ANNUAL STATE AND LOCAL GOVERNMENT ACCOUNTING UPDATE – WHAT’S NEW AND WHAT’S NEXT?

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Today’s presenter

Michelle Horaney
Partner, National Professional Standards Group/National Leader for Education

RSM US LLP
201 N. Harrison Street
Davenport, Iowa 52801
michelle.horaney@rsmus.com
+1 563 888 4038
Learning objectives

• After completing this program, you should
  – Have a better understanding of recent accounting and reporting developments and issues impacting state and local governments
    • To address applicable standards in the preparation of the financial statements of a state or local government reporting entity
    • To prepare for implementation of applicable standards with future effective dates
Agenda and topics

• Accounting and reporting standards – GASB update
  – Recently issued standards
  – GASB technical agenda projects
GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68

• Issued – June 2015; effective as follows:
  – Employers and non-employer contributing entities - periods beginning after June 15, 2016
  – Financial reporting for assets accumulated for purpose of providing the pensions – periods beginning after June 15, 2015
  – Amendments to GASB 67 & 68 – periods beginning after June 15, 2015

• Objective – improve financial reporting by establishing a single framework for the presentation of information about pensions, enhance the comparability of pension-related information reported
• Scope
  - Defined benefit and defined contribution pension plans provided to employees of state and local governments that are not within the scope of GASB 68
    • Not administered through trusts
    • Retirement income
    • Postemployment benefits other than retirement income that are provided through a pension plan such as death benefits, life insurance and disability benefits
  - Excluded: postemployment healthcare benefits or termination benefits provided separate from a pension plan
• Recognition and measurement in financial statement of defined benefit plans not administered through a trust; government-wide and proprietary fund financial statements:
  – Total pension liability – actuarial present value of projected benefit payments
    • Measurement date – no earlier than the end of the employer’s prior fiscal year
    • Actuarial valuation as of the measurement date or an actuarial valuation that has been rolled forward to the measurement date. Actuarial valuation date should be no more than 30 months and one day earlier than the employer’s most recent fiscal year end
Total pension liability (continued)

• Assumptions should be in conformity with actuarial standards of practice

• Projected benefit payments – should include the effects of automatic postemployment benefit changes including automatic cost-of-living adjustments (COLA), COLA if substantively automatic, projected salary changes and projected service credits

• Discount rate – yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher
GASB 73 – Accounting and financial reporting for pensions and related assets not within the scope of GASB 68 and amendments to GASB 67 & 68 (continued)

• Pension expenses deferred
  – Expense would be deferred and recognized over a period equal to the average remaining service periods of active and inactive (including retirees) employees for:
    • Differences between expected and actual changes in economic and demographic factors
    • Changes in assumptions about future economic and demographic factors

• Pension expense
  – Costs incurred related to the administration of the pensions
  – Change in liability other than the amounts that are amortized as outlined above
Deferred outflows of resources related to pensions should be reported for the following:

- Amounts paid by the government for pensions as the benefits come due subsequent to the measurement date of the collective total pension liability
- Amounts incurred by the government for pension administrative expenses subsequent to the measurement date of the collective total pension liability
• Recognition and measurement in financial statement of defined benefit plans not administered through a trust; primary governments and component units that provide pensions through the same defined benefit plan:
  – Liability should be recognized for the government’s (or component unit’s) proportionate share of the collective total pension liability

• Basis for the proportionate share should be consistent with the manner in which the amounts that are paid as benefits come due are determined. The use of projected payments as benefits come due over the long term as compared to the total projected payments of all entities that make benefit payments as benefits come due is encouraged.
• Notes to the financial statements, RSI and notes to RSI requirements mirror the requirements outlined in GASB 68
• Defined contribution pensions provided through plans not administered by a trust that
  – Provide an individual account for each employee
  – Define the contributions that an employer or non-employer contributing entity is required to make to an active employee’s account for periods the employee renders service
  – Provided that the pensions an employee will receive will depend only on the contributions to the employee’s account, actual earnings on investments of those contributions and effects of forfeitures of contributions made for other employees and plan administrative costs that are allocated to the employee’s account
• Defined contribution pension amounts to be reported within the government wide and proprietary fund financial statements
  – Pension expense equal to the amount of credits to employees accounts that are defined by the benefit terms as attributable to employees services in the period net of forfeited amounts
  – A change in pension liability equal to the difference between amounts recognized as pension expense and amounts paid by the employer as the benefits come due during the fiscal year

• Special funding situations
Disclosures required for defined contribution pension plans

