

GASB Update

California Society of Municipal Finance Officers

GASB Update—OPEB and so much more

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.

Who Sets the Standards and How Is It Accomplished?

GASB Members

- David A. Vaudt (Chairman)
- Jeffrey J. Previdi (Vice Chairman)
- James E. Brown
- Brian W. Caputo
- Michael H. Granof
- Kristopher E. Knight
- David E. Sundstrom



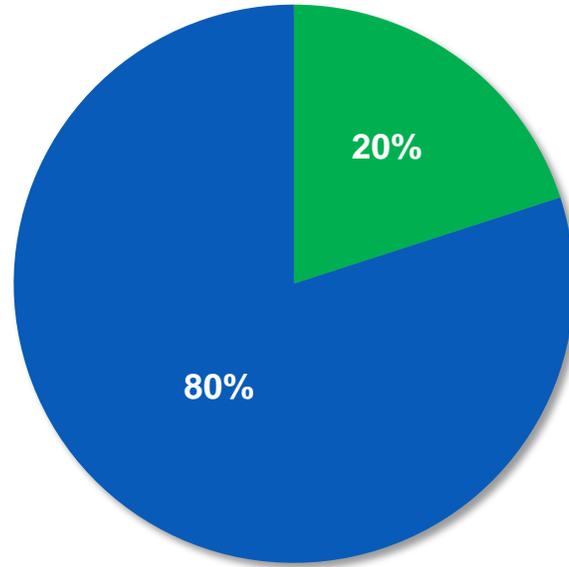
GASB Standard-Setting Process



Due Process Documents

- Invitation to Comment
- Preliminary Views
- Exposure Draft

How Are We Funded?



- Voluntary Reserve Fund Contribution (primarily derived from subscriptions & publications and investment income)
- GASB Accounting Support Fees (funds GASB recoverable expenses)

GASB 2017 Accounting Support Fee Assessment

Approx. 440 municipal bond broker-dealers
(per Dodd-Frank)

\$8.3 million (approx. \$52 per firm per day)

Effective Dates of Standards Being (or to be) Implemented

Effective Dates—June 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*
- Implementation Guide—2017-3, *OPEB Employer Implementation Guide*

Effective Date—June 30

- **2019**—Statement 83—*Certain Asset Retirement Obligations*
- **2020**—Statement 84—*Fiduciary Activities*
- **2021**—Statement 87—*Leases*

Expected Effective Dates—June 30

Current GASB Projects

- **2019**
 - Certain Debt Disclosures, including Direct Borrowing
 - Implementation Guidance Update—2018

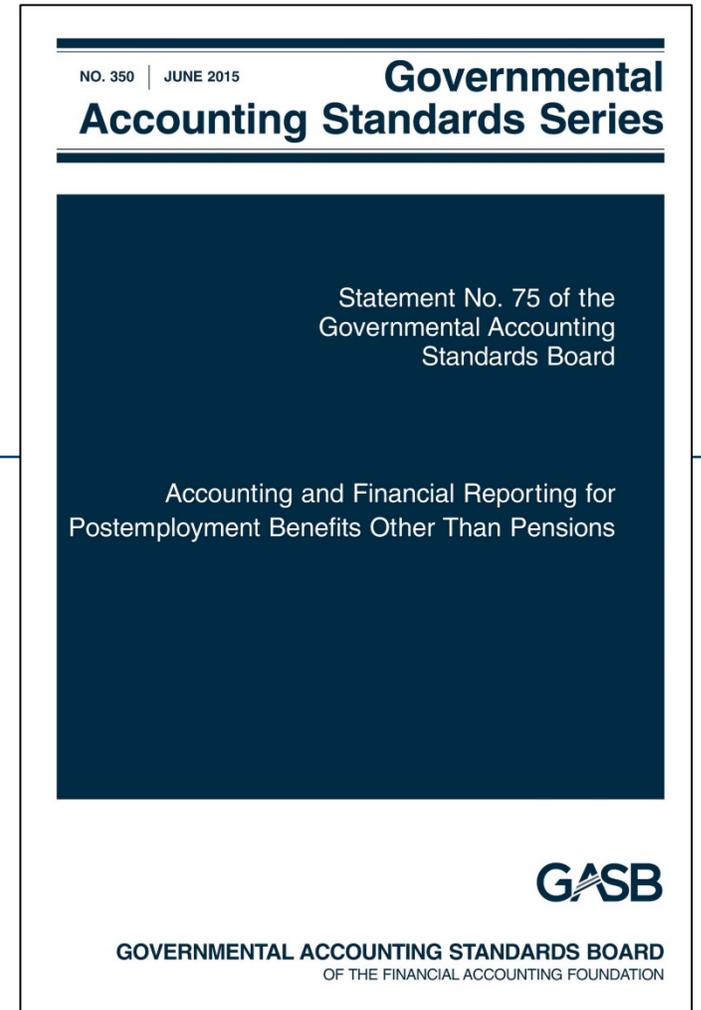
- **2020**
 - Capitalization of Interest Costs
 - Equity Interest Ownership Issues

