GASB Update

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GASB

FAF FINANCIAL ACCOUNTING FOUNDATION
FASB FINANCIAL ACCOUNTING STANDARDS BOARD
GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Serving the capital markets by providing useful information to financial statement users is at the core of what we do.

Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
75 – Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions	6/30/18	Participant employers in OPEB plans – recording the net OPEB liability (unfunded portion) and expands footnote and RSI reporting	Very Significant
81 – Irrevocable Split-Interest Agreements	6/30/18	Resources pursuant to an irrevocable split-interest agreement are to be recognized as assets, liabilities, and deferred inflows of resources at the inception of the agreement.	Insignificant to most community colleges
83 – Certain Asset Retirement Obligations	6/30/19	Addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.	Insignificant to most community colleges

Summary of Recent GASB Statements

Statement	Effective	Summary	Impact
84 – Fiduciary Activities	6/30/20	To improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.	Insignificant
85 – Omnibus 2017	6/30/18	Practice issues that have been identified during implementation and application of certain GASB Statements (i.e. goodwill, OPEB items)	Insignificant
86 – Certain Debt Extinguishment Issues	6/30/18	Recognizes a debt defeasance when a governmental entity's *own resources* are set aside in a trust (escrow) for the future repayment of outstanding debt, (i.e., an "in-substance defeasance").	Insignificant
87 – Leases	6/30/21	Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources.	Significant

GASB 77

Tax abatements

- Specific taxes abated (agreement with individual or entity in exchange for a specific action that contributes to economic development or otherwise benefit the government or citizens)
- Results in reduction in tax revenues

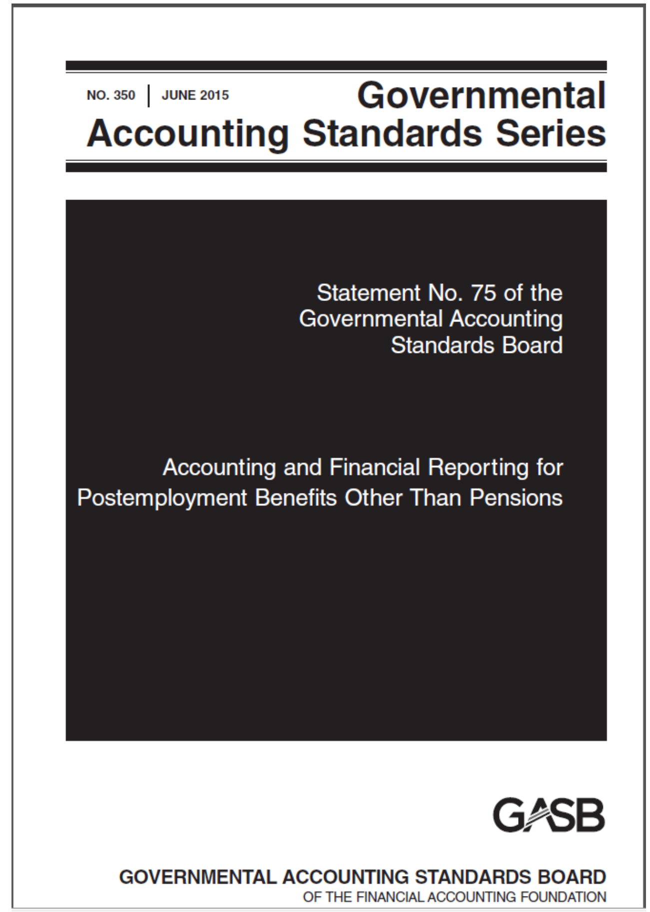
How did it go?

