



2017 Governmental GAAP Update

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Webinar

Presented in association with



Presented by:



Stephen W. Blann, CPA, CGFM, CGMA
Director of Governmental Audit Quality
Rehmann

Session Outline

- Newly issued standards
- Newly effective standards
- Upcoming standards
- Exposure drafts and preliminary views

Newly Issued Standards

- GASB Pronouncements **issued** in 2016:

No.	Title	Effective
80	Blending Requirements for Certain Component Units	06/15/2017
81	Irrevocable Split-Interest Agreements	12/15/2017
82	Pension Issues	06/15/2017
83	Certain Asset Retirement Obligations	06/15/2019

Newly Issued Standards

- GASB Pronouncements **effective** in 2016:

No.	Title	Effective
72	Fair Value Measurement and Application	06/15/2016
73	Pensions and Related Assets Not Within the Scope of GASB 68	06/15/2016
76	The Hierarchy of GAAP for SLGs	06/15/2016
77	Tax Abatement Disclosures	12/15/2016

Newly Issued Standards

- GASB Pronouncements **effective** in 2016:

No.	Title	Effective
78	Pensions Provided through Certain Multiple-Employer DB Pension Plans	12/15/2016
79	Certain External Investment Pools and Pool Participants	06/15/2016

Newly Effective Standards

- GASB Pronouncements **effective soon:**

No.	Title	Effective
74	Postemployment Benefit Plans Other than Pension Plans (OPEB Plans)	06/15/2017
75	Postemployment Benefits Other than Pensions (OPEB)	06/16/2018

GASB Statement 72

Fair Value Measurement and Application

- Effective now (06/15/2016)
- Defines **fair value** as an exit price
 - Differentiated from **acquisition value**
- Retains existing requirement to carry investments at fair value
- Provides guidelines on how to estimate fair value when not readily apparent using **inputs**

GASB Statement 72

Fair Value Measurement and Application

- Introduces a new fair value hierarchy
 - **Level 1 inputs** are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
 - **Level 2 inputs** are all other observable inputs not included within Level 1
 - **Level 3 inputs** are unobservable inputs for an asset or liability.

GASB Statement 72

Fair Value Measurement and Application

- Disclosures
 - Organized by type of asset or liability
 - Fair value measurement at the end of the reporting period
 - The level of the fair value hierarchy (1, 2, or 3)
 - Description of the valuation techniques used
 - Any significant changes from the prior year
 - Additional disclosures for investments at NAV

GASB Statement 72

Fair Value Measurement and Application

- GASB 72 was covered more thoroughly in our October 2016 webinar:

*Implementing GASB 72 (Fair Value) and
GASB 77 (Tax Abatement Disclosures)*

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GASB Statement 73

Pensions Not Within the Scope of GASB 68

- GASB 67/68 apply only to pensions administered through **trusts**
 - Contributions/earnings are irrevocable
 - Plan assets are dedicated to providing pensions (benefits) to plan members
 - Plan assets are legally protected from creditors
- Other pensions were instructed to continue following existing GAAP (GASB 25/27)

GASB Statement 73

Pensions Not Within the Scope of GASB 68

- GASB considered non-trusted pension separately, and determined:
 - They have the same objective as other (more traditional) pensions
 - The only real difference is absence of **fiduciary net position**

GASB Statement 73

Pensions Not Within the Scope of GASB 68

- GASB considered non-trusted pension separately, and determined:
 - Apply the requirements of GASB 67/68
 - No netting (record **total pension liability** instead of **net pension liability**)
 - Use a discount rate consistent with an unfunded plan (AA 20-year muni bond rate)

GASB Statement 73

Pensions Not Within the Scope of GASB 68

- Treatment of assets:
 - Single-employer plan
 - Report as employer assets
 - Multiple-employer plan
 - Report proportionate share of total as employer assets
 - Pension plans
 - Report resources held for others in an agency fund

CPE Prompt 1 of 4

- GASB 72's Level 1, 2, and 3 inputs reflect:
 - A. The relative risk/safety of an investment
 - B. The degree to which fair value is based on observable/unobservable inputs
 - C. The credit rating of investments
 - D. Whether investments are held by third parties or by the government itself

GASB Statement 74/75

Other Postemployment Benefits (OPEB)