Pension 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)

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

Liability to Employees for OPEB: Measurement—Timing

- 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

Liability to Employees for OPEB: Measurement—Timing

- Example:
 - Employer FYE 6/30/2017
 - Measurement date no earlier than 6/30/2016 (prior FYE)
 - Actuarial valuation date of total OPEB liability no earlier than 12/31/2014 (30 months + 1 day prior to FYE)

Total OPEB Liability: Measurement Approach

- Three broad steps
 - Project benefit payments
 - Discount projected benefit payments to actuarial present value
 - Attribute actuarial present value to periods

- Methods and assumptions
 - Generally, assumptions in conformity with Actuarial Standards of Practice
 - Fewer alternatives than in Statement 45 for methods and assumptions for GAAP reporting purposes
 - No changes to actuarial methods and assumptions used to determine funding amounts would be required

Total OPEB Liability: Measurement—Projection

- Projections would incorporate expectations, if relevant, of:
 - Salary changes
 - Service credits
 - Automatic postemployment benefit changes (including COLAs)
 - Ad hoc postemployment benefit changes (including COLAs) *if substantively automatic*
 - Taxes or other assessments expected to be imposed on benefit payments
- Consider established pattern of practice with regard to sharing of benefit-related costs with inactive employees
- Consider legal or contractual caps if determined to be effective

Age-Adjusted Premiums (2017-2—4.117)

- When the amounts to be paid by the employer, active employees, and inactive plan members receiving benefits are stated in terms of the blended premium rates for all covered individuals, for purposes of calculating the total OPEB liability, the projection of benefit payments generally should not be based on the difference, if any, between the blended premium rates for a period and the amounts required to be paid by the inactive plan members for the period.
- Except in the limited circumstances addressed in Actuarial Standard of Practice No. 6 (ASOP 6), *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions, recently amended*, the total OPEB liability should be measured based on the difference between
 - Claims costs, or age-adjusted premiums approximating claims costs, for the inactive plan members in the group for the period and
 - Amounts required to be paid by the inactive plan members for that period
 - An example of this approach is presented in Illustration B1-1

Costs Related to Medical Claims (201X-Z—4.86)

- Amounts that are directly related to the payment of medical claims, such as third-party claims administrative fees should not be classified as administrative costs.
- Therefore, these costs should be included in projected benefit payments versus being accounted for only as period costs.

Total OPEB Liability: Measurement—Discounting

- Single discount rate that reflects:
 - Long-term expected rate of return on OPEB plan investments to extent that plan fiduciary net position from specified resources is:
 - Projected to be sufficient to make benefit payments
 - Expected to be invested using a strategy to achieve that return
 - Yield or index rate for 20-year, tax-exempt general obligation municipal bond rated AA/Aa (or equivalent) or higher, to extent that conditions for long-term expected rate of return are not met
- Calculated using the same process as required for pensions in Statement 68
- If not administered through a trust in which the specified criteria is met, the tax-exempt municipal bond rate is required to be used

