Association of Government Accountants
Ozarks Chapter – March 23, 2017

GASB Update

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The views expressed in this presentation are those of Mr. Brown. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.

Presentation Overview

New Pronouncements

- Other Postemployment Benefits
- GAAP Hierarchy
- Asset Retirement Obligations
- Fiduciary Activities

Pending Projects

- Leasing
- Financial Reporting Model Invitation to Comment

Q&A

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*
  - Statement 80—blending requirements
  - Statement 82—pension issues+
  - Implementation Guide 2016-1
- 2018
  - Statement 75—OPEB (employers)
  - Statement 81—irrevocable split-interest agreements
- 2019—Statement 83—certain asset retirement obligations
- 2020—Statement 84—fiduciary activities

Effective Dates—December 31

- 2017
  - Statement 73—pensions not within the scope of 67/68
  - Statement 74—OPEB (plans)
  - Statement 80—blending requirements
  - Statement 81—irrevocable split-interest agreements
  - Implementation Guide 2016-1
  - Statement 82—pension issues^{+}
- 2018
  - Statement 75—OPEB (employers)
- 2019
  - Statement 83—asset retirement obligations
  - Statement 84—fiduciary activities

Other Postemployment Benefits: Statements 74 and 75

Overview

- **What:** The Board issued Statements 74 (plans) and 75 (employers), making OPEB accounting and financial reporting consistent with the pension standards in Statements 67 and 68
- **Why:** Pension and OPEB standards were updated subsequent to a review of the effectiveness of the standards – objective was to establish a consistent set of standards for all postemployment benefits, providing more transparent reporting of the liability and more useful information about the liability and costs of benefits
- **When:** Effective for periods beginning after June 15, 2016 (plans) and June 15, 2017 (employers)

Plan and Asset Reporting

- Scope includes defined benefit and defined contribution OPEB plans administered through trusts that meet specified criteria
- Also addresses assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are *not* administered through trusts that meet the criteria
  - Assets reported as assets in employer's governmental/ proprietary funds
  - Assets held for other government reported in an agency fund
- Few changes from Statement 43 for financial statement recognition
- Notes/RSI changes primarily to reflect changes in measurement of defined benefit liabilities of employers

Employer Scope and Applicability

- Applies same definition of OPEB as used in Statement 45
  - All postemployment healthcare benefits
  - Other forms of postemployment benefits not provided through a pension plan
- Addresses both defined benefit OPEB and defined contribution OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as those payments come due

Liability to Employees for OPEB

- 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
- 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
- Employer's liability to employees for OPEB measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the employer's current fiscal year
  - Based on an actuarial valuation obtained at least biennially no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end

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

Measurement of the Total OPEB Liability: Projections of OPEB Payments

- Consider established pattern of practice with regard to sharing of benefit-related costs with inactive employees
- Based on claims costs or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice
- Includes taxes or other assessments expected to be imposed on benefit payments
- Consider legal or contractual benefit caps if determined to be effective

Measurement of the Total OPEB Liability: Alternative Measurement Method

- Alternative measurement method may be applied if fewer than 100 employees (active and inactive) are provided benefits through plan as of the beginning of the measurement period
  - Generally, same simplifications to assumptions can be used as were permitted by Statement 45

Changes in Liability

- Recognize most changes in liability for the current reporting period as OPEB expense immediately, except:
  - Changes in total OPEB liability:
    - Differences between expected and actual experience with regard to economic and demographic factors in the measurement of the total OPEB liability
    - Changes of assumptions in the measurement of the total OPEB liability
  - For OPEB administered through trust in which specified criteria are met:
    - Difference between projected and actual earnings on OPEB plan investments
    - Employer 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
- Collective measure × proportion = proportionate share of collective measure

Notes and RSI

- Similar to those required for pensions
- Disclosure of effect on net/total OPEB liability of a discount rate +/- 1 percent
- Disclosure of effect on net/total OPEB liability of a healthcare cost trend rate +/- 1 percent
- Single and agent employers: 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 employers: 10-year RSI schedules for proportionate share/ratios, and statutorily or contractually determined contributions

GAAP Hierarchy: Statement 76

The GAAP Hierarchy

- **What:** In June 2015, the Board issued Statement 76 and cleared a revised compilation of implementation guidance
- **Why:** The GAAP hierarchy was incorporated (by Statement 55) from the auditing literature essentially “as is”—this Statement simplifies the hierarchy and explains how to identify the relevant literature within the hierarchy
- **When:** Effective for periods beginning after June 15, 2015