Reminders at the end of presentation on:

- DDA – typically not a tax abatement
- Brownfields – typically not a tax abatement
- Personal property exemption – considered a tax abatement
- New Jobs Training Program – not considered a tax abatement

GASB 75

- Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)
  - Similar to Pension standards
  - Plan's retiree health
  - Most significant impact – Recording Net OPEB liability and related Deferreds; disclosures
  - Issued June 2015
- Effective for June 30, 2018


NO. 350 | JUNE 2015
Governmental Accounting Standards Series

Statement No. 75 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB 75

2006
Pre-agenda research evaluating the effectiveness of existing standards on postemployment benefits

2008
Project added to current technical agenda

2012
Statements 67 and 68 issued related to pension (part one of two-phased project)

2015
Statements 74 and 75 issued June 2015

GASB 74 and 75

GASB 74: Financial Reporting for Postemployment Benefit PLANS Other Than Pension Plans

GASB 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB 75

- OPEB, like pension, is part of the employment exchange and should be recognized as the obligation is incurred (not as it is funded)
- Funding approach vs. approach focused on interperiod equity
- The statements will report a liability called "Net OPEB liability"
- Changes in the net OPEB liability will be immediately recognized in expense, with some limited exceptions

GASB 75

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.5 percent decreasing to 4.5 percent) or 1-percentage-point higher (10.5 percent decreasing to 6.5 percent) than the current healthcare cost trend rates:

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

GASB 75

- The Plans, like MPSERS, will issue similar schedules as with GASB 68
- Institution to record proportionate share
- Year of implementation, will record the beginning Net OPEB liability as a restatement of Beginning Net Position as of July 1, 2017 at the bottom of the Statement of Revenues and Expenses and Changes in Net Position (income statement)

GASB 75

Recording Beginning Net Pension Liability

- Not restating 6/30/17 column
- Adjustment to Beginning Net Position at bottom of Statement of Revenue, Expenses & Changes in NP

Excerpt from Statement of Revenues, Expenses, and Changes in Net Position		
	6/30/18	6/30/17
Increase in Net Position	$1,000,000	$900,000
Net Position at Beginning of Year	12,900,000	12,000,000
Adjustment for Change in Accounting Principle (Note X)	(17,000,000)	
Net Position at Beginning of Year, As Restated	(4,100,000)	12,000,000
Net Position at End of Year	($3,100,000)	$12,900,000

GASB 75

ASSETS		Ending amounts
Cash and cash equivalents	$	13,518,186
Investments		25,929,622
Receivables (net)		15,085,177
Capital assets (net of accumulated depreciation)		
Depreciable assets:		81,769,640
Non-depreciable assets:		88,253,120
TOTAL ASSETS		224,555,745
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions		1,050,000
Deferred outflows related to OPEB		980,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES		2,030,000
LIABILITIES		
Accounts Payable		6,538,206
Non-current liabilities:		
Current portion of long-term debt		1,680,000
Long-term debt (net of current portion)		21,660,000
Net pension liability		24,589,000
Net OPEB liability		19,875,654
TOTAL LIABILITIES		74,342,860
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions		6,589,000
Deferred inflows related to OPEB		3,569,782
TOTAL DEFERRED INFLOWS OF RESOURCES		10,158,782
NET POSITION		
Net investment in capital assets		146,682,760
Restricted for:		
Capital projects		11,705,864
Debt service		11,046,053
Unrestricted		(27,350,574)
TOTAL NET POSITION	$	142,084,103

GASB 75

RSI

- 10-year schedules
  - Employer's proportion (%), proportionate share (amount) of collective net OPEB liability, covered-employee payroll, proportionate share as % of covered-employee payroll, OPEB plan's net position as % of total OPEB liability
  - Example (5 of 10 required years shown):

	20X9	20X8	20X7	20X6	20X5
District's proportion of the net OPEB liability	1.85%	1.85%	1.85%	1.85%	1.85%
District's proportionate share of the net OPEB liability (asset)	$ 24,528	$ 40,456	$ 48,169	$ 24,127	$ (27,843)
District's covered-employee payroll	$ 106,129	$ 105,949	$ 103,026	$ 100,774	$ 97,601
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	23.11%	38.18%	46.75%	23.94%	(28.53)%
Plan fiduciary net position as a percentage of the total OPEB liability	94.31%	90.01%	87.47%	93.06%	108.60%

GASB 75

RSI

- 10-year schedules (cont.)
  - If statutory or contractual contribution requirements
    - Required contribution, contributions in relation to required, difference, covered-employee payroll, contributions as % of covered-employee payroll
    - Example (5 of 10 required years shown):