- Name of plan, identification of entity that administers the plan
- Brief description of the benefit terms and the authority under which benefit terms are established or may be amended
- Fact there are no assets accumulated in a trust
- Authority under which requirements for the employer and nonemployer contributing entities to pay benefits are established or may be amended
- The amount paid by the employer for pensions as the benefits come due during the reporting period
- The amount of pension expense recognized by the employer in the reporting period
- The amount of forfeitures reflected in pension expense recognized by the employer in the reporting period
- The amount of the employer’s liability outstanding at the end of the period, if any
GASB 74 – Financial reporting for postemployment benefit plans other than pensions

• Issued – June 2015
• Effective for periods beginning after June 15, 2016
• Replaces GASB 43 and 25 (specifically as it relates to defined contribution plans)
• Scope – OPEB plans (defined benefit and defined contribution) meeting the following criteria:
  – Contributions made into the plan are irrevocable
  – Assets are dedicated to plan members for benefits
  – Assets are legally protected from employer and plan member creditors
• Establishes financial reporting standards for governments that hold assets accumulated for purposes of providing OPEB through OPEB plans that are not administered through a trust or equivalent arrangement
GASB 74 – Financial reporting for postemployment benefit plans other than pensions (continued)

• OPEB as defined by the standard includes the following:
  – Postemployment healthcare benefits including medical, dental, vision, hearing and other health-related benefits whether provided separately from or through a pension plan
  – Other forms of benefits such as death benefits, life insurance, disability and LT care when provided separately from a pension plan

• The following are excluded:
  – Insured plans
  – Termination benefits or termination payments for sick leave
GASB 74 – Financial reporting for postemployment benefit plans other than pensions (continued)

• Financial statements
  – Statement of fiduciary net position
  – Statement of changes in fiduciary net position

• Notes to the financial statements

• Required supplementary information
  – Notes to RSI
GASB 75 – Accounting and financial reporting for postemployment benefits other than pensions

• Issued – June 2015
• Effective – periods beginning after June 15, 2017
• Replaces GASB 45 and replaces GASB 57
• This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures
• Single employer, agent employer, cost-sharing employer (proportionate share)
• Special funding situations
• Measurement of OPEB liability
  – Total OPEB liability less plan assets as of the measurement date
    • Actuarially calculated
      - Performed at least every 2 years
      - Roll forward of liability required if actuarial valuation isn’t as of the Plan’s year-end
      - In accordance with Actuarial Standards of Practice issued by the Actuarial Standards Board; deviations will not be considered in conformity with the requirements of the standard
    • Alternative method – less than 100 plan members (both active and inactive)
GASB 75 – Accounting and financial reporting for postemployment benefits other than pensions (continued)

- Entry age actuarial cost method
- Projected plan benefits attributed to past periods of service
  - Claims costs or age-adjusted premiums based approximating claims costs
  - Plan benefits provided through plan document and past practice
  - Legal or contractual agreements and caps
  - Projected salary changes and service credits including COLA
  - Taxes and assessments imposed on benefit payments
- Discounted to actuarial present value
  - Long term rate of return
  - Tax-exempt high quality municipal rate when conditions for using the long term rate aren’t met
GASB 75 – Accounting and financial reporting for postemployment benefits other than pensions (continued)

- **OPEB expense - immediate**
  - CY service cost
  - Interest on the liability
  - Changes in benefit terms

- **OPEB expense - deferred**
  - Changes of assumptions of economic and demographic factors or of other inputs
  - Differences between expected and actual experience of economic and demographic factors
  - Differences between actual and projected earnings on plan assets
  - Employer contributions subsequent to measurement date
  - Changes in proportionate share for cost sharing employer plans
• Note Disclosures
  - OPEB plan description
  - Assumptions and other inputs
  - OPEB plan fiduciary net position
  - Changes in the net OPEB liability
  - Measurement date
  - Special funding situation
  - Changes in assumptions
  - Deferred inflows/outflows balances
  - Discount rate sensitivity
  - Health care cost trend sensitivity
• Assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are not administered through trusts
  – Any asset accumulated for OPEB purposes should continue to be reported as assets of the employer or non-employer contributing entity
  – Assets accumulated by a state or local government for OPEB purposes in a fiduciary capacity should report the assets in an agency fund
• Disclosures required for a defined contribution OPEB plan that is administered through a trust:
  – Identification of an OPEB plan as a defined contribution plan
  – Authority under which the plan was created and can be amended
  – Classes of plan members covered
  – Number of plan members, participating employers and non-employer contributing entities
GASB 80 – Blending requirements for certain component units