Discount Rate (2016-1—4.22)

- The requirement to exclude the portion of projected contributions intended to finance benefits of future employees from projected contributions for purposes of determining the discount rate applies to situations in which benefits are substantially financed as they come due (sometimes referred to as "pay-as-you-go" financing)
- See Illustration C1 in 2017-1 Update

Total OPEB Liability: Measurement—Attribution

- Single method
 - Entry age actuarial cost method
 - Level percentage of pay
- Applied on an employee-by-employee basis
- Beginning in 1st period of benefit accrual and through all assumed exit age(s) from active service
- Same benefit terms to determine service cost as to determine actuarial present value of projected benefit payments

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

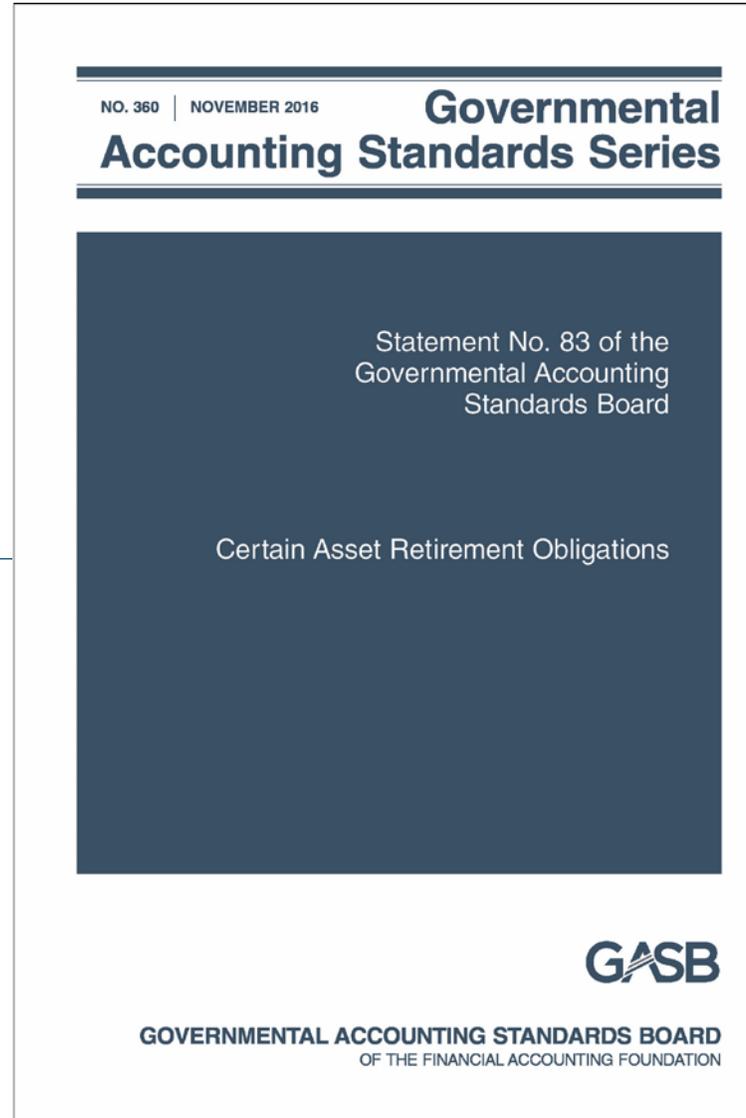
What Are the Basic Disclosure Requirements for OPEB?