Categories of Authoritative GAAP

Category	Sources	Due Process
A	GASB Statements	Formally approved by the Board for the purpose of creating, amending, superseding, or interpreting standards, <u>AND</u> exposed for a period of public comment
B	GASB Technical Bulletins and Implementation Guides; AICPA literature specifically cleared by GASB	Cleared by the Board, specifically made applicable to state and local governmental entities, <u>AND</u> exposed for a period of public comment

Implementation Guidance

- Now classified as Category B authoritative GAAP
- Revised due process
  - Public exposure of new Q&A guidance going forward
  - Will continue to issue Guides to individual pronouncements (such as Statements 74 and 75 on OPEB) and annual updates with new Q&As on various pronouncements
  - Board clearance of the final Implementation Guides

Statement No. 83, *Certain Asset Retirement Obligations*

Certain Asset Retirement Obligations

- **What:** The Board issued Statement 83 to establish accounting and financial reporting standards for legal obligations to retire certain capital assets, such as decommissioning nuclear power plants and removing sewage treatment plants
- **Why:** Statement 18 addressed only municipal landfills but governments have retirement obligations for other types of capital assets. Diversity exists in practice.
- **When:** Effective for fiscal years beginning after June 15, 2018. Earlier application is encouraged.

Definitions and Scope

- **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)
- Includes:
  - Nuclear power plant decommissioning
  - Coal ash pond closure
  - Contractually required land restoration, such as removal of wind turbines
  - Other similar obligations

Recognition & Measurement

Initial Recognition	ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events. 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	• At least annually, adjust for general 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	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.

Measurement Exception for a Minority Owner of a Jointly Owned Capital Asset

- Minority share (less than 50 percent) of ownership interest in an undivided interest arrangement in one of the following:
  - A nongovernmental entity is the majority owner
  - No majority owner, but a nongovernmental owner has the operational responsibility
- Initial and Subsequent Measurement Exception —
  - the governmental minority owner should report its minority share of ARO using the measurement produced by the nongovernmental joint owner
- The measurement date of such an ARO should be no more than one year and one day prior to the government's financial reporting date
- Specific disclosure requirements in this circumstance

Effects of Funding and Assurance

- If legally required to provide funding and assurance, disclose that fact
- Do not offset ARO with assets restricted for payment of the ARO
- Costs to comply with funding and assurance provisions are period costs separate from the ARO expense

Disclosures

- General description of ARO and associated tangible capital assets
  - Include source of AROs (federal, state, or local laws and regulations, contracts, or court judgments)
- 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

Statement No. 84,
Fiduciary Activities

Fiduciary Activities

- **What:** The Board issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements
- **Why:** 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
- **When:** Effective for fiscal years beginning after December 15, 2018. Earlier application is encouraged.

When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:

- Component units that provide postemployment benefits
- Component units that do not provide postemployment benefits
- Postemployment benefit arrangements that are not component units
- All other activities

Fiduciary Fund Types

- 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* would 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

Pending Projects

Leases

Leases

- **What:** In January 2016, the GASB issued an Exposure Draft proposing revisions to existing standards on lease accounting and financial reporting (primarily Statement 62) based on public comments received on the November 2014 Preliminary Views
- **Why:** The existing standards have been in effect for decades without review to determine if they remain appropriate and continue to result in useful information; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers
- **When:** Comment period ended May 31, 2016; final Statement expected May 2017

Exposure Draft: Scope and Approach

- Applied to any contract that meets the definition of a lease: “A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”
  - The right-to-use asset is that “specified in the contract”
  - Control is manifested by (1) the right to obtain present service capacity from use of the underlying asset and (2) the right to determine the nature and manner of use of the underlying asset
- Leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for leases with some exceptions, such as short-term leases

Exposure Draft: Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary 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	• 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

Exposure Draft: Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	• 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 in a systematic and rational manner

Exposure Draft: Short-Term Leases & Effective Date

Short-Term Leases

- At beginning of lease, maximum possible term under the contract is 12 months or less
- Lessees recognize expenses/expenditures based on contract terms
  - Don’t recognize assets or liabilities associated with the right to use the underlying asset for short-term leases
- Lessors recognize lease payments as revenue based on the payment provisions of the contract
  - Don’t recognize receivables or deferred inflows associated with lease

Effective Date

- *February 2017* – Board tentatively changes proposed date to reporting periods beginning after December 15, 2019.