• Issued – January 2016
• Effective – periods beginning after June 15, 2016
• Establishes an additional blending requirement for the financial statement presentation of component units
• Applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member
GASB 80 – Blending requirements for certain component units (continued)

• 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, as amended.
GASB 81 – Irrevocable split interest agreements

• Issued – March 2016
• Effective – periods beginning after December 15, 2016 applied retroactively
• Improve accounting and financial reporting by establishing recognition and measurement requirements for irrevocable split-interest agreements
• Enhance the transparency and decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying resources that are available to a government
• Irrevocable split-interest agreements created through trusts—or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements—in which a donor *irrevocably* transfers resources to an intermediary. The intermediary administers these resources for the *unconditional benefit* of a government and at least one other beneficiary.
A typical irrevocable split-interest agreement has two components: a lead interest and a remainder interest.

- Lead interest - provide resources to a government throughout the term of the agreement in the form of periodic disbursements. The amount of the disbursement can be a pre-established amount or a variable amount, for example, a specific percentage of the fair value of the assets measured at the disbursement date (a unitrust)

- Remainder interest – provide resources to a government as a final disbursement at the termination of the agreement.
GASB 81 – Irrevocable split interest agreements (continued)

• If a government is both the intermediary and the remainder interest beneficiary of an irrevocable split-interest agreement, the government should recognize the following:
  – Assets for resources received or receivable
  – A liability for the lead interest that is assigned to other beneficiaries
    • Measured based on a settlement amount (the stream of payments that is expected to be provided to other beneficiaries).
    • Re-measured at each financial reporting date, based on changes in the assumptions used to determine the settlement amount. The change resulting from the re-measurement of the amount recognized as the liability should be recognized as an increase or a decrease in the related deferred inflow of resources
  – A deferred inflow of resources for the government’s unconditional remainder interest.
    • Changes in assets recognized pursuant to irrevocable split-interest agreements—such as those resulting from interest, dividends, and changes in fair value—should be recognized as an increase or a decrease in the related deferred inflow of resources
GASB 81 – Irrevocable split interest agreements (continued)

• If a government is both the intermediary and the lead interest beneficiary of an irrevocable-split interest agreement, the government should recognize the following:
  - Assets for resources received or receivable
  - A deferred inflow of resources for the government’s unconditional lead interest
    • Measured based on a settlement amount (the stream of payments that is expected to be provided to the government beneficiary)
    • Benefit payments received during the period should be recognized as revenue and decrease the deferred inflow
    • Amount reported as a deferred inflow of resources should be re-measured at each financial reporting date
  - A liability for the remainder interest that is assigned to other beneficiaries.
    • Changes in assets such as those resulting from interest, dividends, and changes in fair value should be recognized as an increase or a decrease in the related liability
• If a third party is the intermediary of an irrevocable split-interest agreement, assets should be recognized for beneficial interests that meet *all* of the following criteria:
  
  − The government is specified by name as beneficiary in the legal document underlying the donation.
  
  − The donation agreement is irrevocable
  
  − The donor has not granted *variance power* to the intermediary with respect to the donated resources.
  
  − The donor does not control the intermediary
  
  − The irrevocable split-interest agreement establishes a legally enforceable right for the government’s benefit (an unconditional beneficial interest)
• The beneficial interest asset initially should be measured at fair value and re-measured at fair value at each financial reporting date. Changes in the fair value of the beneficial interest asset also should be recognized as an increase or a decrease in the related deferred inflow of resources.
  - Lead interest beneficiary - the government should recognize revenue for the beneficial interest applicable to the reporting period as stipulated in the irrevocable split-interest agreement.
  - Remainder interest beneficiary - the government should recognize revenue for the beneficial interest at the termination of the agreement, as stipulated in the irrevocable split-interest agreement.
GASB 82 - Pension issues

• Effective for **periods beginning after June 15, 2016**
• Amends GASB Statement No. 67, 68 and 73
• Addresses practice issues that have been raised as a result of implementation of 67, 68 and 73:
  – Presentation of payroll related matters in RSI
  – Selection of assumptions and deviations from guidance in Actuarial Standards of Practice
  – Classification of payments made by employers to satisfy the employee’s required contribution
• Presentation of payroll-related measures in RSI
  – The measure of payroll that is required by paragraph 32 of Statement 67 and paragraphs 46 and 81 of Statement 68 to be presented in RSI should be covered payroll
  • Covered payroll - the portion of compensation paid to active employees on which contributions to a pension plan are based
  – Covered payroll should also be used in the ratios required to be presented
Selection of assumptions - the selection of assumptions used in determining the total pension liability, a *deviation*, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice should not be considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73.
GASB 82 - Pension issues (continued)