- 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

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

Statement 83: Certain Asset Retirement Obligations



Definitions and Scope

- Asset retirement obligation—Legally enforceable liability associated with the retirement of a tangible capital asset
- Retirement of a tangible capital asset—The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)
- Includes:
 - Nuclear power plant decommissioning
 - Coal ash pond closure
 - Contractually required land restoration, such as removal of wind turbines
 - Other similar obligations

Recognition and Measurement

| | | |
|------------------------|--|---|
| Initial Recognition | <p>ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events.</p> <p>Measured based on the best estimate of the current value of outlays expected to be incurred.</p> | Deferred outflow of resources—same amount as the ARO liability |
| Subsequent Recognition | <ul style="list-style-type: none">• At least annually, adjust for general inflation or deflation• At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant | An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned. |

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

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

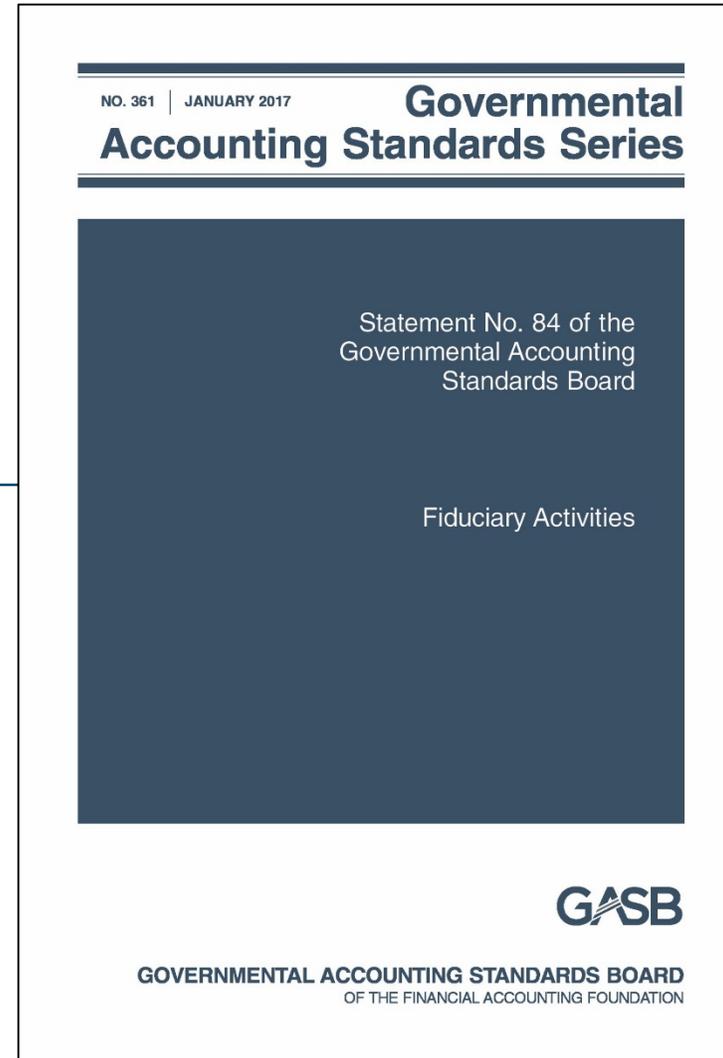
Effects of Funding and Assurance

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

Disclosures

- General description of ARO and associated tangible capital assets
 - Include source of AROs (federal, state, or local laws and regulations, contracts, or court judgments)
- Methods and assumptions used to measure ARO liabilities
- Estimated remaining useful life of tangible capital assets
- How financial assurance requirements, if any, are being met
- Amount of assets restricted for payment of ARO liabilities, if not separately displayed in financial statements
- If a government has an ARO (or portions of an ARO) that is incurred but not yet recognized because it cannot be reasonably estimated, that fact and the reasons therefor