	20X9	20X8	20X7	20X6	20X5
Contractually required contribution	$ 10,117	$ 9,949	$ 10,721	$ 9,780	$ 8,588
Contributions in relation to the contractually required contribution	(10,117)	(9,949)	(10,721)	(9,780)	(8,588)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 106,039	$ 104,488	$ 101,900	$ 99,188	$ 96,765
Contributions as a percentage of covered-employee payroll	9.54%	9.52%	10.52%	9.86%	8.88%

  - Notes to RSI on significant trends

GASB 75

Audit Issues – We have to audit:

- Schedule of Employer Allocations (proportionate share of the net OPEB liability) from MPSERS
  - Both beginning and end of year amounts reported (for first year)
  - MPSERS used the same proportionate share for beginning and end for GASB 68 pension first year implementation (no change in proportionate share)
- Schedule of OPEB Amounts by Employer
  - Both beginning and end of year amounts reported (for first year) for certain deferreds (contributions to the plan after measurement period) and net OPEB liability
  - MPSERS should provide an audited beginning of year net OPEB liability (like they did for GASB 68 pension implementation)
- Census data
- Contributions to Plan

GASB 75

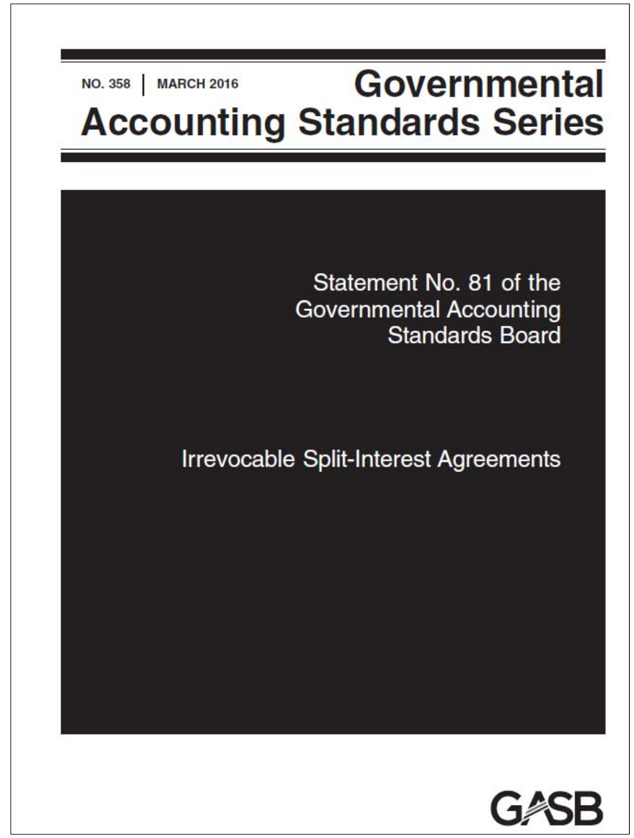
- What should I be doing now?
  - Creating new general ledger accounts
  - Thinking about Statement of Net Position format
    - New line item for Net OPEB liability
    - Deferreds – total with details in footnotes or separate line items
  - Footnotes – review GASB 75 example footnotes, and think about the consolidation with pension footnote
  - RSI formatting
  - Which fund will you be recording it in?

GASB 81

Irrevocable Split-Interest Agreements

- Recording asset, liability, and deferred inflows of resources related to irrevocable agreements
  - Charitable lead trusts
  - Charitable remainder trusts
  - Life-interests in real estate
- Standard issued March 2016

