GASB Update

Florida GFOA

GASB Update—Pushing All of the Hot Buttons

The views expressed in this presentation are those of Mr. Bean.
Official positions of the GASB are reached only after extensive due process and deliberations.

FINANCIAL ACCOUNTING FOUNDATION
FINANCIAL ACCOUNTING STANDARDS BOARD
GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates—September 30, 2017

- Statement 73—*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- Statement 74—*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB plan reporting)
- Statement 77—*Tax Abatement Disclosures*
- Statement 78—*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- Statement 80—*Blending Requirements for Certain Component Units*
- Statement 82—*Pension Issues*
- Implementation Guide—2016-1, *Implementation Guidance Update—2016*

Effective Dates—September 30

- **2018**
  - Statement 75— *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB—Employers)
  - Statement 81—*Irrevocable Split-Interest Agreements*
  - Statement 85—*Omnibus* (primarily OPEB—bring in line with Statements 78 and 82)
  - Statement 86—*Certain Debt Extinguishment Issues*
  - Implementation Guide—2017-1, *Implementation Guidance Update—2017*
  - Implementation Guide—2017-2, *OPEB Plan Implementation Guide*
- **2019—**Statement 83—*Certain Asset Retirement Obligations*
- **2020—**Statement 84—*Fiduciary Activities*
- **2021—**Statement 87—*Leases*

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Expected Effective Dates—September 30

Current GASB Projects

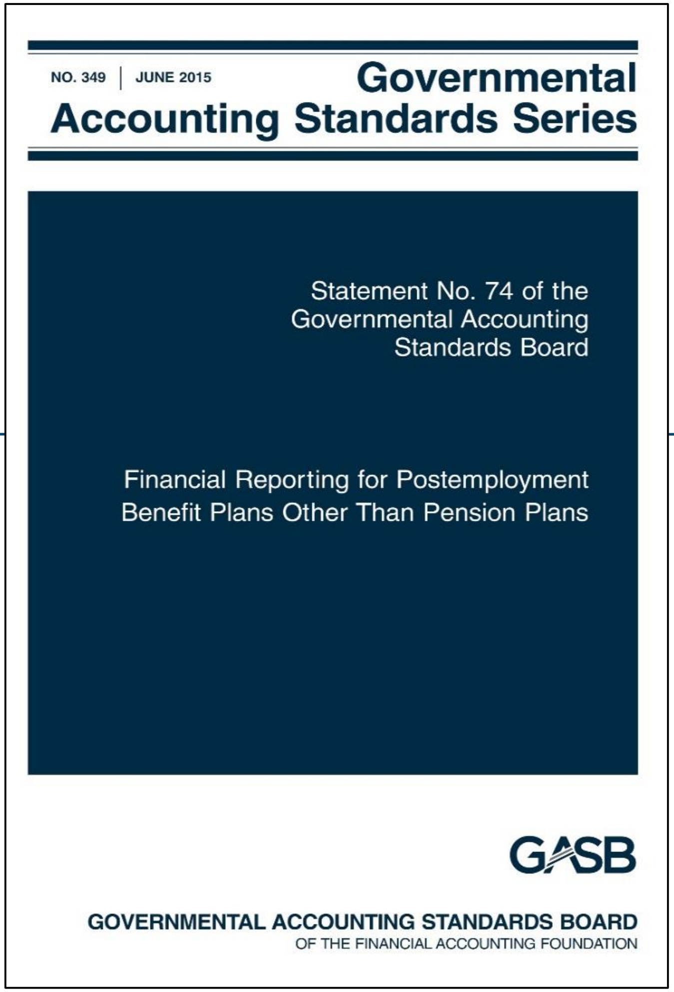
- **2018**
  - OPEB Employer Implementation Guide
- **2019**
  - Certain Debt Disclosures, including Direct Borrowing

Pension and OPEB Implementation Issues

What Issues Have Been Raised by Stakeholders?