- GASB 74
 - Applies to the financial statements of **OPEB plans** (trust funds)
 - Effective 06/30/2017
- GASB 75
 - Applies to the financial statements of **employers** providing OPEB
 - Effective 06/30/2018

GASB Statement 74/75

Defining Pension & OPEB

- Essentially mirrors the reporting requirements for pensions in GASB 67/68
- OPEB plans already require actuarial valuations under GASB 43/45
 - Shift away from funding progress to funded status
 - Record a Net OPEB Liability for the unfunded portion of OPEB in full accrual financial statements

GASB Statement 74/75

Defining Pension & OPEB

- GASB 74/75 were covered more thoroughly in our March 2016 webinar:

*Navigating the Changes:
Pensions and OPEB*

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GASB Statement 76

The Hierarchy of GAAP for SLGs

- Simplifies the sources of authoritative GAAP for state and local governments
 - Category A (primary)
 - Category B (secondary)
- Provided guidelines for evaluating non-authoritative sources

GASB Statement 76

The Hierarchy of GAAP for SLGs

- Category A (*GASB approval*)
 - GASB Statements
- Category B (*GASB clearance*)
 - GASB Technical Bulletins*
 - GASB Implementation Guides
 - AICPA literature cleared by the GASB
- *Included in the GASB Codification*

GASB Statement 76

The Hierarchy of GAAP for SLGs

- Non-authoritative sources
 - GASB Concepts Statements*
 - FASB and international standards
 - AICPA literature not cleared by the GASB
 - Literature of other professional associations
 - Textbooks, articles, etc.

GASB Statement 77

Tax Abatement Disclosures

- Effective 12/15/2016
- Requires disclosure of **tax abatements**
 - Agreements, entered into *in advance*, in which a government forgoes tax revenue in exchange for *specific action* taken by a taxpayer that contributes to the economic development or otherwise benefits the government or its citizens

GASB Statement 77

Tax Abatement Disclosures

- NOT tax abatements
 - Property tax exemption for nonprofits
 - Income tax breaks for the elderly
 - Tax capture by a DDA/LDFA/TIFA
 - Tax reduction zones (Ren Zone, Enterprise Zone)
- Tax abatements
 - Industrial Facilities Tax / Commercial Facilities Tax
 - Taxes captured by a Brownfield Redevelopment Authority and then rebated to the taxpayer
 - Tax credits to stay in the state

GASB Statement 77

Tax Abatement Disclosures

- Disclosures required:
 - General description of program (terms/conditions)
 - Total taxes abated
 - By the government itself
 - By other governments that impacted the government's levies
 - Continue as long as agreement is in force

GASB Statement 77

Tax Abatement Disclosures

- GASB 77 was covered more thoroughly in our October 2016 webinar:

*Implementing GASB 72 (Fair Value) and
GASB 77 (Tax Abatement Disclosures)*

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CPE Prompt 2 of 4

- Tax abatement disclosures are:
 - A. Only required to be made for agreements over a specified quantitative threshold
 - B. Only required to be made for a government's own programs
 - C. Only required to be made in the year a government initially enters into an agreement
 - D. None of the above

GASB Statement 78

Certain Multiple-Employer DB Pension Plans

- Amendment to GASB 68
 - Excludes cost-sharing pensions that:
 - Are not a state or local governmental pension plan
 - Are used by both governmental and non-governmental employees
 - Have no predominant governmental employer
 - Effective 12/15/2016

GASB Statement 78

Certain Multiple-Employer DB Pension Plans

- Accounting is essentially like a defined contribution plan
 - Expense = required contributions for the period
 - Liability = current contributions due at year end
 - Notes = plan description and contributions made
 - RSI = 10 years of required contributions

GASB Statement 79

Certain External Investment Pools

- Brings the guidance for 2a7-like investment pools within the GASB literature
 - SEC rule 2a7 was amended in 2014
 - No substantive change to current practice for governments
 - Effective 06/15/2016 (portions deferred to 12/15/2016)

GASB Statement 79

Certain External Investment Pools

- In general, investments should be carried at fair value
 - Exception made for short-term money market funds (2a7-like) carried at amortized cost, which is expected to approximate market
 - Use of fair value is always permitted
 - Once fair value is elected, you cannot later change back to amortized cost