• Classification of employer-paid member contributions – payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements
  – Statement 67 – these should be classified as plan member contributions; would not be considered a part of the employer’s contribution when computing employer’s proportionate share of the NPL
  – Statement 68 – these should be classified as employee contributions; reported as expense in the period the payment is made; disclosure of the arrangement
GASB 83 – Certain asset retirement obligations

• Issued – November 2016
• Effective – periods beginning after June 15, 2018
• Applied retrospectively for all prior periods presented
• Establishes uniform criteria for governments to recognize and measure certain AROs
• Enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to AROs
Asset retirement obligation (ARO) – a legally enforceable liability associated with the permanent retirement of a tangible capital asset
  − Sale, abandonment, recycling, or disposal
  − Does not encompass temporary idling

AROs result from normal operations of tangible capital assets, whether acquired or constructed, and include legally enforceable liabilities associated with the activities

Applies to a lessor in connection with the retirement of its leased property if those liabilities meet the definition of an ARO
Polling question #3

Do you believe, based on the definition of an asset retirement obligation, that GASB 83 will have an impact on your organization?

a. Yes
b. No
GASB 83 – Certain asset retirement obligations (continued)

• GASB 83 does not apply to the following:
  – Obligations that arise solely from a plan to sell or otherwise dispose of a tangible capital asset
  – Obligations associated with the preparation of a tangible capital asset for an alternative use
  – Obligations for pollution remediation such as asbestos removal, that result from the other-than-normal operation of a tangible capital asset
  – Obligations associated with maintenance, rather than retirement
GASB 83 – Certain asset retirement obligations (continued)

- GASB 83 does not apply to the following (cont’d):
  - Cost of a replacement part that is a component of a tangible capital asset
  - Landfill closure and postclosure care obligations including those not covered by Statement 18
  - Conditional obligations to perform asset retirement activities
• Recognition of an ARO: a government should recognize an ARO when the liability is incurred and reasonably estimable
  – Liability is incurred by the occurrence of both an external obligating event and an internal obligating event resulting from normal operations
  – Obligating event is an event whose occurrence determines the timing for recognition of an ARO
GASB 83 – Certain asset retirement obligations (continued)

• External obligating event:
  – Approval of federal, state or local laws or regulations
  – Creation of a legally binding contract
  – Issuance of a court judgment

• Internal obligating event:
  – Occurrence of contamination that is a result of the normal operation of a tangible capital asset and not in the scope of GASB 49
• Internal obligating event (cont’d):
  - Non-contamination related AROs pattern of incurrence is 1) based on the use of the tangible capital asset, the event is placing that capital asset into operation and consuming a portion of the usable capacity by the normal operation; 2) based on the use of the tangible capital assets, the event is placing that capital asset into operation; and 3) the tangible capital asset is permanently abandoned before it is placed into operation, the event is the abandonment itself
GASB 83 – Certain asset retirement obligations (continued)

• AROs related to **acquired** tangible capital assets, the event is the acquisition of the tangible capital asset
  – The internal obligating event to recognize a liability for an acquired power plant with an existing ARO is the acquisition of the power plant
• Initial measurement of an ARO:
  - Deferred outflow of resources (debit)
  - Liability (credit)
  - A tangible capital asset that is permanently abandoned before it is placed into operation is reported as an outflow of resources rather than a deferred outflow when the ARO is recognized
GASB 83 – Certain asset retirement obligations (continued)

• Initial measurement of an ARO (cont’d):
  − The best estimate of the current value of outlays expected to be incurred
    • Current value is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired at the end of the current reporting period

• Recognize in a systematic and rational manner over a period of time

• Subsequent measurement of the ARO:
  − Liability is re-measured annually for effects of inflation or deflation. An adjustment through re-measurement would only result if the evaluation indicates a significant change in estimated outlays.
GASB 83 – Certain asset retirement obligations (continued)

• Notes to the financial statements:
  – General description of the AROs and associated tangible capital assets as well as the source of the obligation
  – Methods and assumptions used to measure the liabilities
  – Estimated remaining useful life of the associated tangible capital assets
  – Legally require funding and assurance provisions
  – Amount of assets restricted for payment of the liabilities
  – ARO or portions that have been incurred by a government but is not yet recognized because it is not reasonably estimable
GASB 84 - Fiduciary activities