Fiduciary Activities: Statement 84

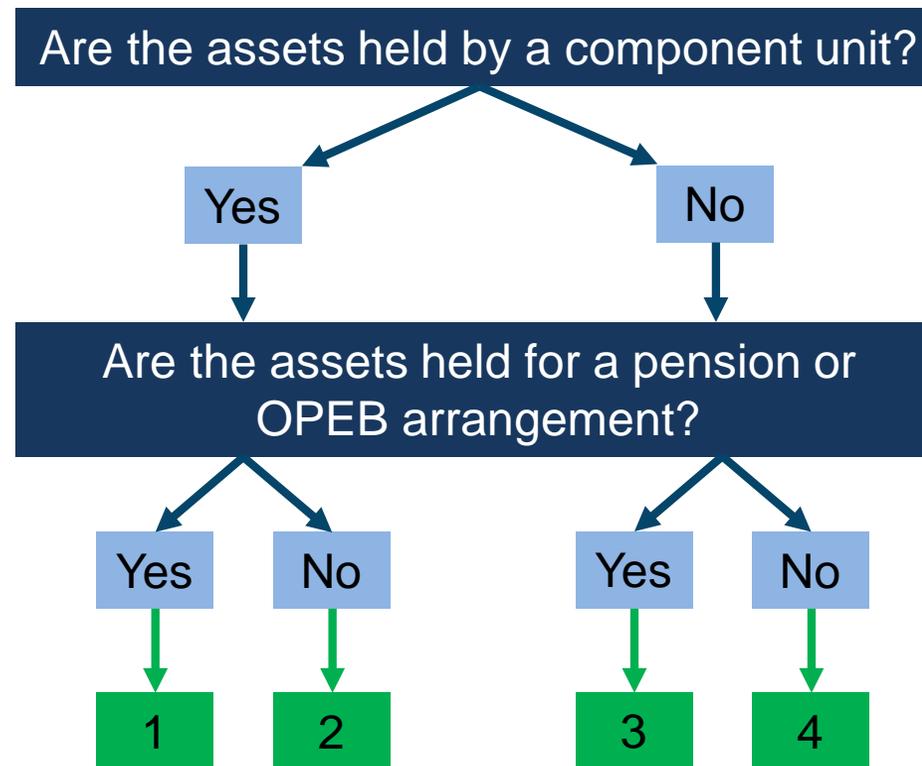


Why Did GASB Address Fiduciary Activities?

- 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 Are Fiduciary if...

- They are 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.

Other Component Units Are Fiduciary if...

- They have one or more of the following characteristics:
 - The 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.
 - The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals.
 - The 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 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

Postemployment Benefit That Are Not Component Units Are Fiduciary if...

- The government **controls** the assets of the arrangement and the arrangement 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.

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.

All Other Activities Are Fiduciary 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, or
 - 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 criteria on the next slide is met

All Other Activities (continued)

- The 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 the benefit terms, and (3) legally protected from the creditors of the government.
- The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals.
- The 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.

Fiduciary Fund Types

- New definitions for pension trust funds, investment trust funds, and private-purpose trust funds that focus on the resources that should be reported within each.
 - Trust agreement or equivalent arrangement should be present for an activity to be reported in a trust fund.
- *Custodial funds* would report fiduciary activities for which there is no trust agreement or equivalent arrangement.
 - External portions of investment pools that are *not* held in trust should be reported in a separate column under the custodial fund umbrella

Stand-Alone Business-Type Activities

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Resources expected to be held three 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

Statement 87: Leases

NO. 366 | JUNE 2017

Governmental Accounting Standards Series

Statement No. 87 of the
Governmental Accounting
Standards Board

Leases

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Leases

- Why:
 - The existing standards have been in effect for decades without review to determine if they remain appropriate and continue to result in useful information; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers

- Relevant Guidance Considered:
 - GASB Statement 62 leases guidance (from FASB Statement 13)
 - GASB Conceptual Framework
 - FASB and IASB 2010 and 2013 Leases Exposure Drafts and Final Statements

Definition

- A contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.

Control

- Control requires both of the following:
 - The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and
 - The right to determine the nature and manner of use of the underlying asset

Scope Exclusions

- Intangible assets (mineral rights, patents, software, copyrights)
 - Except for the sublease of an intangible right-to-use asset
- Biological assets (including timber, living plants, and living animals)
- Inventory
- Service concession arrangements (See GASB Statement 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)

Approach—Single Model

- No classification of leases into operating/capital or other categories
- Underlying assumption that leases are financings
- Exceptions (lessors and lessees)
 - Short-term leases
 - Leases that transfer ownership and do not contain termination options
- Exceptions for lessors
 - Leases of assets that are investments
 - Certain regulated leases (for example, airport-airline agreements)

