

TRANSFORMATION • SYNERGY • EXCELLENCE

GASB Update Roundtable

2018 ALASBO Conference

COMMIT.
BEST IN CLASS

CULTURE & UNITY • LEADERSHIP & ACCOUNTABILITY • INNOVATION • MARKET PROMINENCE • BEST IN CLASS

BDO



GASB UPDATE ROUNDTABLE

2018 ALASBO Conference

Sam Thompson, CPA
Assurance Senior Manager

Jin Yeong Chi
Assurance Senior Associate
December 3rd, 2018



GASB Standards Effective in 2018



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**
 - The OPEB side of GASB 68
 - Replaced GASB 45 and 57 and established new accounting and financial reporting requirements for OPEB plans
 - For OPEB plans administered through a trust (such as PERS and TRS), districts must recognize a net OPEB liability (NOL)
 - For plans not administered through a trust, districts must recognize the total OPEB liability
 - Required significant changes to basic financial statements and required supplementary information
 - Significant financial statement impact:
 - Increase in noncurrent liabilities
 - New types of deferred outflows and inflows of resources
 - Restatement to opening net position
 - Additional OPEB expense recognized in economic resources measurement focus statements



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**
 - Net OPEB liability equal to present value of projected benefits due to active and inactive employees less any OPEB plan net position
 - Similar calculation as net pension liability (under GASB 68)
 - Gross liability calculated via actuarial calculation
 - Participating employers' (school districts) allocation of NOL determined by plan (State of Alaska)



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**
 - Net OPEB liability required to be measured at a date no earlier than end of the employer's prior fiscal year and no later than the end of the current fiscal year
 - Liability recognized in June 30, 2018 financial statements measured as of June 30, 2017
 - Plan assets should be valued at same date as liability measurement to match timing for "net" calculation
 - To summarize - GASB 75 timing rules = GASB 68 timing rules



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**
 - Changes to financial statements
 - Statement of Net Position
 - Net OPEB liability reported as a noncurrent liability
 - Equal to employer share at measurement date
 - Deferred inflows of resources related to OPEB
 - Difference between expected and actual experience
 - Difference between projected and actual earnings on plan investments
 - Changes in proportion of contributions
 - Deferred outflows of resources related to OPEB
 - Employer contributions made subsequent to measurement date
 - Used to account for changes in NOL not included in OPEB expense



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**
 - Changes to financial statements
 - Statement of Activities
 - OPEB expense - changes in NOL not related to timing of contributions or investment returns
 - Note disclosures
 - Identify discount rate and assumptions made in measurement of proportionate share of NOL
 - Sources of changes in NOL
 - Discount rate and healthcare trend rate sensitivity
 - Changes to Required Supplementary Information
 - 10 year schedules containing NOL and certain related ratios
 - Information about statutorily or contractually required contributions



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 81, *IRREVOCABLE SPLIT-INTEREST AGREEMENTS***
 - Irrevocable split-interest agreement
 - Type of giving agreement used by donors to provide resources to two or more beneficiaries
 - Created through trusts or other legally enforceable agreements
 - Donor cannot terminate agreement at will
 - District receiving resources must recognize assets, liabilities, and deferred inflows of resources at inception of agreement



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 81, *IRREVOCABLE SPLIT-INTEREST AGREEMENTS***

- Components of an irrevocable split-interest agreement
 - Lead interest
 - Resources provided through periodic disbursements
 - Can be pre-established at a set amount (annuity) or at a variable amount (% of total assets held in a trust)
 - Remainder interest
 - Resources provided at termination of agreement
 - Termination criteria
 - Period-certain - terminates after a set number of years
 - Life-contingent - terminates upon occurrence of a specific event (death)



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 81, *IRREVOCABLE SPLIT-INTEREST AGREEMENTS***
 - District can either serve as the intermediary OR a third party can serve such role
 - District as intermediary:
 - Remainder interest beneficiary recognize:
 - Assets for amounts received or receivable
 - Liabilities for lead interest assigned to other beneficiaries
 - Deferred inflow of resources for district's unconditional remainder interest
 - Lead interest beneficiary - recognize:
 - Assets for amounts received or receivable
 - Liabilities or remainder interest assigned to other beneficiaries
 - Deferred inflow of resources for district's unconditional lead interest