  Effective June 30, 2018


NO. 358 | MARCH 2016 Governmental Accounting Standards Series

Statement No. 81 of the Governmental Accounting Standards Board

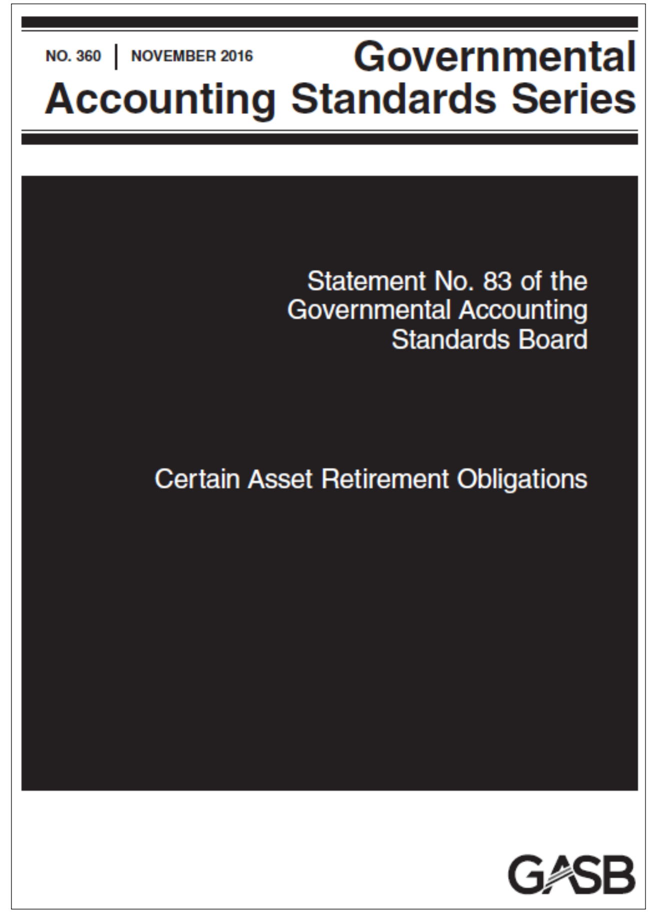
Irrevocable Split-Interest Agreements

GASB

GASB 83

Certain Asset Retirement Obligations

- Recording a liability for future asset retirement activities related to tangible capital assets. Examples
  - Removal and disposal of x-ray machines
  - Dismantling and removal of sewage treatment plants
  - Removal and disposal of wind turbines at wind farms
- Standard issued November 2016
- Effective June 30, 2019


NO. 360 | NOVEMBER 2016

Governmental Accounting Standards Series

Statement No. 83 of the Governmental Accounting Standards Board

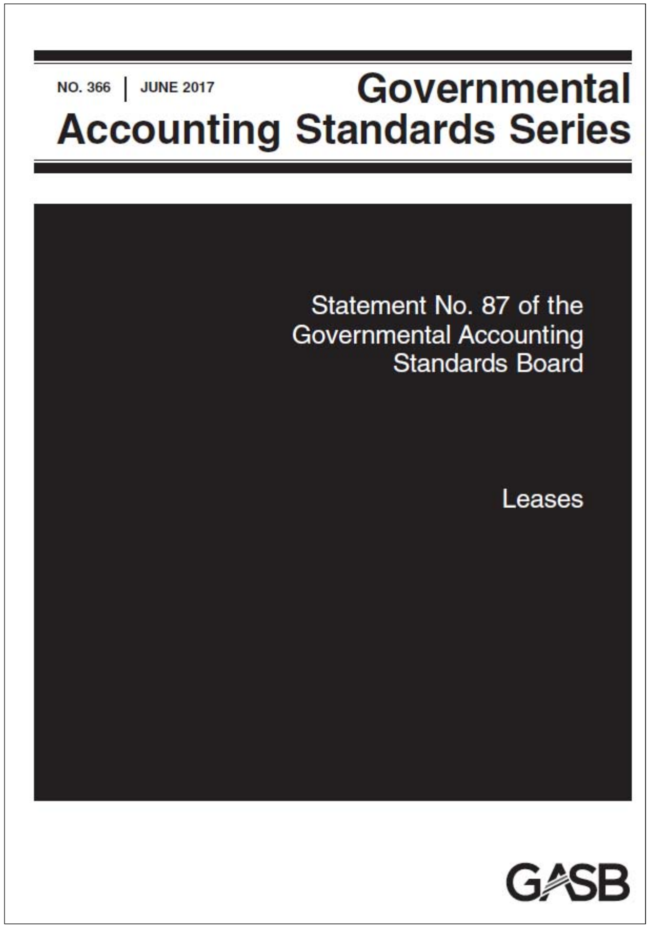
Certain Asset Retirement Obligations

GASB

GASB 87

Leases

- Recording a right-to-use asset and lease liability for operating leases. Except:
  - Short-term leases
  - Leases that transfer ownership at end (capital lease), should be reported as a financed purchase
- Standard issued June 2017
- Effective June 30, 2021
- Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated).