Lease Term

- Starts with the noncancelable period, plus periods covered by lessees' and lessors' options to:
 - Extend the lease, if the option is reasonably certain of being exercised
 - Terminate the lease, if the option is reasonably certain of NOT being exercised
- Excludes “cancelable” periods
 - Periods for which lessee and lessor each have the option to terminate or both parties have to agree to extend
 - Rolling month-to-month leases
- Fiscal funding/cancelation clauses not taken into consideration unless reasonably certain of being exercised

Reassessment of Lease Term

- Reassess the lease term only if one or more of the following occurs:
 - Lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option
 - Lessee or lessor elects to not exercise an option even though previously determined that it was reasonably certain that the lessee or lessor would exercise that option
 - An event specified in the contract that requires an extension or termination of the lease takes place.

Short Term Leases—Practicality Exception

- A short-term lease is one 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
 - For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the noncancelable period including any notice period

Accounting for Short-term Leases

- LESSEE — lease payments recognized as expenses/expenditures based on the payment provisions of the contract
 - No recognition of assets or liabilities associated with the right to use the underlying asset for short-term leases
- LESSOR — lease payments recognized as revenue based on the payment provisions of the contract
 - No recognition of receivables or deferred inflows associated with the lease
- No resource flows recognized during rent holiday periods
- No required disclosures

Leases—Initial Reporting

| | Assets | Liability | Deferred Inflow |
|---------------|--|---|---|
| Lessee | Intangible asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use | Present value of future lease payments (including fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.) | NA |
| Lessor | <ul style="list-style-type: none"> • 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 |

Leases—Subsequent Reporting

| | Assets | Liability | Deferred Inflow |
|--------|--|---|---|
| Lessee | Amortize the intangible asset over shorter of useful life or lease term | Reduce by lease payments (less amount for interest expense) | NA |
| Lessor | <ul style="list-style-type: none"> • Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less payment needed to cover accrued interest) | NA | Recognize revenue over the lease term in a systematic and rational manner |

Contracts with Multiple Components

- Separate contracts into lease and nonlease components or multiple lease components
- Allocate consideration to multiple underlying assets if:
 - Differing lease terms, or
 - Are in differing major asset classes for disclosure
- Allocation process:
 - First — use any prices for individual components if price allocation not unreasonable based on contract terms and professional judgment (maximizing observable information)
 - If no prices or if not reasonable, use best estimate based on professional judgment (maximizing observable information)
 - If not practicable to determine best estimate, should account for components as single lease unit

Effective Date and Transition

- Effective for periods beginning after December 15, 2019
 - Earlier application encouraged
- Transition
 - Apply retroactively
 - Restate if practicable, cumulative effect if not
 - Leases recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation
 - Lessors should not restate the assets underlying their existing sales-type or direct financing leases
 - Any residual assets for those leases would become the carrying values of the underlying assets

Debt Disclosures

Exposure Draft

- Twenty-nine comment letters were received in response to the proposed Statement
- Comments reviewed at the November 2017 Board meeting
- Redeliberations began in December 2017

Definition of Debt

- Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed [when initially recognized in the financial statements] at the date the contractual obligation is established. For disclosure purposes, debt does not include leases [except for financing leases that are not accounted for as leases] or trade accounts payable.
 - For purposes of this determination, interest to be accrued and subsequently paid, such as interest on variable-rate debt, or interest to be added to the principal amount of the obligation, such as interest on capital appreciation bonds, do not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.

Disclosures

- Summarized information about the following items:
 - Amount of unused lines of credit
 - Not limited to lines of credit associated with debt
 - Collateral pledged as security
 - Does not include assets constructed with the related debt proceeds
 - Terms specified in debt agreements related to significant:
 - Events of default with finance-related consequences
 - Termination events with finance-related consequences
 - Subjective acceleration clauses.

- Separate information in debt disclosures regarding (a) direct borrowings and direct placements of debt from (b) other debt

Debt Disclosures Project Timetable

- Ballot draft to be discussed at the March Teleconference

Questions?

- Visit www.gasb.org