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 81, *IRREVOCABLE SPLIT-INTEREST AGREEMENTS***
 - District can either serve as the intermediary OR a third party can serve such role
 - Third party as intermediary:
 - District recognizes asset and deferred inflow of resources when district becomes aware and can measure beneficial interest
 - Asset recognized if district is specified by name and donation agreement is irrevocable
 - Donor cannot have control or influence over intermediary
 - Legally enforceable right for the district's benefit exists
 - Revenue recognition
 - Lead interest beneficiary - recognized in the applicable reporting period as outlined in agreement
 - Remainder interest beneficiary - recognized at termination of agreement

GASB Standards Effective in 2018

- **GASB STATEMENT NO. 85, *OMNIBUS 2017***

- Address practice issues that have been identified during the implementation and application of certain GASB statements
- Blending a component unit when the primary government is a business-type activity that reports in a single column
- Reporting amounts previously reported as goodwill and negative goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market instruments at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures in governmental fund financial statements
- Recognizing on-behalf payments for pension or OPEB in employer financial statements
- Presenting payroll-related measures in RSI for OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 85, *OMNIBUS 2017***

- Pension and OPEB

- Recognition and measurement of on-behalf payments

- Employer should recognize expenditures for on-behalf payments equal to the total amount paid during the reporting period by a nonemployer contributing entity to the plan and the change between the nonemployer contributing entities' beginning and ending balances normally expected to be liquidated with expendable available resources

- Employer should recognize revenue equal to amount of expenditures

- No change to GASB 24 recognition rules

- Presentation of payroll-related measures for RSI for OPEB

- Covered payroll = payroll on which contributions to the OPEB plan are based



GASB Standards Effective in 2018

- **GASB STATEMENT NO. 86, CERTAIN DEBT EXTINGUISHMENT ISSUES**
 - When cash or other existing resources are placed in an irrevocable trust to extinguish debt, it is considered to be an in-substance defeasance, assuming all criteria is met
 - The difference between the reacquisition price and the net carrying amount of the debt will be recognized as a separately identified gain or loss in the period of defeasance
 - Formally, GAAP required the difference to be recorded as deferred outflow or inflow of resources (i.e. deferred charges or gains on refunding) and deferred over time
 - Payments to the escrow agent from existing resources should be reported as debt service expenditures in governmental fund types



GASB Standards Effective in 2019

GASB Standards Effective in 2019

- **GASB STATEMENT NO. 83, *CERTAIN ASSET RETIREMENT OBLIGATIONS***

- Establishes measurement criteria for recording a liability for the removal of certain assets such as:
 - Nuclear power plants
 - Sewage treatment facilities
 - Coal-fired power plants
 - Wind turbines
 - X-ray machines
- Districts with legal obligations to perform future asset retirement activities related to tangible capital assets would be required to recognize a liability
- A liability and corresponding deferred outflow of resources is recorded when the liability is both incurred and reasonably estimable
- The liability is based on the best estimate of the current value of outlays expected to be incurred
- Must have both an external obligating event, such as a court judgment or federal, state or local law; and an internal obligating event, such as contamination or retirement



GASB Standards Effective in 2019

- **GASB STATEMENT NO. 83, CERTAIN ASSET RETIREMENT OBLIGATIONS**
 - Annual remeasurement required, adjusting for the effects of inflation or deflation
 - Recognized in the economic resources measurement focus financial statements (gov't wide and proprietary funds)
 - Recognized in the current resources measurement focus financial statements (governmental funds) to the extent the liability is normally expected to be liquidated with current financial resources
 - Does not apply to pollution remediation obligations (i.e. contaminated sites such as old fuel tanks or diesel spills) - GASB 49 still the applicable GAAP
 - Does not apply to remediation costs associated with asbestos (the scope of GASB 83 excludes obligations for contamination removal resulting from other-than-normal operations)



GASB Standards Effective in 2019

- **GASB STATEMENT NO. 88, CERTAIN DISCLOSURES RELATED TO DEBT, INCLUDING DIRECT BORROWINGS AND DIRECT PAYMENTS**
 - Defines debt for disclosure purposes as a liability that arises from a contractual obligation to pay cash or other assets in one or more payments to settle an amount that is fixed as of the date the obligation is established
 - Objective is to improve note disclosures related to debt by providing a clear definition of debt
 - Excludes pension and OPEB liabilities, leases and accounts payable, as those should be disclosed in separate notes
 - Includes capital appreciation bonds and variable rate debt
 - Establishes additional disclosure requirements for unused lines of credit, assets pledged as collateral, specific debt agreement terms, direct borrowings and direct-placement debt



