

# GASB Updates

## 2018 ALASBO



Presented by

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# EFFECTIVE DATES

- **June 30, 2018**

- GASB No. 75 – OPEB (employers)
- GASB No. 81 – Irrevocable split interest agreements
- GASB No. 85 – Omnibus (covers many topics)
- GASB No. 86 – Certain Debt Extinguishment Issues
- Implementation of Guide 2017-1

- **June 30, 2019**

- GASB No. 83 – Certain Asset Retirement Obligations
- GASB No. 88 – Certain Debt Disclosures
- Implementation of Guide 2018-1

# EFFECTIVE DATES

- **June 30, 2020**

- GASB No. 84 – Fiduciary Activities
- GASB No. 90 – Majority Equity Interests

- **June 30, 2021**

- GASB No. 87 – Leases
- GASB No. 89 – Interest Cost During Construction

# Today's focus

## **GASB No. 75 – OPEB**

Effective 6/30/2018

## **GASB No. 84 – Fiduciary Activities**

Effective 6/30/2020

## **GASB No. 87 – Leases**

Effective 6/30/2021

# OPEB – GASB 75

- Makes OPEB accounting & financial reporting consistent with pension standards in GASB No. 68.
  - **Healthcare component to PERS & TRS Plans**
- Applies to employers and non-employer contributing entities (the State) that have legal obligation to make contributions directly to an OPEB plan or make benefit payments as those payments come due.
  - **Special Funding Situation**
- Establishes consistent set of standards for all postemployment benefits
  - Addresses both **defined benefit & defined contribution** (hybrid plans)
    - **DB Plan – Alaska Retiree Healthcare Trust Plan (ARHCT)**
    - **DC Plans – Occupational Death & Disability (ODD) and Retiree Medical Plan (RMP)**

# OPEB – GASB 75

- **Multi-Employer Cost-Sharing Plan Administered through a Trust**
  - Requires participating employers to recognize a proportionate share of collective net OPEB liability, OPEB expense, and deferred outflows of resources/deferred inflows of resources related to OPEB plans.
    - These amounts **MUST** match measurement period of the plan.
- Employer Proportion %
  - Based on contributions to the plan.

# OPEB – GASB 75

- **Measurement Period**

- 1 year prior to your fiscal year.
- Measurement period must be within 12 months of the fiscal year being reported.
  - 9/30 and 12/31 reporters must wait for the next year's report.
  - Amounts recognized must correspond with measurement period.

# OPEB – GASB 75

- **Deferred Outflows (similar to assets)**
  - Contributions subsequent to the measurement date.
- **Deferred Inflows (similar to liabilities)**
  - Projected vs. actual plan investment returns
  - Projected vs. actual plan contributions and changes in employer proportion
- **Net OPEB Liability (net of plan assets)**
- **OPEB Expense**
  - On-Behalf is adjusted to OPEB Expense in Governmental Activities section
    - Full Accrual vs. Modified Accrual
    - Must match measurement period



# OPEB – GASB 75

- **Notes and Required Supplementary Information (RSI):**
  - Similar to those required for pensions (8 RSI schedules now)
  - Disclosure of effect on net OPEB liability of discount rate +/- 1%
  - Disclosure of effect on net OPEB liability of **healthcare cost trend rate +/- 1%**
  - RSI schedules must present 10 yrs. data for proportionate share and contributions.

# OPEB – GASB 75

- Actuarial Assumptions:
  - Life expectancy and retirement age
  - Earnings on investments (7%, **8%**, 9%)
  - Health care cost trends (+/-1%)
  - Inflation & salary increases
  - Numerous others
- End result is an estimated liability.

