

VASBO

Virginia Association of School Business Officials



GASB Update

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GASB Final Standards

Previously Issued

- GASB 75 OPEB
- GASB 83 Certain Asset Retirement Obligations
- GASB 84 Fiduciary Activities
- GASB 85 Omnibus 2017
- GASB 86 Certain Debt Extinguishment Issues

GASB Final Standards

Newly Issued

- **GASB 87 Leases**
- GASB 88 Debt Disclosure
- Implementation Guides: 2017 3 and 2018 1

Statement 85

Omnibus 2017

**Effective for Periods
Beginning After June 15, 2017**

GASB 85

- Contains fixes or small modifications on a number of topics that did not each warrant their own Statement
 - Blended Component units
 - Goodwill
 - Fair Value
 - Pensions
 - OPEB

Statement 86

Certain Debt Extinguishment Issues

**Effective for Periods
Beginning After June 15, 2017**

GASB 86

- This Statement establishes requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt.
- In financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.
- Payments to the escrow agent made from existing resources should be reported as debt service expenditures in financial statements using the current financial resources measurement focus



Statement 88

Certain Disclosure Related to Debt,
including Direct borrowings and Direct
Placements

**Effective for Periods
Beginning After June 15, 2018**

GASB 88

- Many governments use bank loans or private placement of debt instead of accessing the bond market
 - Lower costs of issuance / complexity
 - relationship with local bank
- Accelerated payment requirements and other provisions of private debt expose governments to financial risks
- Inconsistent interpretation and application of disclosure requirements for such debt
- This Statement establishes disclosure requirements for direct borrowing and direct placements

Implementation Guide 2017-3 Accounting and Financial Reporting for Postemployment Benefits other than Pensions

**Effective for Periods
Beginning After June 15, 2017**

Implementation Guide 2017-3

- Comprised of 506 questions & answers
 - 502 questions regarding employer OPEB (GASB 75/Cod. P50-54)
 - 4 questions regarding OPEB plans that arose after IG 2017-2 was issued (GASB 74/Cod. Po50-51)
 - Less than 10% are truly “new” questions (no currently authoritative “predecessor questions” covering pension or OPEB)
 - many are repeated under various classifications

Implementation Guide 2017-3 Implementation Guidance Update - 2018

**Effective for Periods
Beginning After June 15, 2017
Certain questions for periods
beginning after June 15, 2018**

Implementation Guide 2018-3

- 17 Questions & Answers - Topics

<u>9 New Q&A's</u>	<u>8 Clarifying* Changes</u>
<ul style="list-style-type: none">• Pension – 1• OPEB – 1• CAFR statistical section – 1• Regulated operations – 2• Tax abatements – 4	<ul style="list-style-type: none">• Deposits and investments – 2• Pensions – 2• Basic F/S and MD&A – 2• CAFR statistical section – 1• Tax abatements – 1

Statement 75

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

**Effective for Periods
Beginning After June 15, 2017**

GASB 75 Essentials

- Effective for periods beginning after June 15, 2017
 - For example 6/30/18 or 12/31/18
- Retroactive application by restating financials for all periods presented
- Two primary sections
 - OPEB provided through plans administered as trusts or equivalent arrangements
 - OPEB provided through plans NOT administered as trusts or equivalent arrangements

Is this just Pension Accounting Redux?

- Pension plans typically independently staffed and governed
- Pensions older
- OPEB plans often administered by sponsoring employer
- Non-trusted plans more common
- Employer likely more involved
 - Selecting actuary
 - Establishing assumptions
 - Documenting the plan
 - Furnishing census data
- Additional concepts
 - Implicit rate subsidies
 - Health care trend rate
 - Alternative method

What's Considered OPEB

- Post employment healthcare benefits no matter how provided
- Post employment benefits other than healthcare if provided separately from a pension plan
 - Death benefits
 - Life insurance
 - Disability
- Not
 - Termination benefits
 - Sick leave paid at termination

OPEB in Virginia

- Health insurance
 - Stand alone plan
 - The Local Choice plan
- Retiree health insurance credit
- Group life insurance
- Local disability plan

Health Care Plans

- Provision of funding toward health care after employment
- Virginia State Code requires if 15 or more years continuous service
- Employer determines:
 - Specific benefits to be provided
 - Methods of funding