GASB Standards Effective in 2020



GASB Standards Effective in 2020

- **GASB STATEMENT NO. 84, *FIDUCIARY ACTIVITIES***
 - Establishes criteria for reporting fiduciary activities that focuses on whether the district controls the assets and fiduciary relationship with beneficiaries
 - Districts should report activity as “fiduciary” if (1) the district controls the asset; (2) the asset was not derived solely from the district’s own revenues and (3) one or more of the following criteria is met:
 1. Assets are administered through a trust
 2. Assets are provided to individuals not required to be residents (students)
 3. Assets are provided to other organizations or governments that are not part of the financial reporting entity nor a recipient of the government’s services
 4. Assets result from a pass-through grant in which the district does not have administrative or direct financial involvement



GASB Standards Effective in 2020

- **GASB STATEMENT NO. 84, *FIDUCIARY ACTIVITIES***

- Establishes 4 types of fiduciary funds -

1. Pension and OPEB funds
2. Investment trust funds
3. Private-purpose trust funds
4. Custodial funds

- For activities not held in a trust, custodial funds replace what was formally known as “agency funds”
- Custodial funds can have net position, unlike old agency funds

GASB Standards Effective in 2020

- **GASB STATEMENT NO. 90, MAJORITY EQUITY INTERESTS - AN AMENDMENT OF GASB STATEMENTS NO. 14 AND 61**
 - Defines a majority equity interest
 - A financial interest in a legally separate organization evidenced by the ownership of shares of stock or otherwise having an explicit, measurable right to the net resources of the entity
 - A majority equity interest in a legally separate organization should be reported as an investment if the criteria for an investment is met
 - Investment = a security or other asset that (a) a district holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash
 - Equity interest investments should be reported using the equity method in accordance with GASB 62
 - If the investment criteria is not met, and the holding of the majority equity interest results in the district being fiscally accountable for the organization, then the district should report the legally separate organization as a component unit



GASB Standards Effective in 2021

GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Requires recognition of certain lease assets and liabilities for leases currently classified as operating leases
- Eliminates the distinction between operating and capital leases - all leases will be recorded on the statement of net position/balance sheet
- Definition of a lease - 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
 - Broad applicability - any contract meeting the definition considered a lease unless specifically excluded by GASB 87
- Lessees - recognize a lease liability and a right-to-use lease asset, which is amortized in a systematic and reasonable manner over the shorter of the lease term or useful life of the lease asset
 - Lease term - period during which lessee has a noncancelable right to use an underlying asset, +/- optional extension or termination clauses considered reasonably certain to be exercised/not exercised
- Lessors - recognize lease receivable and deferred inflow of resources. Revenue recognized in a systematic and rational manner over the term of the lease

GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Financial statement impact - Lessee
 - Required to recognize lease liability and lease asset
 - Liability measured at present value* of payments expected to be made during the lease term, less any lease incentives
 - Liability reduced as payments made over time
 - Interest recorded as expense
 - *Present value of payments should be based on interest rate charged by lessor or lessee's borrowing rate if unknown
 - Asset measured at present value of payments over lease term
 - Plus - initial/up-front payments made to lessor
 - Plus - direct costs to put asset into service
 - Less - incentives received from lessor at beginning of term
 - Asset amortized in systematic and rational manner over the shorter of the lease term or useful life of asset



GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Financial statement impact - Lessor

- Required to recognize lease receivable and a deferred inflow of resources at commencement of lease term
 - Receivable measured at present value of payments expected to be received during the lease term
 - Deferred inflow of resources measured at value of lease receivable plus any payments received at or before start of lease term related to future periods
 - Interest revenue recognized in a systematic and rational manner over the term of the lease, offset to a decrease in deferred inflows of resources



GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Treatment under current financial resources measurement (governmental funds)
 - Lessee
 - No change from existing lease accounting guidance
 - Lease payments made over term of lease = debt service expenditures
 - Lessor
 - Recognized lease receivable at present value of lease payment and a deferred inflow of resources for portion of amount that is not available due to time restrictions
 - Lease payments received over term of the lease - reduce receivable, record interest revenue (offset to deferred inflow of resources)



GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Note disclosures

- Lessee

- Description of leasing arrangements
- Value of lease assets
- Schedule of future lease payments (principal and interest disclosed separately)

- Lessor

- General description of leasing arrangements
- Total amount of lease revenue for current year (lease related + interest + variable lease payments/any other lease related revenue)
- Termination or abatement provisions available as lessee options
- Schedule of future lease payments (principal and interest disclosed separately)



GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Other considerations

- Contracts with lease and nonlease components

- Separate components and treat as separate contracts

- Multiple assets with different lease terms in same contract

- Treat each asset as separate component

- Allocate contract price to each component using reasonableness and professional judgment

- Contract combinations

- Can combine if entered into at or near the same time with same counterparty, and were either negotiated as a common package or consideration for one contract depends on price or performance of another

- Treat such contracts as a contract with multiple components



GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Other considerations

- Amendments to lease contracts are considered lease modifications unless the lessee's right to use the underlying asset decreases (considered a partial or full lease termination)
 - Options exercised to extend or terminate the lease should be remeasured
- Modifications to a lease contract should be treated as a separate lease if the modification adds assets to the original lease contract and increase payment terms not considered unreasonable
 - If no assets added or payment terms are considered unreasonable, then remeasurement should take place
- Remeasurement
 - Lessee - remeasure lease liability, adjust lease asset for difference before and after lease modification
 - Lessor - remeasure lease receivable, adjust deferred inflow of resources for differences before and after lease modification



GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Leases *excluded* from scope of GASB 87

- Intangibles
- Biological assets
- Inventory
- Service concession agreements
- Supply contracts
- Short-term leases
 - Maximum possible term of lease contract of 12 months or less, including any options to extend (regardless of probability)
 - Cancelable lease maximum possible term is the noncancelable period, including any notice periods
- Contracts that ultimately transfer ownership of asset to lessee



GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Example - lessee:

- Springfield School District has an operating lease for a storage facility with Springfield Nuclear Inc.
 - Lease is for 5 years, total of \$375,000 (\$75,000/year)
 - Implied interest rate of lease is 3%
- How would this transaction be recorded?

GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Statements prepared using the economic resources measurement focus:

- Step 1 - calculate present value of payments over lease term:

- Debit - lease asset = \$343,475
- Credit - lease liability = \$343,475

- Step 2- calculate annual lease entry:

- Debit - lease liability = \$68,695
- Debit - interest expense = \$6,305
- Credit - cash - \$75,000
- Debit - amortization expense = \$68,695
- Credit - lease asset = \$68,695

- Statements prepared using the current resources measurement focus:

- Step 1 - calculate annual lease entry:

- Debit - debt service expense - principal - \$68,695
- Debit - debt service expense - interest - \$6,305
- Credit - cash - \$75,000



GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- Example - lessor:

- Springfield School District leases a building to Krusty Burger, Inc.
 - Lease is for 5 years, total of \$375,000 (\$75,000/year)
 - Implied interest rate of lease is 3%
- How would this transaction be recorded?

GASB Standards Effective in 2021

- **GASB STATEMENT NO. 87, LEASES**

- All funds/statements:

- Step 1 - calculate present value of lease receipts over lease term:

- Debit - lease receivable= \$343,475
- Credit - deferred inflow of resources = \$343,475

- Step 2- calculate annual lease entry:

- Credit - lease receivable = \$68,695
- Credit - interest revenue= \$6,305
- Debit - cash - \$75,000
- Debit - deferred inflow of resources = \$68,695
- Credit - lease revenue = \$68,695

GASB Standards Effective in 2021

- **GASB STATEMENT NO. 89, ACCOUNTING FOR INTEREST COST INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD**
 - Interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred for statements prepared using the economic resources measurement focus
 - Interest cost incurred should not be capitalized and not included in the historical cost of a capital asset
 - In statements using the current resources measurement focus, interest costs should continue to be recognized as expenditures
 - GASB concludes that interest costs do not meet the definition of an asset, when considered separately from a capital asset, since the cost itself is not a resource with a present service capacity
 - Interest cost is a financing activity separate from the capital asset, and does not enhance the present service capacity of the asset because the asset has the same ability to provide services regardless of whether interest costs were incurred



Questions?

- **Contact Information:**
 - Sam Thompson - sthompson@bdo.com 907-646-7318
 - Jin Yeong Chi - jchi@bdo.com 907-646-7376