treatment
  - GASB 74 – Plans
  - GASB 75 - Employers

Historically

- GASB OPEB Accounting Standards
  - GASB 43 - Applied to the plan itself (the trust)
  - GASB 45 - applied to the plan sponsor's (employer's) financial statements
- Changed from "Pay-As-You-Go" to accrual accounting for postemployment medical, dental, life insurance and "other"

Fundamental OPEB changes

- Employer liability
  - Net employer liability vs. unfunded contributions
- Employer expense
  - Recognition divorced from funding
- Cost-sharing plans
  - Employer’s proportionate share of total liability and expense

Other observations

- Incorporates guidance on pensions not administered through a trust
- Retains requirement to consider an implicit rate subsidy as OPEB
- Preserves alternative measurement method for small employers and plans (<100 participants)

Other observations

- Broadened sensitivity disclosure
  - +/- 1% in the discount rate

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB liability (asset)	$ 64,687	$ 6,366	$ (41,620)

  - +/- 1% in the health-care trend rate

	1% Decrease (8.5% decreasing to 4.5%)	Healthcare Cost Trend Rates (9.5% decreasing to 5.5%)	1% Increase (10.5% decreasing to 6.5%)
Net OPEB liability (asset)	$ (61,284)	$ 6,366	$ 88,512

TAX ABATEMENT DISCLOSURES

GASB 77

Effective for fiscal year ending 12/31/16

Tax expenditures

- "Opportunity cost" of foregoing the collection of taxes to which otherwise entitled
- Subcategories
  - Tax exemptions
  - Tax deductions
  - *Tax abatements*

Definition: tax abatements

- A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) 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

Essential characteristics

- Type of revenue
  - A *tax* (*not* a fee or charge)
- Existence of an agreement
  - Identifiable agreement with a specific individual or entity
    - Government promises to reduce the counterparty's tax liability
    - The counterparty promises to take certain actions
  - Must *precede* any reduction in taxes
    - Does not have to be in writing
    - Does not have to be legally enforceable
- Purpose
    - Promote economic development or otherwise benefit the government or its citizens

Two types of tax abatements

- Agreements of the government itself
- Agreements of others that reduce the government’s revenue

General presentation

- Distinguish:
  - Government's own agreements
  - Agreements of others that reduce the governments revenue
- Individual display must be based on a quantitative threshold
  - Different thresholds may be used for government's own agreements and agreements of others
- Required only as long as abatements are outstanding
  - Information on a government's associated commitments not necessary once fulfilled
- Governments are *not* required to present information if they are legally prohibited from doing so (although that fact must be disclosed)

Specific disclosures

- **Agreements of the government**
  - Organized by major tax abatement program, *even for abatements that are disclosed individually*
- **Agreements of others** that reduce the government's revenue
  - Organized by government and specific tax abated, *even for abatements that are disclosed individually*

Disclosure: agreements of the government

- A brief description that includes:
  - Names and purposes of tax abatement programs
  - Specific taxes being abated
  - Authority for entering into the tax abatement agreement
  - Eligibility criteria for recipients
  - Abatement mechanism
    - How taxes are reduced (reduction of tax liability, rebate, reduction of assessed value)
    - How the amount is determined (specific dollar amount or percentage of taxes owed)
  - Provisions for recapturing abated taxes (“claw-back” provisions) and the conditions for recapture
  - Type of commitments made by recipients

Disclosure: agreements of the government

- Gross dollar amount of revenue reduction in period (accrual basis)
- If amounts received/receivable from other governments
  - Names
  - Authority
  - Dollar amount received/receivable
- Commitments in addition to tax reduction (until fulfilled)
  - Types
  - Most significant individual commitments
- Quantitative threshold for disclosure by individual agreement
- Description of general nature of information omitted because of legal prohibition and specific source of latter

Disclosure: agreements of other governments

- A brief description that includes:
  - Names of governments
  - Specific taxes being abated
- Gross dollar amount of revenue reduction in period (accrual basis)
- If amounts received/receivable from other governments
  - Names
  - Authority
  - Dollar amount received/receivable
- Quantitative threshold for disclosure by individual agreement
- Description of general nature of information omitted because of legal prohibition and specific source of latter

Disclosure: discretely presented component units

- Essential to fair presentation?
  - Yes? – disclose like an agreement of the government
  - No? – disclose like an agreement of another government

Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

GASB Statement No. 78

Effective for FYE 12/31/16

Overview

- Challenge
  - Employers in cost-sharing plans where neither the plan itself nor most of its participating employers are governmental entities
  - Difficult or impossible to obtain information to comply with GASB 68
- Resolution
  - Remove from scope of GASB 68
  - Provide a different approach

Criteria to qualify

- Plan is not a state or local pension plan
- Plan provides benefits to employees of nongovernmental employers
- No single government or governmental employers in the aggregate predominant

Financial reporting

- Use pre-GASB 68 guidance for cost-sharing plans
- Pension expense/expenditure = employer contributions associated with the period
- Even if billed in a subsequent period
- Employer liability limited to unpaid contributions
- Required supplementary information (RSI)
- Required contributions (ten most recent years)

Note disclosure

- Name of the pension plan
- Entity that administers the plan
- Identification as a cost-sharing plan with requisite private-sector characteristics
- Whether the pension plan issues a publicly available financial report and how to obtain it
- Brief description of benefit terms, including:
  - Number of government employees covered
  - Types of benefits provided
  - Authority for establishing/amending benefits

Note disclosure (cont.)