Virginia Code Requirement for Retiree Medical

- § 15.2-1517. Insurance for employees and retired employees of localities and other local governmental entities; participation by certain volunteers.
 - Except as otherwise provided herein, in the event the governing body of any locality elects to provide group accident and health insurance for its officers and employees, including constitutional officers and their employees, such programs shall require that upon retirement, or upon the effective date of this provision for those who have previously retired, any such individual with (i) at least 15 years of continuous employment with the locality or (ii) less than 15 years of continuous employment who has retired due to line-of-duty injuries may choose to continue his coverage with the insurer at the retiree's expense until such individual attains 65 years of age at the insurer's customary premium rate applicable (a) to such policies, (b) to the class of risk to which the person then belongs, and (c) to his age.

Retiree Health Insurance Credit

- For participants in the VRS
- Benefit provides credit toward cost of health care coverage
 - Individuals retiring with 15 or more years creditable service
 - Monthly benefit at lesser of \$1.50*/yr service (max \$45*) or retiree's cost of coverage
- Plans provided by VRS
 - Single employer – DSS, registrar, constitutional officers, state employees
 - Cost sharing – teachers
 - Multiple employer agent – local governments (~90 plans)
- VRS determines contribution rate applied to payroll

* May be \$2.50 (max \$75) for Constitutional officers, employees, Registrars, Social Services employees

Group Life Insurance

- Cost-sharing, multiple employer plan
- Benefit provides coverage at 2x annual salary for death by natural cause and
- Retained upon retirement with diminishing value
- Declines by 25% annually following first year of retirement
- Benefit floor of 25% of natural cause death benefit
- Benefit funded via contribution rate applied to payroll
- Current rate 1.31%
 - Retiree component .97%
 - Active employee component .34%

Virginia Local Disability Plan (VLDP)

- Provides short and long-term disability benefits
- Local government employers required to provide long-term disability benefits for VRS Hybrid plan employees
 - Through a local plan or VLDP
- VRS cost sharing plans – teachers, local government employees
- Employer contributions as a percentage of pay

Health Care Plans

- Substantive plan
 - The plan as understood by the employer and employees
- Implicit rate subsidies
 - The implied benefit provided retirees when the insurance rates are based on blending of active and retired individuals

Funding Options

- Irrevocable trust – best practice; best opportunity for enhanced yield on assets, enables reporting of liability net of fiduciary net position in trust
- Revocable trust – allows assets to be dedicated to liability, may yield higher rate of return depending on investment allocation, but does not meet criteria for reporting as an offset of liability
- Dedicated fund balance – allows assets to be dedicated to liability but typically achieves low yield and does not meet criteria for reporting as an offset of the liability
- Pay-go – entails reporting of total liability in financials, unfavorably viewed by external users

Essential OPEB Reporting Concept

- Governments participating in a single employer or multiple employer agent plan providing OPEB through a defined benefit plan administered through a qualifying trust report a **net OPEB liability**
- Participants in cost-sharing OPEB plan administered through a qualifying trust report a **net OPEB liability** *equal to their proportionate share of the collective OPEB liability for all entities participating in the plan*
- Governments that do not provide OPEB through a qualifying trust will report the **total OPEB liability** related to their employees

OPEB Financial Reporting Qualifying Trust

- Report the Net OPEB liability
- Use a blended rate of return
- Report deferred inflows and outflows in statement of net position
 - For experience and assumptions
 - And for investments
- Use fair value of assets held in trust to determine fiduciary plan net position which is a component of net liability
 - Also reported in plan financials

OPEB Financial Reporting Non Trusted

- Report the Total OPEB liability
- Use AA 20 year tax exempt muni rate of return
- Report deferred inflows and outflows in statement of net position
 - Only for experience and assumptions
- Report fair value of assets in appropriate fund

Employer Financial Statements

Financial Statement	Reporting
Governmental Fund Balance Sheet	No liability
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	Expenditure equal plan contributions
Government-Wide Statement of Net Position	Asset or liability equal net OPEB asset (liability), deferred outflows, deferred inflows, net position reflective of inclusion of net liability
Government-Wide Statement of Activities	OPEB expense