• Issued – January 2017
• Effective – periods beginning after December 15, 2018
• Improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
• Criteria focused on:
  – Whether a government is controlling the assets of the fiduciary activity
  – The beneficiaries with who a fiduciary relationship exists

• Separate criteria included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities
• A government controls the assets of an activity if the government holds the assets or has the ability to direct the use, exchange, or employment of assets in a manner that provides benefits to the specified or intended recipients
  – Restrictions from legal or other external restraints that stipulate the assets can be used only for a specific purpose do not negate a government’s control of the assets
• Fiduciary component unit - an organization that meets the component unit criteria in Statement 14 as amended is a fiduciary activity if it is one of the following arrangements:
  – A pension plan that is administered through a trust
  – An OPEB plan that is administered through a trust
  – Assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
  – Assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74
GASB 84 - Fiduciary activities

• Fiduciary component units
  - Pension and OPEB plans that are administered through trusts are legally separate entities
  - Government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to the pension plan or OPEB plan
A component unit that is not a pension arrangement or OPEB arrangement is a fiduciary activity if the assets associated with the activity have one or more of the following characteristics:

- Assets are 1) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, 2) dedicated to providing benefits to recipients in accordance with benefit terms, and 3) legally protected from the creditors of the government.

- 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.
GASB 84 - Fiduciary activities

• A component unit that is not a pension arrangement or OPEB arrangement is a fiduciary activity if the assets associated with the activity have one or more of the following characteristics (cont’d):
  – 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.
GASB 84 - Fiduciary activities

- Pension and OPEB arrangements that are not component units are fiduciary activities if the government **controls** the assets of the arrangement:
  - A pension plan that is administered through a trust
  - An OPEB plan that is administered through a trust
  - 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
GASB 84 - Fiduciary activities

• Other fiduciary activities if all of the following criteria are met:
  – Assets associated with the activity are controlled by the government
  – 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
GASB 84 - Fiduciary activities

• Other fiduciary activities if all of the following criteria are met (cont’d):
  – Assets associated with the activity have one or more of the following characteristics
    • Assets are administered through a trust 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 and the government does not have administrative involvement with the assets or direct financial involvement with the assets.
    • Assets are for the benefit of organizations or other governments that are not part of the financial reporting entity.
 Governments should report fiduciary activities in the fiduciary fund financial statements. The following are the fiduciary funds that may be used:

- Pension and OPEB trust funds
- Investment trust funds
- Private-purpose trust funds
- Custodial funds
GASB 84 - Fiduciary activities

- Pension and OPEB trust funds:
  - Pension plans and OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74 respectively
  - Other employee benefit plans for which 1) resources are held in trust 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 and 2) contributions to the trust and earnings on those contributions are irrevocable
GASB 84 - Fiduciary activities

- Investment trust funds:
  - Report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust
    - An investment service provided by a governmental entity for other, legally separate entities that are not a part of the same reporting entity
    - Individual investment accounts for specific investments acquired for individual entities and the income from the changes in the value of those investments affect only the entity for which they were acquired
GASB 84 - Fiduciary activities

• Private-purpose trust funds:
  – Report fiduciary activities that are not required to be reported in pension and OPEB trust funds, or investment funds

• Custodial funds:
  – Report fiduciary activities that are not required to be reported in the other trust fund types; assets are not held in trust
  – Business-type activities may report assets with a corresponding liability that otherwise should be reported in a custodial fund if those assets, upon receipt, are normally expected to be held for three months or less
GASB 85 – Omnibus 2017

• Issued – March 2017
• Effective – periods beginning after June 15, 2017
• Retroactively applied to earliest year presented
• Address practice issues identified during implementation and application of certain GASB Statements including blending component units, goodwill, fair value measurement and application, and post employment benefits
• Blending Component Units:
  – A primary government that is a business-type activity and uses a single column for financial statement presentation of its business-type activities can blend a component unit only if the component unit meets a criterion for blending in paragraph 53 of Statement 14.
• Goodwill:
  – Goodwill recognized prior to the effective date of Statement 69 should be presented in accordance with paragraph 39 of Statement 69
    • When the consideration provided exceeds the net position acquired, the acquiring government should report the difference as a deferred outflow of resources which should be attributed to future periods in a systematic and rational manner
  – Negative goodwill should not be reported
GASB 85 – Omnibus 2017

