

2018 GASB Updates

Association of Government Accountants
Phoenix Chapter – Professional Development Training

MICHAEL STELPSTRA, PROFESSIONAL PRACTICE MANAGER

OFFICE PHONE: 602-553-0333

E-MAIL: PPG@AZAUDITOR.GOV

APRIL 27, 2018



Objectives

As a result of participating today –

- You'll know what important GASB changes are here or coming
- You'll also know more Arizona implementation details about OPEB

GASB Standards

Effective June 30, 2018 (part 1)

- **Statement 75**—accounting and financial reporting for postemployment benefits other than pensions
- **Statement 81**—irrevocable split-interest agreements
- **Statement 85**—omnibus 2017
 - Blending component units
 - Goodwill and negative goodwill
 - Fair value measurement and application
 - Pensions (employer)
 - OPEB (plans and employer)

GASB Standards

Effective June 30, 2018 (part 2)

- **Statement 86**—certain debt extinguishment issues
- **Implementation Guide No. 2017-1**—implementation guidance update—2017

GASB Standards

Effective June 30, 2019 and future

- **2019**
 - **Statement 83**—certain asset retirement obligations
 - **Statement 88**—certain disclosures related to debt, including direct borrowings and direct placements
- **2020**
 - **Statement 84**—fiduciary activities
- **2021**
 - **Statement 87**—leases

Proposed GASB Standards

- Majority equity interests
 - Exposure draft comment deadline: January 19, 2018
 - Effective: June 30, 2020
- Capitalization of interest costs
 - Exposure draft comment deadline: March 5, 2018
 - Effective: June 30, 2020

GASB due process documents coming in FY 2019—statements

- Conduit debt—reexamination of Interpretation 2
 - Exposure draft: July 2018
 - Final standard: April 2019
- Financial reporting model
 - Preliminary views: September 2018
 - Final standard: February 2022
- Conceptual framework: Recognition
 - Preliminary views: September 2018
 - Final concept statement: February 2022

GASB due process documents coming in FY 2019—implementation guides

- Annual update
 - Exposure draft: November 2018
 - Final guide: April 2019
- Statement 84—fiduciary activities
 - Exposure draft: December 2018
 - Final guide: May 2019
- Statement 87—leases
 - Exposure draft: January 2019
 - Final guide: TBD

GASB Statements 74 and 75

Other Postemployment Benefits

PLAN STATEMENT EFFECTIVE JUNE 30, 2017

EMPLOYER STATEMENT EFFECTIVE JUNE 30, 2018

GASB OPEB standards

Effective June 30, 2018

Statement No. 75 defines OPEB as:

Postemployment healthcare benefits—including medical, dental, vision, hearing, and other health-related benefits—whether provided separately from or provided through a pension plan

Other forms of postemployment benefits—for example, death benefits, life insurance, disability, and long-term care—when provided separately from a pension plan.

What is OPEB?

- Healthcare benefits paid in the period **after** employment, **regardless of how they are provided**
- Benefits paid in the period **after** employment **provided separately from pension benefits**
 - Examples: death benefits, life insurance, disability, and long-term care
- OPEB does not include termination benefits or termination payments for sick leave

OPEB reporting

- Employers will report net OPEB liability or assets—
FY 2018 statements
- Similar to the reporting of net pension liability with
enhanced note disclosures and RSI

Arizona defined benefit pension plans' OPEB

ASRS

- Health insurance premium benefit
- Long-term disability

PSPRS, CORP, EORP

- Health insurance premium benefit

- **Health insurance premium benefit**—Monthly explicit supplement for retired and disabled members who purchase health insurance through ASRS or if available through their former employer. The State allows retirees to stay in its health plan.

Arizona defined contribution pension plans' OPEB

ELECTED OFFICIALS DEFINED CONTRIBUTION RETIREMENT SYSTEM DISABILITY PROGRAM

- Defined benefit, cost-sharing
- Permanent disability benefits
- Effective—January 1, 2014

PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN DISABILITY PROGRAM

- Defined benefit, cost-sharing
- Benefits:
 - Public safety—Accidental disability, catastrophic disability, and death benefits
 - Corrections—Accidental disability, total and permanent disability, and death benefits
- Effective:
 - Public safety—July 1, 2017
 - Corrections—July 1, 2018

OPEB vs. pension liabilities (assets)

	Health	Disability	Pension
ASRS*	(\$54 million)	\$36 million	\$15,578 million
PSPRS agent**	(\$20 million)	n/a	\$8,737 million
CORP agent**	(\$23 million)	n/a	\$1,481 million
CORP AOC*	\$6 million	n/a	\$401 million
EORP*	(\$9 million)	n/a	\$1,219 million

*Based on audited CAFR.

**Estimates based on unaudited actuarial determined liability and market value of assets. Results will differ by employer.