Definition of a Trust

GASB 75 Paragraph 4

- Contributions from employers and non-employer contributing entities and earnings on those contributions are irrevocable
- Plan assets are dedicated to providing benefits to plan members in accordance with benefit terms
- Plan assets are legally protected from creditors of employers, non-employer contributing entities and the plan administrator

Single Employer vs. Multiple Employer Trust

	Single Employer	Multiple Employer
Governing Board	OPEB Finance Board	Not required
Set-up	Start new (or existing trust)	Existing trust
Documents	Created new by attorney, or existing template	Existing master trust (vetted) ¹
IRS Private Ruling	Not required (IRC 115)	Not required
Customization	High	May be limited
Investment Flexibility	High	May be limited
Control	High	May be limited
Fees	Depend on level of assets	Depend on level of assets

¹An adoption agreement and service agreement may contain customization options for employers.

Multiple Employer Trust

- VACo/VML Pooled OPEB Trust
- The Pooled OPEB Trust has 49 participant accounts and includes 17 participating school divisions. Some school divisions participate as a sole participant, while other schools partnered with their city or county to join together as one participant.
- The Pooled OPEB Trust offers two portfolios composed of best-in-class investment funds:
 - Portfolio I, which has a target return net of expenses of 7.5%, and
 - Portfolio II, which offers lower expected volatility and a target return net of expenses of 6.5%.

Single Employer Trust

- Example PFM
- By establishing an independent OPEB Trust and engaging PFM as investment advisor and fiduciary partner to each OPEB Finance Board, clients have the opportunity to:
 - Develop a *customized* investment policy and *customized* asset allocation
 - Improve performance and future ability to achieve discount rate
 - Meet its fiduciary responsibility with complete control over the OPEB Trust's investment strategy
 - Access education and training opportunities