- Current Practice Issues
  - Discount rate
    - Deviations from Actuarial Standards of Practice (ASOPs)
  - Using pension assets or future revenues to make contributions
  - Side trusts (Section 115)
- Statements 82 and 85
  - Covered-employee payroll
  - Treatment of employer–paid member contributions

Postemployment Benefit Plans Other Than Pension Plans: Statement 74


NO. 349 | JUNE 2015
Governmental Accounting Standards Series

Statement No. 74 of the Governmental Accounting Standards Board

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

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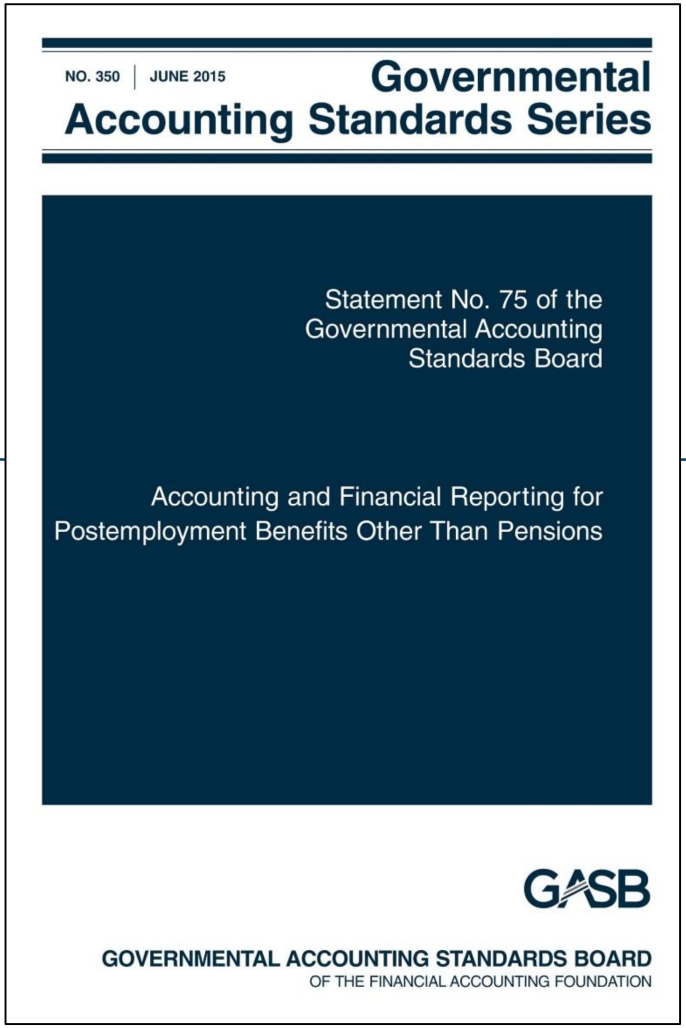
Other Postemployment Benefits—Employer: Statement 75



What Is the Fundamental Approach Employed in Statement 75?

- Fundamental approach for OPEB is the same as required for pensions in Statement 68
  - Viewed in the context of an ongoing, career-long employment relationship
  - Focus on the cost to taxpayers over time of providing government services
  - Accounting-based versus funding-based approach to measurement

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
- 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

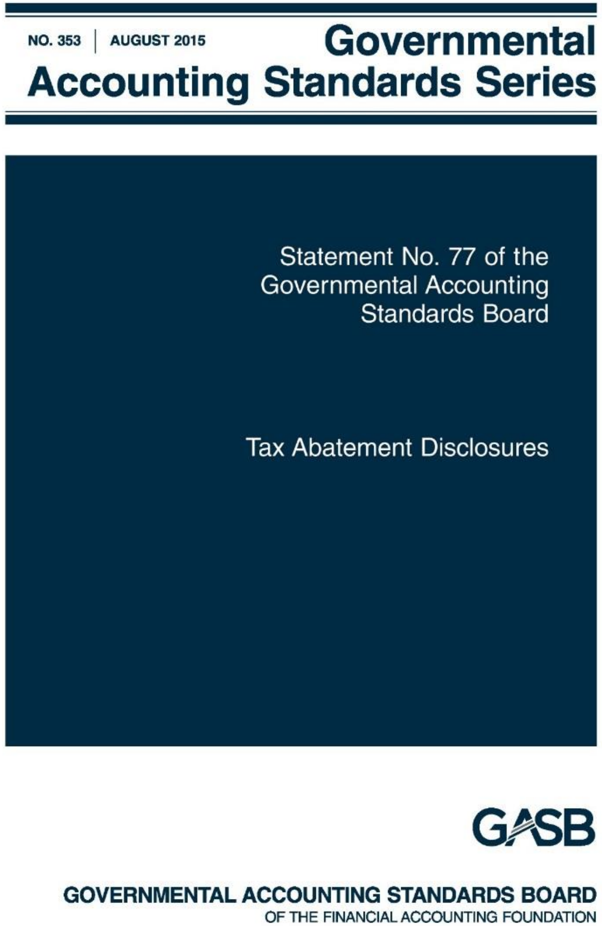
How Is the Timing of Liability to Employees for OPEB Determined?