Types of healthcare OPEB in Arizona

Explicit subsidy:

- Employer pays a portion of a retiree's health insurance premium by
 - Contributing to a trust that pays benefits when due -and/or-
 - Paying insurance premiums as benefits come due (pay as you go)
- Trusts include ASRS, PSPRS, CORP, EORP, and a few local government plans
- Some local governments offer pay-as-you-go plans in addition to the state plans

Types of healthcare OPEB in Arizona

Implicit subsidy:

- Retiree continues on former employer's health insurance plan combining active and retired members
 - No explicit contributions or benefit payments
 - Offered by the State to state employees but offered by only a few other governments

Single-employer OPEB plans

- Entities with actuarial accrued liabilities for health insurance (explicit or implicit subsidy):
 - State of Arizona
 - Coconino County
 - Coconino College
 - 19 school districts
 - At least 8 cities/towns

Arizona plan-reported information

- Similar information as pensions
- Cost-sharing
 - Audited schedule of employer allocations
 - Audited schedule of OPEB amounts by employer
 - Schedule of net deferred outflows and inflows of resources by employer to be recognized in OPEB expense, five years and in aggregate thereafter
- Agent
 - Employer's individual GASB Statement No. 75 employer reporting accounting schedules—actuarial report
 - Audited schedule of changes in fiduciary net position by individual employer
- Defined-contribution-related plans

Auditor General reporting guidelines

- Example OPEB note disclosures and RSI for counties, community colleges, and school districts available in summer 2018

<https://www.azauditor.gov/reports-publications/reporting-guidelines>

- Materiality considerations
- Prior period adjustment

Auditing considerations

- Similar auditing issues as pensions
- AICPA Audit and Accounting Guide *State and Local Governments* includes a new chapter for OPEB
- Census data testing
 - Cost-sharing—plan auditor
 - Agent
 - Active members—employer auditor
 - Retired members—plan auditor

GASB 81

Irrevocable split-interest agreements

EFFECTIVE JUNE 30, 2018

GASB 81

Irrevocable split-interest agreements

Split-interest agreements:

An agreement in which the donor enters into a trust or other legally enforceable agreement (with characteristics that are equivalent to a split-interest agreement) under which the donor transfers resources to an intermediary to administer for the benefit of at least two beneficiaries, one of which could be a government.

GASB 86

Certain debt extinguishment issues

EFFECTIVE JUNE 30, 2018

GASB 86

Certain debt extinguishment issues

- Establishes standards for in-substance defeasance transactions where only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt
- Amends requirements for prepaid insurance associated with debt that is extinguished
- Establishes an additional disclosure requirement related to debt that is defeased in substance

GASB 84

Fiduciary activities

EFFECTIVE JUNE 30, 2020

GASB 84

Fiduciary activities

Separate criteria for

- Fiduciary component units
- Pension and OPEB arrangements that are not component units
- Other fiduciary activities

Other fiduciary activities—criteria

- a. The assets associated with the activity are controlled by the government

Other fiduciary activities—criteria

- b. The assets associated with the activity are **not** derived either:
 - 1) Solely from the government's own-source revenues or
 - 2) From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the government does not have administrative involvement or direct financial involvement.

Other fiduciary activities—criteria

- c. The assets associated with the activity have one or more of the following characteristics:
 - 1) The assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government.
 - 2) The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals.

Reporting requirements

Trust funds

- Pension/OPEB
- Investment
- Private purpose

Custodial funds

- Statement of fiduciary net position
- Statement of changes in fiduciary net position
 - Additions by source
 - Deductions by type



GASB 87

Leases

EFFECTIVE JUNE 30, 2021

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.

Accounting

Lessee

- Lease liability
- Lease asset

Lessor

- Lease receivable
- Deferred inflow of resources
- Underlying asset

Invitations to comment

Financial reporting model

Timeline:

- Invitation to comment—**December 2016**
 - Comment deadline was March 31, 2017
- Preliminary views—**September 2018**
- Exposure draft—**June 2020**
- Final statement—**February 2022**

Financial reporting model

Invitation to comment—Governmental funds

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

Financial reporting model

Preliminary views—September 2018

Government-wide statement of activities—The Board will consider alternatives for the format of the statement of activities.

Proprietary fund financial statements—The Board will consider reporting alternatives related to the existing requirement to separately present operating and nonoperating revenues and expenses.

Budgetary comparisons—The Board will consider alternatives for the appropriate method of communication (as a basic financial statement or required supplementary information) for budgetary comparison information and which budget variances, if any, should be required to be presented.

Permanent funds—The Board will consider alternatives for reporting information about permanent funds.

Financial reporting model

Exposure draft—June 2020

Management's discussion and analysis—The Board will consider alternatives for enhancing the financial statement analysis component of management's discussion and analysis (MD&A), eliminating components of MD&A that are boilerplate and no longer necessary for understanding the financial reporting model, and clarifying guidance for presenting the section of MD&A on currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

Debt service fund presentations—The Board will consider alternatives for providing additional information about debt service funds, either individually or in the aggregate, in the basic financial statements.

Extraordinary and special items—The Board will consider alternatives to improve the consistency of application of the guidance for reporting extraordinary and special items.

Revenue and expense recognition

Timeline:

- Invitation to comment—**January 2018**
 - Comment deadline is April 27, 2018
- Preliminary views—**May 2020**
- Exposure draft—**December 2021**
- Final statement—**March 2023**

Revenue and expense recognition

- Exchange/nonexchange model
- Performance obligation/no performance obligation model
- Alternative model

Questions?

Thank you for your attention!