GASB 87

Definition of a Lease

- 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

Lease term

- The lease term is defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:
  - Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee *will exercise* that option
  - Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee *will not exercise* that option

GASB 87

Short-term leases

- A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

GASB 87

Lessee accounting

- Recognize for <u>all leases</u> (except short-term leases; or if the lease transfers ownership which should be reported as a financed purchase of that asset):
  - Lease Asset – equal to lease liability
  - Lease Liability – present value of payments to be made
- As payments are made:
  - Reduce lease liability and recognize outflow of resources for interest on the liability
  - Amortize the lease asset over shorter of lease life or useful life of the asset

GASB 87

Lessor accounting

- Recognize for <u>all leases</u> (except short-term leases or if the lease transfers ownership):
  - Lease Receivable – present value of payments to be received
  - Deferred inflow of resources for Leases – equal to the lease receivable
- As payments are made:
  - Recognize interest revenue on the lease receivable and an inflow of resources from the deferred inflow or resources over term of lease
  - Lessor would not derecognize the asset of the underlying lease

GASB 87

Lessee Disclosures

- Description of lease arrangements
- Total amount of lease assets recognized, accumulated amortization disclosed separately from other capital assets
- Leased assets by major classes of underlying assets disclosed separately from other capital assets
- Schedule of future lease payments (principal and interest) to be made (first 5 years, then 5 year increments)
- Commitments under leases before the commencement of the lease term

GASB 87

Lessor Disclosures

- Description of lease arrangements
- Amount of revenue recognized from leases (lease revenue, interest revenue)
- 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.

GASB Project – Notes Disclosures

Notes Disclosures (added to agenda April 2016)

- GASB is soliciting feedback now - Survey for FS preparers (like yourselves):
  - https://www.fafsurveys.org/se/4CA36E922391566C
- To evaluate disclosure requirements that have been in effect for at least three years
- The objective of GASB's research activity is to gather feedback on these broad questions:
  - What existing note disclosures are effective or ineffective in providing information that is useful for making decisions and assessing accountability?
  - What concerns exist regarding the application of standards?
  - What is the nature and extent of disclosures that governments currently include in their financial reports that are not specifically required by existing financial reporting standards?

GASB Project – Revenue & Expense

Revenue and Expense Recognition

- This project was prompted by:
  - Common exchange transactions that are not specifically addressed in existing GASB literature;
  - Results of the Financial Accounting Foundation's (FAF) Post-Implementation Review (PIR) of GASB Statements No. 33 and 36
  - Development of the GASBs conceptual framework
  - FASB issuing Revenue Recognition comprehensive standard

GASB Project – Revenue & Expense

Revenue and Expense Recognition

- NACUBO met with GASB on 5/1/17 to provide input
  - GASB is considering classifying operating and non-operating revenues & expenses for Business-Type Activities financial statements (institutions) based on:
    - Self-sustaining or subsidized.
    - Financial performance.
    - Recurring or nonrecurring.
    - Debt covenant compliance
  - GASB staff has recommended that the self-sustaining or subsidized approach be pursued further. This approach stresses determining whether a proprietary fund or BTA is self-sustaining or whether other resources, such as subsidies (e.g., appropriations), are needed to maintain desired levels of service to citizens

GASB Project – Revenue & Expense

Revenue and Expense Recognition

- NACUBO met with GASB on 5/1/17 to provide input
  - NACUBO proposed 2 alternate presentations for the Statement of Revenue, Expenses, and Changes in Net Position
    - Both separately display self-sustaining revenue (fee for service) and subsidies (support or non-exchange revenue)
    - Alternate 1 - operating expenses are subtracted from total revenues (subsidized and non-subsidized) and financing expenses are bifurcated between operating and capital activities based on the types of revenues expected to fund financed projects. Further, for public institutions that hold their own endowments, annual support (spending) from the endowment is classified as a reporting period subsidy (similar to an appropriation)
    - Alternate 2 (same as current presentation) - items such as appropriations and non-exchange grants and gifts can continue to be labeled non-operating because they subsidize the institution