Project Timeline

Pre-Agenda Research Started	April 2011
Added to Current Technical Agenda	April 2013
Preliminary Views Approved	November 2014
Exposure Draft Issued	January 2016
Final Statement Expected	May 2017

Invitation to Comment, *Financial Reporting Model Improvements—Governmental Funds*

Financial Reporting Model Improvements

- **What:** In December 2016, the Board issued the first due process document in the project reexamining the effectiveness of the financial reporting model – Statements 34, 35, 37, 41, and 46, and Interpretation 6
- **Why:** Statement 34 introduced major fund reporting to the governmental fund financial statements but did not address issues related to their measurement focus and basis of accounting. The Invitation to Comment identifies potential changes that could significantly improve the usefulness of information in the governmental funds.
- **When:** Comment deadline March 31, 2017

Scope of the Invitation to Comment: Governmental Funds

- Recognition approaches (measurement focus and basis of accounting)
- Format of the governmental funds statement of resource flows
- Specific terminology
- Reconciliation to the government-wide financial statements
- For certain recognition approaches, a statement of cash flows

Concerns with Governmental Funds Financial Statements

- Lack of conceptual consistency in recognition of assets and liabilities
- Lack of foundation from which to develop standards for complex transactions
- Some consider it ineffective in conveying that the information is related to fiscal accountability (rather than operational accountability)
  - Focus on financial resources, rather than on economic resources
  - Shorter time perspective than information in government-wide financial statements

Recognition Approaches

- Three possible recognition approaches to replace current financial resources/modified accrual:
  - Near-term financial resources
  - Short-term financial resources
  - Long-term financial resources

Common Characteristics of the Approaches

- Relationship with budgetary reporting
- Focus on financial resources, rather than on economic resources
- Same-page reconciliations to government-wide financial statements
- Titles and line item totals that indicate the measurement focus
- Notification on top of statement that the presentation is a short-term view and that the government-wide statements present the long-term view

Messages Conveyed by the Approaches

	Near-Term*	Short-Term	Long-Term
Information related to…	Spending and resources available for spending	Short-term (one year) financial assets and liabilities	Noncapital financial resources on the accrual basis of accounting
Focused on…	Amount available for spending in the next period	Government's one-year operating cycle	Both shorter and longer time perspectives
Financial resources are…	Resources expected to be converted to cash	Cash; claims to cash, goods, and services; consumable goods; equity securities of another entity	Cash; claims to cash, goods, and services; consumable goods; equity securities of another entity

* Length of near-term would be specified (for example, 60–90 days after reporting period)

What Would the Approaches Report?

	Near-Term	Short-Term	Long-Term
Assets	***Receivable*** at period-end and ***normally*** due to convert to cash within near term; long-term receivables when due	***Receivable*** at period-end and ***normally*** due to convert to cash within operating cycle; prepaids & inventories that will be consumed in the next operating cycle	All noncapital assets
Liabilities	***Payable*** at period-end and ***normally*** due within near term; principal on debt when due	***Payable*** at period-end and ***normally*** due within the next operating cycle	All noncapital-related liabilities

What Would the Approaches Report?

	Near-Term	Short-Term	Long-Term
Inflows and outflows of resources	Inflows—newly acquired financial resources that do not result in corresponding liabilities and are available for spending. Outflows—spending for the period; principal payments on matured debt and other-than-near-term obligations.	As the underlying transaction occurs and cash is collected or paid or due in the subsequent operating cycle	As the underlying transaction occurs, plus inflows and outflows for purchases and sales of capital assets and issuance and repayment of capital-related debt

Other Issues in the Invitation to Comment

- Format of governmental funds resource flows statement
  - Existing format
  - Current and long-term activities format
- Governmental funds cash flows statement
  - Could be needed for short-term and long-term financial resources approaches because the time perspective is not close to cash

Public Hearings and User Forums

Public Hearings	User Forums
April 28, 2017 in Atlanta, GA	April 27, 2017 in New York, NY
May 3, 2017 in Dallas, TX	May 12, 2017 in San Francisco, CA
May 11, 2017 in San Francisco, CA	May 18, 2017 in Washington, DC
May 21, 2017 in Denver, CO (GFOA)	
May 24, 2017 in Norwalk, CT	

Additional Information about the Proposals

Series of brief videos now available on the GASB website, www.gasb.org

Topics Expected to Be Addressed in an Exposure Draft

- **Extraordinary and special items**—explore options for clarifying the guidance for more consistent reporting
- **Management's discussion and analysis** (MD&A)
  - Enhance the financial statement analysis component
  - Eliminate boilerplate
  - Clarify guidance for presenting currently known facts, decisions, or conditions
- **Debt service funds**—explore options for providing additional information, either individually or in aggregate in the financial statements or the notes

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Comment Deadline	March 31, 2017
Public Hearings and User Forums	April and May 2017

Questions?

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