• Fair value measurement and application:
  – Each unit of account of real estate held by insurance entities should be classified either as an investment or as a capital asset, based on whether the unit of account meets the definition of an investment in Statement 72
  – Money market investments and participating interest-earning investment contracts described in paragraph 69c of Statement 72 may be measured at amortized cost to the extent permitted by paragraph 9 of Statement 31
Postemployment benefits: timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus

- All expenditures for defined benefit pensions or defined benefit OPEB including amounts for payables to a pension or OPEB plan and amounts for costs incurred by the employer related to the administration of defined benefit pension or defined OPEB provided through a pension or OPEB plan that is not administered through a trust should be measured for the reporting period
GASB 85 – Omnibus 2017

• Postemployment benefits: recognition and measurement of on-behalf payments for pensions or OPEB in employer financial statements using the current financial resources measurement focus
  – The employer should recognize expenditures for on-behalf payments for pensions or OPEB equal to the total of 1) amounts paid during the reporting period by nonemployer contributing entities to the pension or OPEB plan and 2) the change between the nonemployer contributing entities’ beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Both 1 and 2 include payables to a pension or OPEB plan
GASB 85 – Omnibus 2017

- Postemployment benefits: recognition and measurement of on-behalf payments for pensions or OPEB in employer financial statements using the current financial resources measurement focus
  - Except for on-behalf payments that are not legally required to be made by a nonemployer contributing entity, the employer should recognize revenue equal to the amount of expenditures
  - On-behalf payments for pensions or OPEB, paragraphs 9-12 of Statement 24 as amended should not be applied
GASB 85 – Omnibus 2017

• Presentation of payroll-related measures in RSI by OPEB single-employer and cost-sharing multiple employer defined benefit OPEB plans
  - The measure of payroll that is required by paragraph 36 of Statement 74 to be presented in RSI should be covered payroll
  - Covered payroll is the payroll on which contributions to the OPEB plan are based
  - If contributions to the OPEB plan are not based on a measure of pay, no measure of payroll should be presented
Presentation of payroll-related measures in RSI by employers that provide OPEB (plans administered through trusts)

- The measure of payroll that is required to be presented in RSI should be
  
  - Covered payroll if the contributions to the plan are based on a measure of pay or
  
  - Covered-employee payroll if contributions to the OPEB plan are not based on a measure of pay
Classification of employer-paid member contributions for OPEB:

- Employer-paid member contributions for OPEB should be classified as employee contributions. An employer’s expenses and expenditures for those amounts should be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than OPEB (i.e. wages or fringe benefits)
OPEB provided through certain multiple-employer defined benefit OPEB plans

- Applies to state and local governmental employers whose employees are provided with defined benefit OPEB through a cost-sharing OPEB plans that 1) is not a state or local government OPEB plan, 2) is used to provide defined benefit OPEB both to employees of state or local government employers and to employees of employers that are not state or local government employers, and 3) has no predominate state or local governmental employer

- See paragraphs 18 – 25 of the Statement
• Issued – May 2017
• Effective – periods beginning after June 15, 2017
• Improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt.
• Improve accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.
GASB 86 – Certain Debt Extinguishment Issues

- Debt is considered defeased in substance for accounting and financial reporting purposes if the government *irrevocably* places cash and other monetary assets acquired with only existing resources with an escrow agent in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt and the possibility that the government will be required to make future payments on the debt is *remote*
• The trust is restricted to owning only monetary assets that are essentially risk-free as to the amount, timing, and collection of interest and principal.

• Risk-free monetary assets are limited to:
  – Direct obligations of the U.S. government
  – Obligations guaranteed by the U.S. government
  – Securities backed by U.S. government obligations as collateral and for which interest and principal payments on the collateral generally flow immediately through to the security holder.
• The monetary assets held by the trust are required to provide cash flows (from interest and maturity of those assets) that approximately coincide, as to timing and amount, with the scheduled interest and principal payments on the defeased debt.
  – Some securities described previously can be paid before their scheduled maturities and so are not essentially risk-free as to the timing of the collection of interest and principal. As a result, they do not qualify for defeasance purposes
GASB 86 – Certain Debt Extinguishment Issues