- Contribution requirements
  - Basis for determining employer contributions
  - Authority for establishing and amending
  - Required contribution rates
  - Dollar amount of required employer contributions
  - <u>Expiration date of collective-bargaining agreement</u>
  - <u>Minimum contributions required for future periods by collective-bargaining agreement(s), statutory obligations, or other contractual obligations</u>
  - <u>Whether employer is subject to any provisions regarding withdrawal from the pension plan</u>

Note disclosure (cont.)

- Information about employer payables
  - Balances if not otherwise identifiable
  - Significant terms
  - Description of what gave rise to the payables (e.g., related to past service upon entrance into the arrangement)

Certain External Investment Pools and Pool Participants

GASB Statement No. 79

Effective for FYE 6/30/16 (earlier application encouraged)

Background

- Money-market mutual funds
  - Traditionally allowed to use amortized cost
  - Fair value normally approximates amortized cost
  - Traditional criteria = SEC 2a7
- Challenge
  - Continued use of SEC Rule 2a7 no longer practical

Resolution

- Set specific GASB criteria to replace SEC Rule 2a7
  - When a pool is allowed to report all of its investments at amortized cost
  - When participants in a pool are allowed to report their participation in the pool using a net asset value (NAV) based on amortized cost
- Six criteria (see following slides)
  - Significant noncompliance disqualifies for period
  - Return to amortized cost = change in accounting principle

Six criteria for a pool to qualify

- 1.Stable net asset value (NAV) per share
- 2.Portfolio maturity
  - Remaining maturity≤397 days
  - Weighted average maturity≤60 days
    - Takes into account maturity shortening features
  - Weighted average life≤120 days
    - Ignores maturity shortening features

Criteria to qualify (cont.)

- 3.Portfolio quality
  - Highest category of short-term credit rating
- 4.Portfolio diversification
  - Single issuer≤5% total assets

Criteria to qualify (cont.)

- 5.Portfolio liquidity
  - Definitions
    - Illiquid = beyond 7 business days
    - Weekly liquid = within 5 business days
    - Daily liquid = within 1 business day
  - Requirements
    - When acquiring illiquid security
    - Liquid must remain ≥95% total assets
    - When acquiring any security
    - Daily liquid must remain ≥10% total assets
    - Weekly liquid must remain ≥30% total assets

Criteria to qualify (cont.)

- 6.Monthly calculation of a fair value shadow price
  - Deviation > 0.5% price/share = disqualification for use of amortized cost

Disclosure requirements –pools and participants

- Any limitations or restrictions on participant withdrawals
  - Notice periods
  - Maximum transaction amounts
  - Pool’s authority to impose liquidity fees or redemption gates
- *Redemption gate*: limitation on redemptions for a short period of time
  - *Liquidity fees*: A fee levied on investors that wish to redeem shares in times of stress

Blending Requirements for Certain Component Units

GASB Statement No. 80

Effective for FYE 6/30/17 (earlier application encouraged)

Background

- Situation
  - Legally separate entities that are component units
  - Governing body comprises
    - Representatives of the community
    - Primary government as sole corporate member
- Typically have not qualified for blending
  - Not the same board
  - Services not (almost) exclusively provided to government
  - Primary government not responsible for all debt

Challenge and solution

- Theory
  - Blending should be used if a component unit functions essentially as part of the government
    - Certainly the case if the government is the sole corporate member
- Solution
  - Establish an additional criterion for blending
    - Unit incorporated as not-for-profit corporation (but not included based on GASB 39), and
    - Primary government is sole corporate member

Blending NPOs

- This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member.

Blending NPOs

- A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which
  - the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and
  - the component unit is included in the financial reporting entity pursuant to the provisions in paragraphs 21−37 of Statement 14.
    - Essentially, this means that an NPO that is required to be reported as a discrete CU by GASB 39, should not be blended

Irrevocable Split-Interest Agreements

GASB Statement No. 81

Effective for FYE 12/31/17 (earlier application encouraged)

Background

- Description of a “split-interest” arrangement
  - Donor transfers resources to an *intermediary* to administer for a period of time (*term*) for the unconditional benefit of a government and some other beneficiary
- Intermediary
  - Government
  - Some other party
- Term based on
  - Specific number of years (*period-certain term*)
  - Lifetime (*life-contingent term*)

Background (cont.)