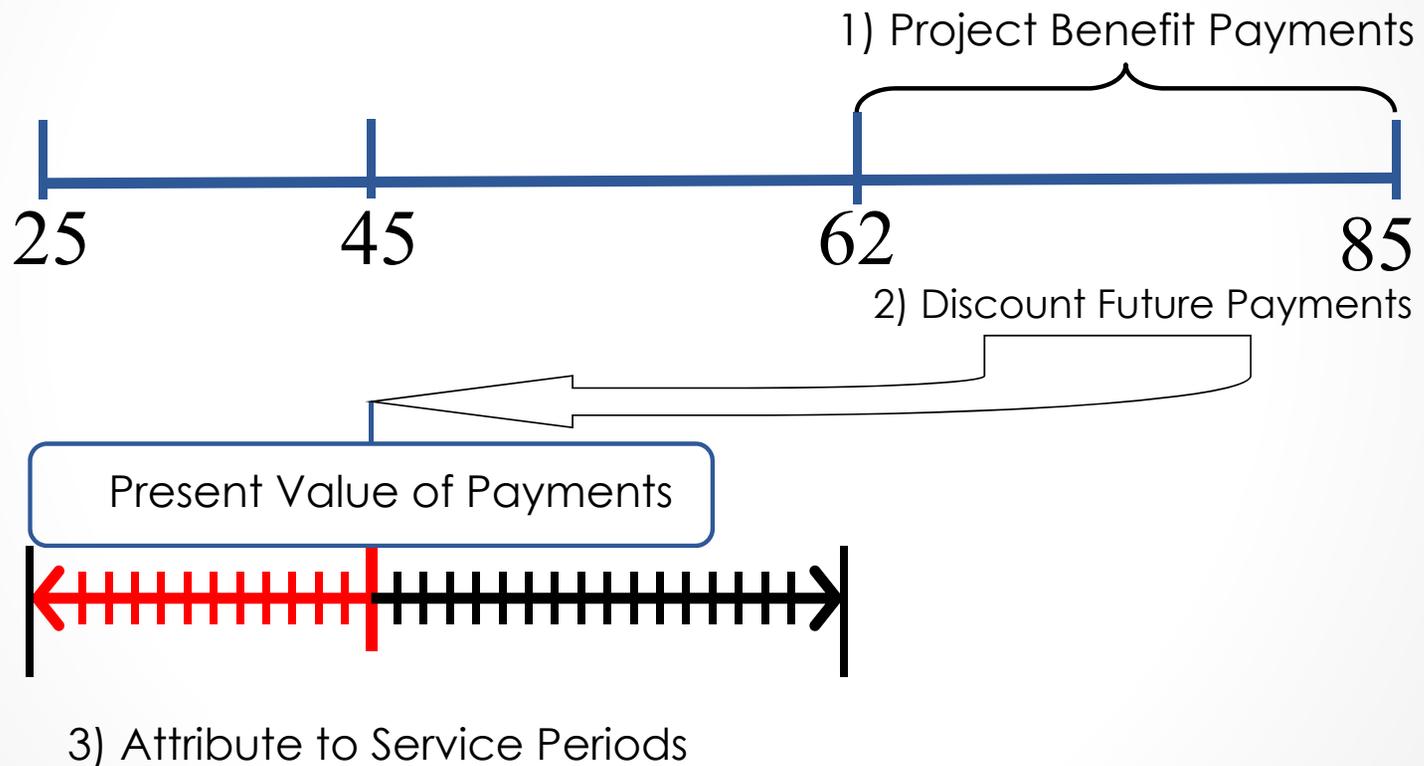
Actuarial Valuations

- OPEB valuations must be performed every two years
- Alternative measurement method
 - Available for plans with fewer than 100 plan members (active and inactive)
 - Specified method
 - Alternative, not simple
- VRS plans to be coordinated by VRS and APA
 - Actuarial valuations
 - Reports
 - GASB 75 entries
- Independent plans to be coordinated by participating jurisdictions
 - This includes those participating in the VML-VACo Finance Pooled OPEB Trust (an investment vehicle, not a plan)

Determining the Liability

- Project total future benefit payments for current and former employees
- Discount this to the present value at the measurement date
- Attribute the present value of projected benefits to the periods earned – past, present and future

Three-Step Approach for Measuring the Liability



Discount Rate

- A single blended rate that reflects:
 - The long-term expected rate of return on plan investments to the extent that
 - Plan net position is projected to be sufficient to make benefit payments that are projected to occur in the period, and
 - Assets are projected to be invested using a long-term investment strategy
 - A high-quality tax exempt municipal bond index rate to the extent that plan net position is projected to no longer be available for long-term investment

Attribution Method

- Single actuarial cost allocation method:
 - Based on entry age normal principles
 - Applied as a level percentage of payroll
 - Over periods beginning in first period in which the employee's services lead to benefits under the plan (without regard to conditional service-related provisions such as vesting) and ending in last period of the employee's service

Statement No. 75

- Essentially applies requirements similar to those in statement No. 68 to OPEB employers
- Single employer and agent employers would report a net OPEB liability similar to GASB No.68
- Cost sharing employers would report a liability equal to their proportional share of the plan's net OPEB liability
- Additional notes and RSI similar to statement No. 68

Employer Footnotes

- Plan description
- Contributions
- Liabilities, expense, deferred outflows and inflows related to OPEB
- Actuarial methods and significant assumptions
- Investment rate of return
- Discount rate
- OPEB liability sensitivity to discount rate (+/-1%)
- OPEB liability sensitivity to health care cost trend rate (+/-1%)

Required Supplementary Information

- Changes in OPEB liability and related ratios
- Employer contributions
- Ten (10) years of data required
- Ten year schedules are prospective if information needs to be developed
- Information on contributions generally available for all periods in which a trusted plan was in place