GASB Project – Revenue & Expense

Revenue and Expense Recognition

- In May through August 2017, the Board completed an initial review of relevant issues that it believes should be studied at this stage of the project.
- In anticipation of issuing an Invitation to Comment, the Board held a public meeting with the project task force in August 2017.
  - The focus of that meeting was (1) to update the task force on the current status of the project and (2) to receive input on the content of the Invitation to Comment

Thank you!

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Appendix

GASB 77 – reminders

Q: Do Downtown Development Authorities and Tax Increment Financing (TIF) Authorities qualify as a GASB 77 tax abatement?

A: In general, there are two reasons why such TIFs do not meet the definition of a GASB 77 tax abatement. First, there are typically no specific agreements with an individual or entity. Consequently, there are no individuals or entities that are required to perform any actions. In addition, TIF agreements do not result in an overall reduction of the reporting entity's tax revenues.

Therefore, GASB 77 would not apply as not all the criteria are met.

GASB 77 – reminders

Q: Are Brownfields considered tax abatements under 77?

A: Brownfields could be structured a few different ways, so the answer to that question is that it will depend upon the nature of your agreement. You'll want to evaluate your specific situation using the criteria above; however, generally speaking, in situations in which the developer performs the remediation and is reimbursed for its efforts through captured taxes, GASB 77 likely does apply.

In situations in which the Brownfield Redevelopment Authority performs remediation on public land, and the captured taxes are used by the government to pay debt that was issued to complete this remediation, GASB 77 likely does not apply because there is no reduction of taxes, no agreement with an outside entity, and no specific action performed by an outside entity.

GASB 77 – reminders

Q: We are a Michigan entity and have issued PA 328 of 1998 exemptions, New Personal Property Exemption. We do not know the value of the foregone revenue because the owner does not have any such reporting requirements. Assuming these PA 328 agreements meet the definition of a GASB 77 tax abatement, how do we determine the revenue foregone during the reporting period for disclosure purposes?

A: In looking at PA 328 of 1998, we concur that likely these meet the definition of a tax abatement under GASB 77. For many communities, the size of these abatements is not likely to be significant. Where these abatements could be more significant, we suggest working closely with your auditor.

GASB 77 – reminders

Q: Do the Michigan New Jobs Training Program (MNJTP) payroll taxes that are "captured" to pay for training relative to new jobs meet the definition of a GASB 77 tax abatement?

A: It does not appear this program results in reduced taxes being paid by the taxpayer so GASB 77 would not apply. The taxpayer is paying the same amount in taxes but that money is being directed in a different manner than it typically is.

GASB 81

Recording Agreement, when Government is Intermediary and Government is the remainder beneficiary

- Asset (fair value)
- Liability for interest assigned to other beneficiary (present value, etc.)
- Deferred inflow of resources for the government's unconditional *remainder* interest (the difference)

Recognize revenue when the agreement terminates

GASB 81

Recording Agreement, when Government is Intermediary and Government is the lead beneficiary

- Asset (fair value)
- Deferred inflow of resources for the government's unconditional *lead* interest (present value, etc.)
- Liability for interest assigned to other beneficiary (the difference)

Recognize revenue in accordance with the agreement as the lead beneficiary (receipt of investment income, etc.).

GASB 81

Recording Agreement, Life-Interests In Real Estate (right to use an asset, such as a residence)

- Investment Asset (fair value) or Capital Asset (acquisition value)
- Liability for obligation for asset upkeep
- Deferred inflow of resources (difference)

Recognize revenue at termination of agreement

GASB 81

Recording Irrevocable Split-Interest Agreement, when 3rd party is Intermediary

- Beneficial Interest Asset (fair value)
- Deferred inflow of resources for the government's unconditional remainder interest (the difference)

Recognize revenue when the agreement terminates