GASB Statement 79

Certain External Investment Pools

- To qualify for amortized cost, an external investment pool must:
 - Have a stable net asset value (NAV) per share
 - Meet certain minimum requirements regarding maturity, quality, diversification, liquidity, and shadow price
 - If noncompliant, switch to using fair value

GASB Statement 80

Blending Requirements for Certain CUs

- Effective 06/15/2017
- Adds a criteria for blending component units:
 - Not-for-profit corporation
 - Primary government is identified in the articles of incorporation or bylaws as the sole corporate member
 - Does not apply to CUs included as supporting organizations under GASB 39

GASB Statement 81

Irrevocable Split-Interest Agreements

- Effective 12/31/2017
- Applies to irrevocable split-interest agreements:
 - Held by the government
 - Held by others for the benefit of the government

GASB Statement 81

Irrevocable Split-Interest Agreements

- Effective 12/31/2017
- Addresses accounting for donations (largely to foundations) of charitable remainder trusts, annuity gifts, and life interests in real estate
- Applies to **split-interest agreements**:
 - Held by the government
 - Held by others for the government's benefit

GASB Statement 81

Irrevocable Split-Interest Agreements

- Split-interest agreement
 - An agreement in which the donor enters into a trust or other legally enforceable agreement under which the donor transfers resources to an **intermediary** to administer for the benefit of at least two beneficiaries, one of which could be a government.

GASB Statement 81

Irrevocable Split-Interest Agreements

- Intermediary

- The trustee, fiscal agent, government, or any other legal or natural person that is holding and administering donated resources pursuant to a split-interest agreement. An intermediary is not required to be a third party.

GASB Statement 81

Irrevocable Split-Interest Agreements

- Lead interest
 - A type of beneficial interest that confers the right to receive all or a portion of the benefits of resources during the term of a split-interest agreement
- Remainder interest
 - A type of beneficial interest that confers the right to receive all or a portion of the resources remaining at the end of a split-interest agreement's term

GASB Statement 81

Irrevocable Split-Interest Agreements

- **Irrevocable** Split-interest agreement
 - A split-interest agreement in which the donor has not reserved, or conferred to another person, the right to terminate the agreement at will and have the assets returned to the donor or a third party
 - Excludes agreements which grant variance power

GASB Statement 81

Irrevocable Split-Interest Agreements

- Government is both the intermediary and the remainder interest beneficiary
 - Assets received/receivable
 - Liability for lead interest assigned to others
 - Deferred inflow for remainder interest

GASB Statement 81

Irrevocable Split-Interest Agreements

- Government is both the intermediary and the lead interest beneficiary
 - Assets received/receivable
 - Deferred inflow for lead interest
 - Liability for remainder interest assigned to others

GASB Statement 81

Irrevocable Split-Interest Agreements

- Life interest in real estate
 - Donor provides asset (e.g., residence) but retains the right to use it until death
 - Record an investment or capital assets based on intended future use
 - Record liability for any obligations to sacrifice future resources (maintenance, etc.)
 - Deferred inflow for the residual balance

GASB Statement 81

Irrevocable Split-Interest Agreements

- Third-party intermediary
 - Record when government becomes aware of agreement and can measure amounts
 - Government is named as beneficiary
 - Agreement is irrevocable
 - Donor has not granted variance power
 - Donor does not control the intermediary
 - Agreement creates a legally enforceable right (unconditional beneficial interest)

GASB Statement 81

Irrevocable Split-Interest Agreements

- Third-party intermediary
 - Record asset for beneficial interest
 - Offset with a deferred inflow
 - Recognize revenue:
 - Lead interest = over term of agreement
 - Remainder interest = at termination of agreement

CPE Prompt 3 of 4

- Governments that are the beneficiaries of charitable remainder gift annuities held by a third-party should record:
 - A. Receivables and revenue
 - B. Receivables and deferred inflows
 - C. Nothing
 - D. Either B or C depending on whether the third-party has variance power

GASB Statement 82

Pension Issues

- Effective 06/15/2017
- Q: What if the actuarial assumptions selected are reported as *deviations* by the actuary in accordance with Actuarial Standards of Practice?
 - A: The valuation is not in conformance with GAAP

GASB Statement 82

Pension Issues

- Q: What is “covered payroll” for RSI?
 - A: Pensionable wages (reported to the plan)
- Q: What if an employer “picks up” the required employee contribution?
 - A: Treat it as an employee contribution