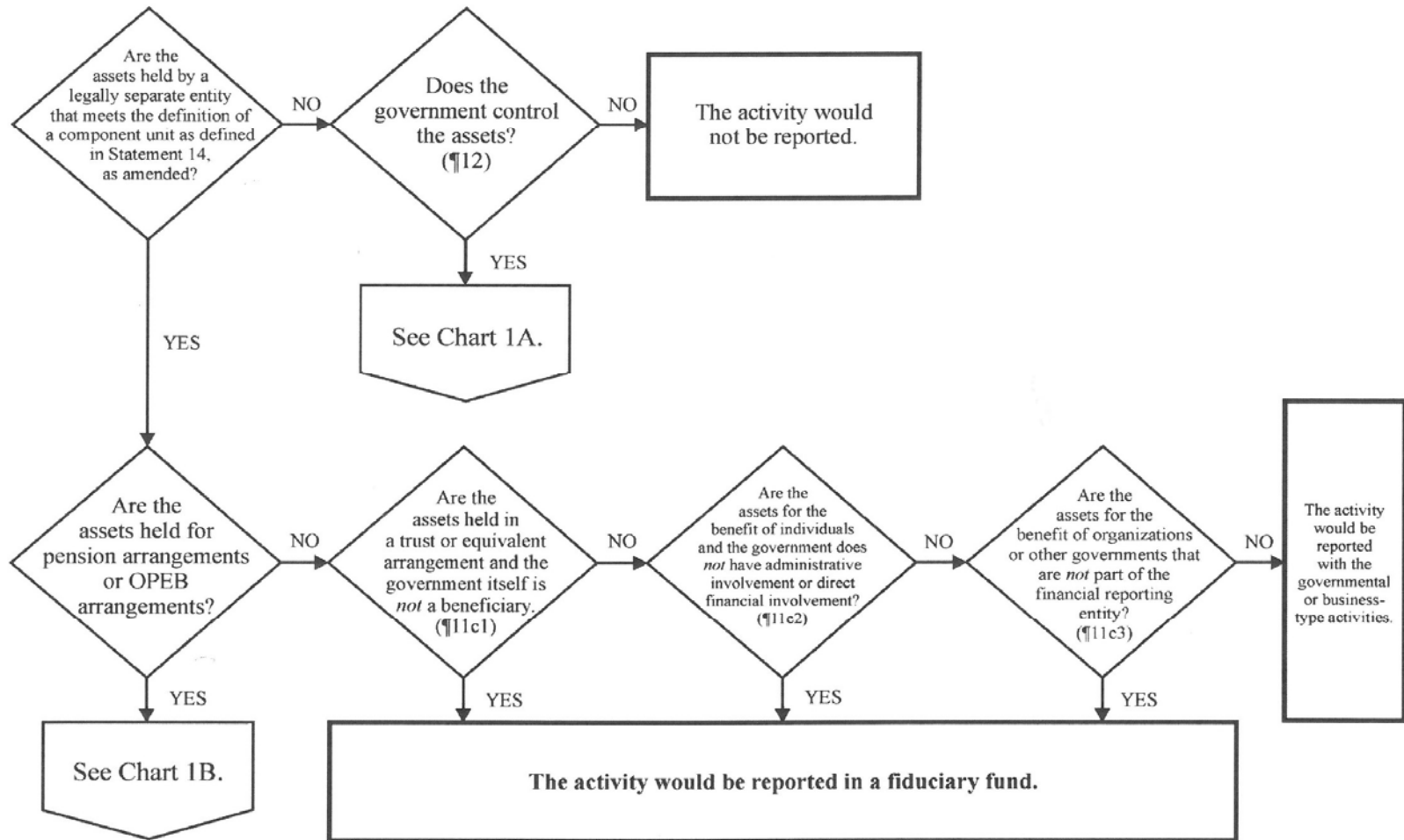
# Fiduciary Activities - GASB 84

- Improves guidance for identifying fiduciary activities and reporting those activities.
- Student Activities Funds (custodial funds).
  - Auditors will be required to opine on these statements.
  - What does this mean?