- Two types of “split interest”
  - Benefit over the term of the agreement
    - Lead interest
  - Benefit upon termination of the agreement
    - Remainder interest

Background (cont.)

- Example –Alumnus donates retirement portfolio to university in return for a lifetime annuity
  - Alumnus = *lead interest*
    - Annuity during lifetime
  - University = *residual interest*
    - Ownership of portfolio
- Calculation

	Total resources
Less:	Lead interest (at settlement amount)
	Remainder interest

Pension Issues

GASB Statement No. 82

Effective FYE 6/30/17* (earlier application encouraged)

*Later for one provision in some limited circumstances

Three issues

- Measure of payroll
- Selection of assumptions
- Classification of employer-paid member contributions

Measure of payroll

- Replace *covered-employee payroll* with *covered payroll*
  - Covered-employee payroll (total compensation of covered employees)
    - Even if a portion is not relevant to employer contributions
  - Covered payroll (portion of payroll on which contributions are based)
    - “Pensionable payroll”

Selection of assumptions

- Actuarial assumptions cannot *deviate* from Actuarial Standards of Practice (ASOPs)

Classification of employer-paid member contributions

- Classified like similar forms of compensation other than pensions (*fringe benefits*)

Certain Asset Retirement Obligations

GASB Statement No. 83

Effective for FYE 6/30/19

Definition – Asset Retirement Obligation

- An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.
- Examples:
  - Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets:
    - decommissioning nuclear reactors
    - dismantling and removing sewage treatment plants.
    - removal and disposal of wind turbines in wind farms
    - removal and disposal of x-ray machines
  - Other obligations to retire tangible capital assets may arise from contracts or court judgments.

Recognition

- A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and a corresponding deferred outflow of resources
- Requires that recognition occur when the liability is both incurred and reasonably estimable.
  - The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities

Internal Obligating Event

- Internal obligating events include:
  - The occurrence of contamination,
  - Placing into operation a tangible capital asset that is required to be retired,
  - Abandoning a tangible capital asset before it is placed into operation, or
  - Acquiring a tangible capital asset that has an existing ARO.

Measurement

- Based on the best estimate of the current value of outlays expected to be incurred.
- The best estimate should include:
  - Probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost.
  - If probability weighting is not feasible at reasonable cost, the most likely amount should be used.

Subsequent Valuation

- Requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually.
- In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays.

(cont.)

Subsequent Valuation (cont.)

- A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays.
- The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

Accounting and reporting

- A government may have a minority share of ownership interest in a jointly owned tangible capital asset with a non governmental entity
  - a nongovernmental entity is the majority owner (>50%), or
  - a governmental entity is a joint owner in which no joint owner has a majority ownership, a nongovernmental joint owner has operational responsibility for the jointly owned tangible capital asset
- The nongovernmental joint owner reports the associated ARO in accordance with the guidance of another recognized accounting standards setter

Accounting and Reporting

- In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

Disclosures

- If governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities:
  - disclosure of how those funding and assurance requirements are being met by a government
  - the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

(Cont.)

Disclosures (Continued)

- Information about the nature of a government's AROs,
- The methods and assumptions used for the estimates of the liabilities, and
- The estimated remaining useful life of the associated tangible capital assets.
- If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable,
  - disclose that fact and the reasons therefor.
- Requires similar disclosures for a government's minority shares of AROs.

Fiduciary Activities

GASB Statement No. 84

Effective for December 31, 2019

Summary

- Establishes criteria for identifying fiduciary activities of all state and local governments.
- The focus of the criteria generally is on
    1) whether a government is controlling the assets of the fiduciary activity and
    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.

Reporting

- An 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.
- An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

Types of Fiduciary Funds

- This Statement describes four fiduciary funds that should be reported, if applicable:
  - (1) pension (and other employee benefit) trust funds,
  - (2) investment trust funds,
  - (3) private-purpose trust funds, and
  - (4) custodial funds.
- Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

Fiduciary Component Units

- A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

Liability Recognition

- This Statement also 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. 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.

Omnibus 2017

GASB Statement No. 85

Topics

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus

Topics

- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Effective Date

- The requirements of this Statement are effective for reporting periods ending June 30, 2018 and later. Earlier application is encouraged and is permitted by topic to the extent that all requirements associated with a single topic are implemented simultaneously.
  a. Paragraph 4 regarding blending component units
  b. Paragraph 5 regarding goodwill and negative goodwill
  c. Paragraphs 6 and 7 regarding fair value measurement and application
  d. Paragraphs 8−12 regarding employer accounting and reporting for pensions
  e. Paragraphs 8−12 and 14−25 regarding employer accounting and financial reporting for OPEB
  f. Paragraph 13 regarding reporting by OPEB plans.