• Recognition using the economic resources measurement focus
  – When in-substance defeasance criteria are met the liability is no longer reported
  – Any difference between the reacquisition price and the net carrying amount of the debt, together with any deferred inflows or outflows of resources from prior refundings should be recognized as a separately identified gain or loss in the period of the in-substance defeasance
• Recognition using the current financial resources measurement focus
  – Payments to the escrow agent made from existing resources should be reported as debt service expenditures
• Prepaid insurance related to extinguished debt
  – Governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, should include the amount of any remaining prepaid insurance related to the extinguished debt in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the extinguished debt.
• Notes to the financial statements: Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to the financial statements in the period of the defeasance.
  – The amount of the debt, the amount of existing resources placed with the escrow agent, the reasons for the defeasance, and the cash flows required to service the defeased debt

• In all periods following an in-substance defeasance of debt using only existing resources, governments should disclose the amount of the debt defeased in substance that remains outstanding, if any, at the period-end.
• Additional disclosures for all in-substance defeasance transactions
  – Period in which debt is defeased in substance governments should disclose the following risk, if applicable: substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited
  – In all periods following an in-substance defeasance, governments should disclose the total amount of debt defeased in substance that remains outstanding for which the risk of substitution exists, if any. This amount should be disclosed separately from the amount of debt defeased in substance that remains outstanding
GASB 87 – Leases

• Issued – June 2017
• Effective - Fiscal periods beginning after December 15, 2019
  – Earlier application is encouraged
  – Retroactive implementation
• Better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability, and consistency of information about the leasing activities of governments
GASB 87 – Leases

• **Scope**
  – A lease is defined as 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
  • Examples of nonfinancial assets include buildings, land, vehicles, and equipment
  • Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement
GASB 87 – Leases

• Scope exclusions - this Statement does not apply to:
  – Leases of intangible assets
  – Leases of biological assets, timber as example
  – Leases of inventory
  – Contracts that meet the definition of a service concession arrangement in paragraph 4 of GASB No. 60, Accounting and Financial Reporting for Service Concession Arrangements
  – Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor
  – Supply contracts, such as power purchase agreements
• Lease term is the period during which a lessee has a noncancelable right to use the underlying asset (referred to as the noncancelable period), plus the following periods, if applicable:
  - Periods covered by lessee’s option to extend the lease if it is reasonably certain, based on all relevant factors, the lessee will exercise that option
  - Periods covered by lessee’s option to terminate the lease if it is reasonably certain, based on all relevant factors, the lessee will NOT exercise that option
  - Periods covered by lessor’s option to extend the lease if it is reasonably certain, based on all relevant factors, the lessor will exercise that option
  - Periods covered by lessor’s option to terminate the lease if it is reasonably certain, based on all relevant factors, the lessor will NOT exercise that option
• Periods for which both the lessee and the lessor have an option to terminate the lease, or for which only the lessor has that option, are cancelable periods and are excluded from the lease term. Provisions that allow for termination of a lease due to (a) purchase of the underlying asset, (b) payment of all sums due, or (c) default on payments, are not considered termination options.
A fiscal funding or cancellation clause (a clause that allows governmental lessees to cancel a lease agreement, typically on an annual basis, if the government does not appropriate funds for the lease payments) should be considered in determining the lease term only when it is reasonably certain that the clause will be exercised.
• Lessee Recognition and Measurement for Leases Other than Short-Term Leases and Contracts that Transfer Ownership
  – At the commencement of the lease term, a lessee should recognize a lease liability and an intangible right-to-use lease asset (a capital asset referred to as the lease asset)
GASB 87 – Leases

- Lease liability – lessee should initially measure the lease liability at the present value of payments expected to be made during the lease term less any lease incentives.
  - Lease Incentives are (a) payments made to, or on behalf of, the lessee for which the lessee has a right of offset with its obligation to the lessor, or (b) other concessions granted to the lessee
  - Reduce lease liability as payments are made and recognize an outflow of resources for interest on the liability
GASB 87 – Leases

• Lease Asset – a lessee initially should measure the lease asset as the sum of the following:
  – The amount of the initial measurement of the lease liability
  – Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term
  – Initial direct costs that are ancillary charges necessary to place the lease asset into service
    • Any initial direct costs that would be considered debt issuance costs, should be recognized as an expense in the period in which they are incurred
GASB 87 – Leases

• Lease Asset – should be amortized in a systematic and rational manner over the SHORTER of the lease term or the useful life of the underlying asset (except as noted below).
  - Exception – If a lease contains a purchase option that the lessee has determined is reasonably certain of being exercised, the lease asset should be amortized over the useful life of the underlying asset
  - In this circumstance, if the underlying asset is nondepreciable, such as land, the lease asset should not be amortized