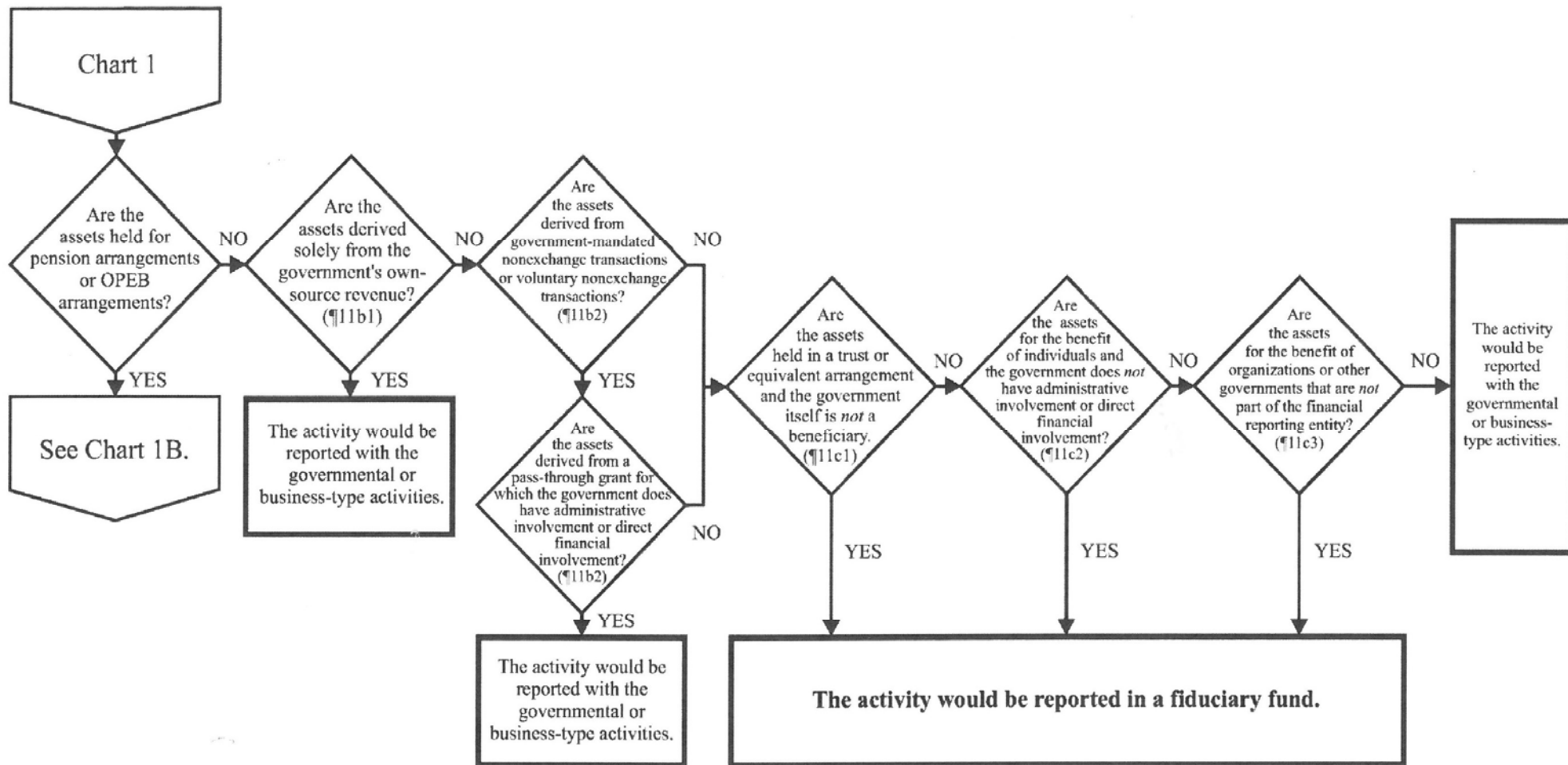
# Fiduciary Activities - GASB 84

- Four paths
  - 1. Component units that are postemployment benefit arrangements
  - 2. Component units that are NOT postemployment benefit arrangements
  - 3. Postemployment benefit arrangements that are NOT component units
  - 4. All other activities
- Questions to ask
  - Are the assets held by a component unit?
  - Are the assets held for a pension or OPEB arrangement?