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

What Are the Basic Disclosure Requirements for OPEB?

- Similar to those required for pensions
- 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

Tax Abatement Disclosures: Statement 77


NO. 353 | AUGUST 2015

Governmental Accounting Standards Series

Statement No. 77 of the Governmental Accounting Standards Board

Tax Abatement Disclosures

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What Is the Definition of a Tax Abatement?

- Statement 77 applies only to transactions meeting this definition:

  - A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which:
    - One or more governments promise to forgo tax revenues to which they are otherwise entitled and
    - 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.

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Why Is Substance over Form Important?

- The Statement does not include or exclude transactions based on their form or name – governments should apply the criteria contained in the definition
- Key points:
  - A principal distinction between tax abatements and other tax expenditures is the existence of an agreement with an individual or entity
  - The agreement generally is in writing but not necessarily
  - The agreement may or may not be legally enforceable
  - The agreement must precede the reduction of taxes and the recipient's fulfillment of the promise to act
  - The tax reduction may occur before, during, or after fulfilment of the promise – as long as it occurs after the agreement has been entered into

What Are the General Disclosure Principles?

- A government would disclose separately (a) its own tax abatements and (b) tax abatements that are entered into by other governments and reduce the reporting government's taxes
- Disclose own tax abatements by major program
- Disclose those of other governments by the government and specific tax abated
- May disclose individual tax abatements above quantitative threshold established by the government
- Disclosure would commence in the period in which a tax abatement agreement is entered into and continue until the tax abatement agreement expires, unless otherwise specified

How Should Individual Abatements Disclosures Be Determined?

- If a government chooses to disclose individual abatement agreements, it should select a quantitative threshold and disclose all agreements that meet or exceed the threshold
  - Any quantitative threshold used by the government to determine which agreements to disclose individually should be described in the note disclosure
  - A government may use one threshold for its own abatements and a different threshold for other governments' abatements
  - A government may disclose some of its own abatements individually but disclose those of other governments in the aggregate, or vice versa
  - Tax abatements below the threshold (if any) should be presented in the aggregate, as described in the Statement

Summary of Required Disclosures

Brief Descriptive Information	Government's Own Abatements	Other Government's Abatements
Name of program	✓	
Purpose of program	✓	
Name of government		✓
Tax being abated	✓	✓
Authority to abate taxes	✓	
Eligibility criteria	✓	
Abatement mechanism	✓	
Recapture provisions	✓	
Types of recipient commitments	✓	

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Summary of Required Disclosures

Other Disclosures	Government's Own Abatements	Other Government's Abatements
Dollar amount of taxes abated	✓	✓
Amounts received or receivable from other governments associated with abated taxes	✓	✓
Other commitments by the government	✓	
Quantitative threshold for individual disclosure	✓	✓
Information omitted due to legal prohibitions	✓	✓