GASB Statement 83

Certain Asset Retirement Obligations

- Effective 06/15/2019
- Addresses legally enforceable liabilities associated with the retirement of a tangible capital asset
 - Excludes landfills and pollution remediation
 - Excludes routine costs of maintenance and sale

GASB Statement 83

Certain Asset Retirement Obligations

- Example AROs
 - Decommissioning of nuclear reactors
 - Removal and disposal of wind turbines in wind farms
 - Dismantling and removal of sewage treatment plants
 - Removal and disposal of x-ray machines

GASB Statement 83

Certain Asset Retirement Obligations

- Definition of an ARO
 - Legally enforceable liability
 - Associated with the **retirement** of a tangible capital asset
 - Asset is permanently removed from service
 - Includes sale, abandonment, recycling, or disposal
 - Excludes temporary idle status

GASB Statement 83

Certain Asset Retirement Obligations

- Recognition (full accrual)
 - Book an ARO when **incurred** and reasonably estimable
 - External obligating event (laws/regulations, legally binding contracts, court judgments)
 - Internal obligating event (placing it in service, use of the tangible capital asset, abandonment, acquisition of assets with existing AROs)
 - *Planning* to retire an asset is not an obligating event

GASB Statement 83

Certain Asset Retirement Obligations

- Recognition (full accrual)
 - Amount of liability = **best estimate** of the **current value** of outlays expected to be incurred
 - Probability-weighted average of all potential outcomes
 - Most likely outcome (if not cost effective to weight)

GASB Statement 83

Certain Asset Retirement Obligations

- Recognition (full accrual)
 - Offset the ARO with a deferred outflow
 - Amortize over asset's useful life
 - Exception: asset abandoned before being placed in service (expense all at once)

GASB Statement 83

Certain Asset Retirement Obligations

- Recognition (full accrual)
 - Annually adjust estimates for inflation and other changes
 - Assets still in service: adjust deferred outflows
 - Retired assets: changes run through expense

GASB Statement 83

Certain Asset Retirement Obligations

- Recognition (modified accrual)
 - Only record portion that is expected to be liquidated with expendable available financial resources (as they become due and payable)

GASB Statement 83

Certain Asset Retirement Obligations

- Disclosure
 - General description of AROs and related assets
 - Methods/assumptions used
 - Remaining useful life
 - Any restricted assets set aside for ARO
 - If an ARO is not recognized because it is not yet reasonably estimable, still describe

CPE Prompt 4 of 4

- For which of the following might a government report an ARO?
 - A. Decommissioning a power plant
 - B. Landfill
 - C. Clean-up of an oil spill
 - D. All of the above

Upcoming Standards

- GASB Pronouncements expected in 2017:
 - Fiduciary Activities (1Q17)
 - Leases (2Q17)
 - Debt Extinguishments (2Q17)

Fiduciary Activities

- Summary
 - Redefines “control” in a fiduciary capacity
 - Distinguishes between trust agreements and “custodial” funds (replaces “agency” funds)
- Final standard expected 1Q17

Leases

- Summary
 - Addresses contracts that convey a legal right to use a nonfinancial asset for a period of time in an exchange or exchange-like transaction
 - Differs somewhat from parallel FASB project
 - Record intangible asset and related liability
- Final standard expected 2Q17

Certain Debt Extinguishments

- Summary
 - Addresses how to handle defeasance of debt using only existing resources (not issuing refunding bonds)
- Final standard expected 2Q17

Looking Further Ahead

- Other GASB projects:
 - Debt Disclosures (ED 2Q17)
 - Capitalization of Interest Cost (ED 4Q17)
 - Equity Interest Ownership (ED 1Q18)
 - Conceptual Framework: Recognition (PV 3Q18)
 - Financial Reporting Model (ITC out now, final standard expected 4Q21)

Looking Further Ahead

- Financial Reporting Model:
 - GASB 34 will be over 20 years old before this project is complete
 - Retaining government-wide and fund financial statements with minor changes
 - Considering revisions to existing modified accrual:
 - Near-term resources
 - Current resources
 - Long-term resources

Questions?



For more information...



CPAs & Consultants • Wealth Advisors • Corporate Investigator



Stephen W. Blann, CPA, CGFM, CGMA
Director of Governmental Audit Quality
Rehmann

stephen.blann@rehmann.com

www.rehmann.com/government