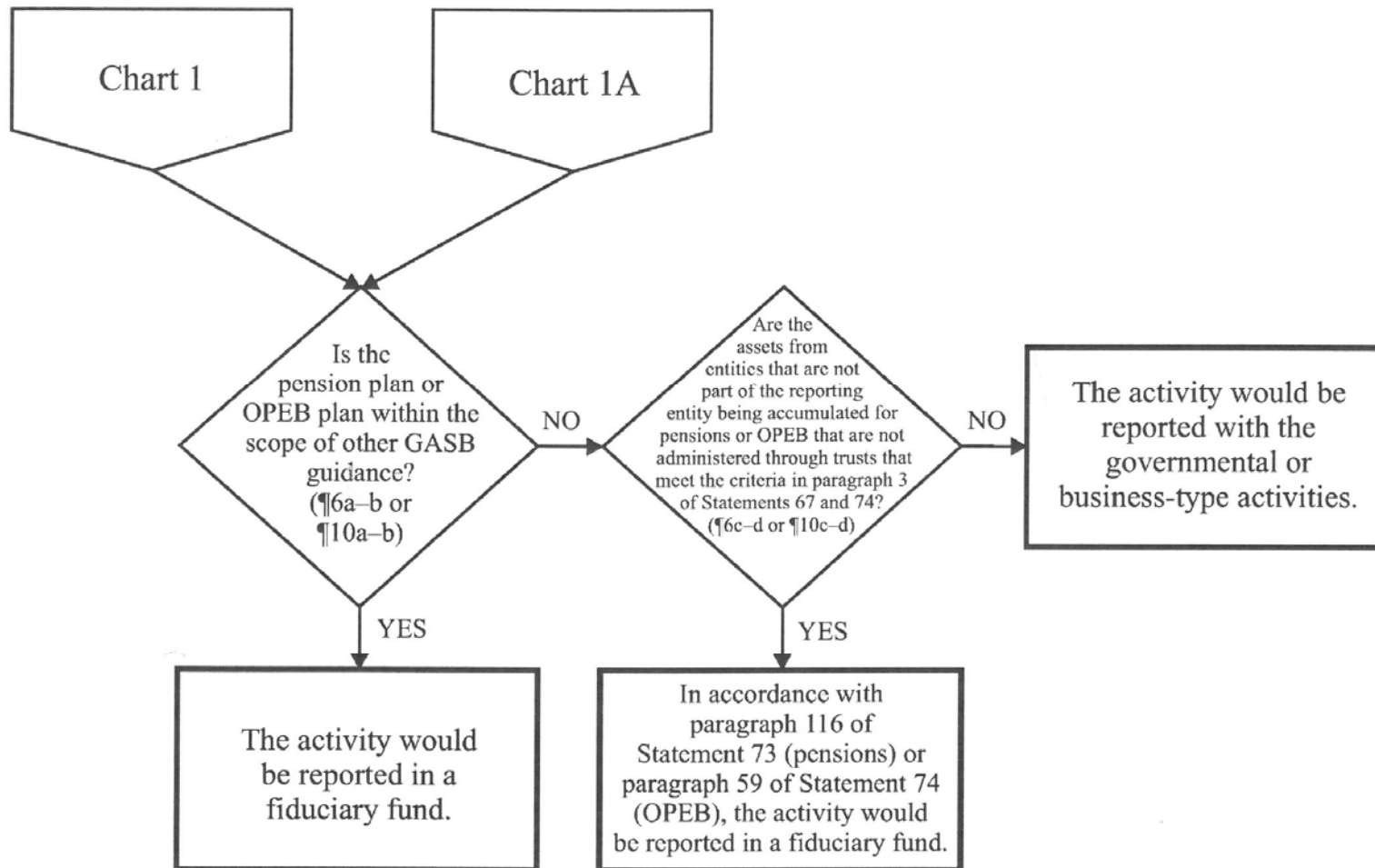
**Chart 1—Flowchart for Evaluating and Reporting Potential Fiduciary Activities**



**Chart 1A—Flowchart for Evaluating and Reporting Potential Fiduciary Activities**



**Chart 1B—Flowchart for Evaluating and Reporting Potential Fiduciary Activities (Postemployment Benefit Arrangements)**



# FIDUCIARY ACTIVITIES - GASB 84

## Fiduciary Fund Types:

- **Defines pension trust funds, investment trust funds, & private-purpose trust funds that focus on the resources that should be reported within each.**
  - Trust agreement or equivalent agreement 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



# Leases - GASB 87

- **Definition - A lease is a contract that conveys the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction.**
  - Right-to-use asset is specified in contract
  - Control is (1) right to **obtain present service capacity** from use of the underlying asset and (2) right to **determine the nature and manner of use** of the underlying asset.

# Leases - GASB 87

- Exclusions
  - Intangible assets (mineral rights, patents, software, copyrights), except the sublease of an intangible right-to-use asset
  - Biological assets (ex: live animals, timber, live plants)
  - Assets financed with conduit debt, unless both the asset and debt are reported by the lessor.
  - Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility).
  - Short-term leases (see more on next slide).

# Leases - GASB 87

- Short-term leases
  - Maximum POSSIBLE term under contract is 12 months or less.
  - MUST BE FULLY CANCELLABLE
- Lessees recognize expenditures based on the terms of the contract
- Lessors recognize lease payments as revenue based on payment provisions of the contract

# Leases - GASB 87

- Determining the lease term you must include:
  - Periods covered by the lessee & lessor's option to extend the lease if it is reasonably certain the lessee & lessor will exercise that option.
  - Fiscal funding clause can be used only when it is reasonably certain the clause will be exercised.
  - Difficult to classify leases as short term under this standard.
    - Reassess lease classification if any of the circumstances change.