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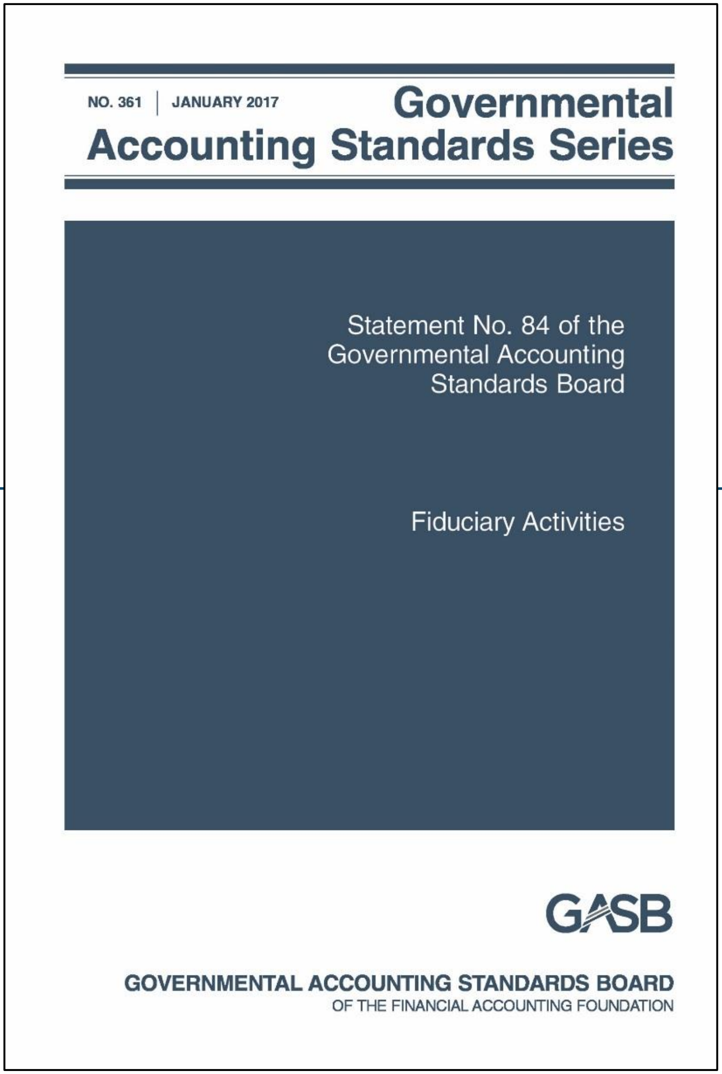
Fiduciary Activities: Statement 84


NO. 361 | JANUARY 2017 Governmental Accounting Standards Series

Statement No. 84 of the Governmental Accounting Standards Board

Fiduciary Activities

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Why Did GASB Address Fiduciary Activities?

- Wide diversity in practice
  - One of the last great frontiers in governmental accounting
  - Similar activities are not reported on a comparable basis
    - A single activity could be reported in a governmental fund, a fiduciary fund, or not reported at all

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

How Should Component Units That Provide Postemployment Benefits Be Classified?

- Fiduciary if (1) the activity meets the definition of a component unit in Statement 14, as amended, and (2) it is one of the following arrangements:
  - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

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When All Other Activities Be Reported as a Fiduciary Fund?

- Fiduciary activity if all three of the following are met:
- The government controls the assets
- Those assets are not derived either:
  - Solely from the government's own-source revenues
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have administrative or direct financial involvement
- One of the three following criteria

All Other Activities (continued)

- Assets are:
  - Administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary,
  - Dedicated to providing benefits to recipients in accordance with the benefit terms, and
  - Legally protected from the creditors of the government.
- Assets are:
  - For the benefit of individuals
  - 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.
- Assets are:
  - For the benefit of organizations or other governments that are not part of the financial reporting entity.
  - In addition, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

When Is a Government Controlling Assets?

- A government controls the assets of an activity if:
  - The government holds the assets.
  - The government has the ability to direct the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

When Does a Government Have Administrative Involvement or Direct Financial Involvement?

- Examples of administrative involvement
  - If it monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity
  - If it has the ability to exercise discretion in how assets are allocated
- Example of direct financial involvement
  - If it provides matching resources for the activities

What are the Fiduciary Fund Classifications?

- 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

How Should Stand-Alone Business-Type Activities Report Fiduciary Activities?

- A stand alone BTA’s fiduciary activities should be reported in separate fiduciary fund financial statements.
- Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

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Leases: Statement 87

What Is The Basic Approach Used for Leases?

- Single model
  - No classification of leases into operating/capital or other categories
  - Underlying assumption that leases are financings
  - Exceptions: short-term leases and those that transfer ownership

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 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

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	• 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

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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

Technical Agenda—What Should Be On Your Radar

- Current Agenda
  - Reporting model (reexamination)
  - Revenue and expense recognition
- Research Agenda
  - Going concern
  - Note disclosures (reexamination)

Questions?

- Visit www.gasb.org