• Amortization of lease asset should be reported as an expense (example, amortization expense) which may be combined with depreciation expense related to other capital assets for financial reporting purposes
• Notes to financial statements
  - A general description of leasing arrangements (basis, terms, conditions on which variable payments may change, residual value guarantees, etc.)
  - The total leased assets and related accumulated amortization, disclosed separately from other capital assets
  - The amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets
  - Expenses recognized for the period for variable payments not previously included in the measurement of the lease liability
  - Expenses recognized in the period for other payments not previously included in the measurement of the lease liability, such as termination penalties
  - Principal and interest requirements to maturity, presented separately for the lease liability for each of the five subsequent fiscal years, and in five-year increments, thereafter
  - Commitments under leases before the commencement of the lease term
  - Components of any net impairment loss recognized on the lease asset during the period
• Lessor Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts that Transfer Ownership
  - At the commencement of the lease term, a lessee should recognize a lease receivable and a deferred inflow of resources, except for short-term leases and transfer of ownership, as well as two additional exceptions:
    • If the underlying asset in a lease meets the requirements in Statement 72 to be reported as an investment measured at fair value
    • Certain regulated leases
• Certain regulated leases – certain leases that are subject to external laws, regulations, or legal rulings that establish all of the following requirements:
  – Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator
  – Lease rates should be similar for lessees that are similarly situated
  – The lessor cannot deny potential lessees the right to enter into leases if facilities are available, provided that the lessee’s use of the facilities complies with generally applicable use restrictions
GASB 87 - Leases

• Lease asset measurement – lessor should measure the lease receivable at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Measurement of the lease receivable should include the following, if required by a lease:
  – Fixed payments
  – Variable payments that depend on an index or rate initially measured at the beginning of the lease term
  – Variable payments that are fixed in substance
  – Residual value guarantee payments that are fixed in substance
  – Any lease incentives payable to the lessee
GASB 87 - Leases

• Lease asset measurement, continued
  - Future lease payments to be received should be discounted using the interest rate the lessor charges the lessee
  - In subsequent financial reporting periods, the lessor should calculate the amortization of the discount on the lease asset and report that amount as an inflow of resources (example – interest revenue)
  - Triggers for potential remeasurement are the same as those previously discussed in lessee guidance slides
Deferred Inflow of Resources – a lessor initially should measure the deferred inflow of resources as follows:

- The amount of the initial measurement of the lease receivable
- Lease payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term
• Underlying asset
  – A lessor should not derecognize the asset underlying the lease
  – A lessor should continue to apply other applicable guidance to the underlying asset, including depreciation and impairment
  – However, if the lease contract requires the lessee to return the asset in its original or enhanced condition, a lessor should NOT depreciate the asset during the lease term
Notes to financial statements

- A general description of leasing arrangements (basis, terms, conditions on which variable payments may change, residual value guarantees, etc.)
- The total amount of inflows of resources (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period from leases, if that amount cannot be determined based on the amounts displayed on the face of the financial statements
- The amount of inflows of resources recognized for the period for variable payments not previously included in the measurement of the lease receivable, including inflows of resources related to residual value guarantees and termination penalties
- The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments
- Disclosure requirements also specifically listed for regulated leases
GASB 87 – Leases

• Additional guidance provided for:
  – Contracts with multiple components
  – Contract combinations
  – Lease modifications
  – Lease terminations
  – Subleases
  – Sale-leaseback transactions
  – Lease-leaseback transactions
  – Intra-entity leases
  – Leases between related parties
Polling question #6

• The worse part of the lease standard is the administrative burden it will create.
  – True
  – False
GASB 88 – Certain disclosures related to debt, including direct borrowings and direct placements

• Issued – March 2018
• Effective – Periods beginning after June 15, 2018
• Improve information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements
• Clarifies which liabilities governments should include when disclosing information related to debt
GASB 88 – Certain disclosures related to debt, including direct borrowings and direct placements

• Definition of debt for purposes of disclosures
  – A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established
  • Debt does not include leases, except for contracts reported as a financed purchase of the underlying assets, or accounts payable
GASB 88 – Certain disclosures related to debt, including direct borrowings and direct placements

• **Additional** note disclosures in summarized form
  - Amount of unused lines of credit
  - Assets pledged as collateral for debt
  - Terms specified in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses

• Governments should separate information in debt disclosures regarding direct borrowings and direct placements of debt from other debt
Save the date!
Next Public sector Webcast –Leasing Standards

CLOSING REMARKS

July 26
THANK YOU FOR YOUR TIME AND ATTENTION
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