# Leases - GASB 87

At inception of lease:	Assets	Liability	Deferred Inflow
LESSEE	Intangible asset (right-to-use underlying asset) = Value of lease liability + prepayments and initial direct costs that are incurred to place asset in use	Liability = Present value of future lease payments (including fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	N/A
LESSOR	1.) Lease receivable (generally includes same items as lessee's liability) 2.) Continue to report the leased asset	N/A	Equal to lease receivable plus any cash received up front that relates to a future period

## Leases - GASB 87

After inception of lease:	Assets	Liability	Deferred Inflow
LESSEE	Amortize lease asset over shorter of USEFUL LIFE (or) LEASE TERM	Amortize using the effective interest method (see next slide)	N/A
LESSOR	1.) Depreciate leased asset (unless indefinite life or required to be return in its original or enhanced condition) 2.) Reduce receivable by lease payments (less interest component)	N/A	Recognize revenue over the lease term in a systematic and rational manner

# Leases - GASB 87

- Example:

## Capital Leases – Lessee and Lessor

Amortization Schedule for the Lease

Date	Payment	Effective Interest	Decrease in Balance	Outstanding Balance
1/1/11				\$ 479,079
1/1/11	\$ 100,000	\$ -	\$ 100,000	379,079
12/31/11	100,000	37,908	62,092	316,987
12/31/12	100,000	31,699	68,301	248,686
12/31/13	100,000	24,869	75,131	173,554
12/31/14	100,000	17,355	82,645	90,910
12/31/15	100,000	9,090 *	90,910	-
	<u>\$ 600,000</u>	<u>\$ 120,921</u>	<u>\$ 479,079</u>	

\*Rounded.

$$\$379,079 \times 10\% = \$37,908$$

$$\$100,000 - \$37,908 = \$62,092$$

$$\$379,079 - \$62,092 = \$316,987$$

# Leases - GASB 87

Lessee disclosures	Lessor disclosures
<ul style="list-style-type: none"><li>• Description of leasing arrangements</li><li>• Total amount of lease assets (by major classes of underlying assets), and the related accumulated amortization</li><li>• Amount of outflows of resources recognized for the period of variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease liability</li><li>• Principal and interest requirements to maturity for each of the next 5 fiscal year &amp; in 5 year increments thereafter</li><li>• Commitments under leases that have not yet begun.. Other than short-term leases</li><li>• Components of any net impairment loss recognized on the lease asset during the period</li></ul>	<ul style="list-style-type: none"><li>• General description of leasing arrangements</li><li>• Total amount of inflows of resources (such as lease revenue and interest revenue, if not other displayed)</li><li>• Amount of inflows of resources recognized for the period for variable payments and other payments (such as residual value guarantees or penalties) not previously included in the measurement of the lease receivable</li><li>• 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.</li></ul>



# Leases - GASB 87

- Difficulties in practice:
  - There may be multiple components to the lease
    - Service & support costs, etc.
  - Escalation clause – increasing payments based on CPI or other index
    - What will CPI be in 5, 10, 15 years?
  - Multiple assets combined in one lease
    - Different useful lives or not all assets qualify for capital lease treatment
  - Lease modifications require re-evaluation
  - Discount rate used to calculate present value
    - Requires periodic analysis and judgement
    - What is an appropriate rate?
  - Separate amortization schedule for each leased asset...

# Compliance Updates

- State Single Audit Threshold
  - \$750,000 (same as Federal threshold)
- Major Program Threshold

State Expenditures	New Threshold	Old Threshold
Less than \$1Million	\$ 75,000	\$ 50,000
\$1 - \$5Million	\$150,000	\$ 75,000
\$5 - \$20Million	\$200,000	\$100,000
Greater than \$20Million	\$500,000	\$300,000

# Compliance Updates

- New Procurement Standard Effective for Fiscal Year 2019
  1. Micro-purchases <\$10,000
    - Distribute equitably
  2. Small purchases \$10,000 - \$150,000
    - Document multiple price or rate quotations
  3. Sealed Bids >\$150,000
    - Lowest cost among qualified bidders
  4. Competitive Proposals > \$150,000
    - Qualitative scoring and cost are evaluated
  5. Sole Source
    - Emergency/availability/pre-approval from grantor

# Compliance Updates

- What if your policy thresholds are different than OMB?
  - Competitive bidding at less than \$150,000?
- Auditors will test compliance with YOUR policy.
- Your policy must be in compliance with Title 2 CFR.200 (Uniform Guidance)

Questions?



Thank you!