Statement 83

Certain Asset Retirement Obligations

**Effective for Periods
Beginning After June 15, 2018**

GASB 83

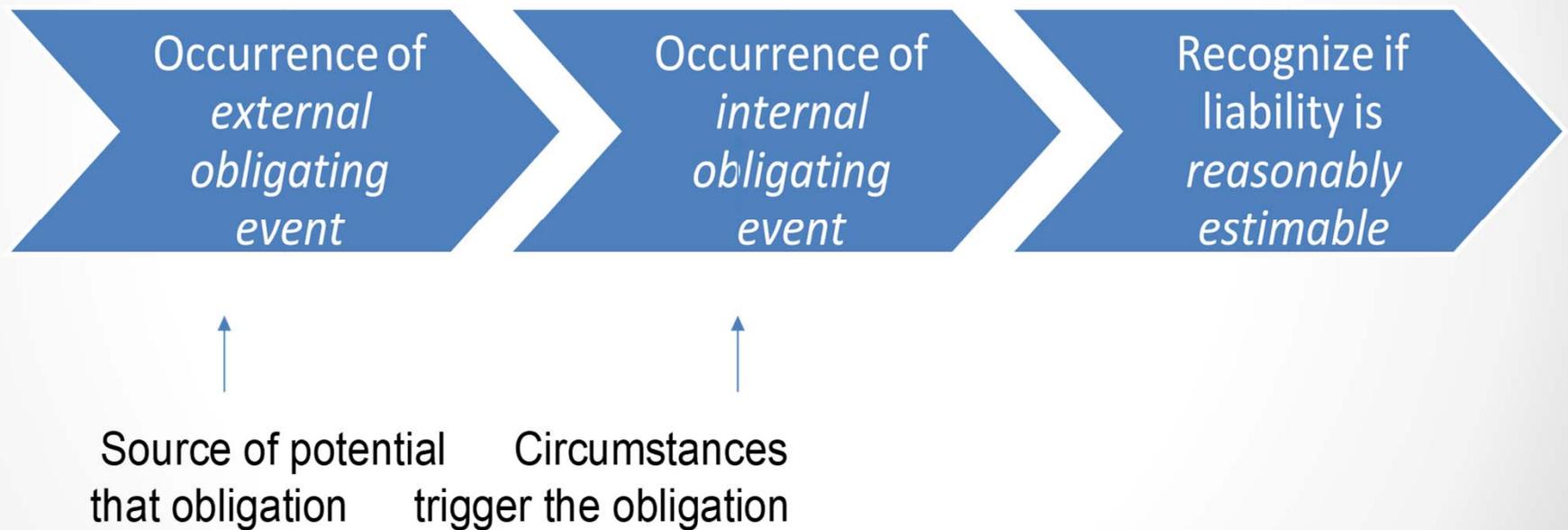
- An asset retirement obligation is a legally enforceable liability associated with the retirement of a tangible capital asset □
- Statement No. 83 requires an asset retirement obligation to be recorded when the liability is both incurred and reasonably estimable
- Based on laws/ regulations/contracts in combination with an obligating event by the government

GASB 83

- A liability and a deferred outflow are recorded based on the best estimate of the current value of outlays expected to be incurred □
- The deferred outflow is amortized to expense in a systematic and rational manner over the estimated useful life of the capital asset

GASB 83

Incurred if two events occurred:



GASB 83

- **External Obligating Events**
- Sources of ARO obligations:
- Approval of laws and regulations establishing disposal requirements
- Creation of a legally binding contract
- Issuance of a court judgment

GASB 83

- Internal Obligating Events
- Events that trigger obligations:
 - A. Acquisition
 - Example: County acquires a power plant with a pre-existing ARO
 - Recognize : When asset is first acquired
 - B. Contamination (based on normal usage)
 - Example: Nuclear medical imaging equipment, such as an MRI
 - Recognize: When contamination first occurs – initial testing

Statement 84

Fiduciary Activities

**Effective for Periods
Beginning After December 15, 2018**

GASB 84

- Pension and OPEB trust funds □
- Investment trust funds
- Private-purpose trust funds
- Custodial fund

GASB 84 Custodial Funds

- Replace agency funds under current model
- For activity not held in a trust
- Unlike agency funds, custodial funds will have an “income statement”
- Unlike agency funds, custodial funds will have net position

- If resources held for three months or less
 - Option to report single aggregated totals in custodial fund

Statement 87

Leases

**Effective for Periods
Beginning After December 15, 2019**

GASB 87: *Leases*

- Establishes revised standards on lease accounting and reporting
- *Eliminates* capital and operating leases
- Treats leases as intangible “right to use” asset and *long term liability* for lessee
- Effective for reporting periods beginning after December 15, 2019.
- Earlier application is encouraged.



GASB 87

- 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
- Contract – legally enforceable (written or oral)
- Right to use underlying asset –
 - Obtain present service capacity
 - Determine nature and manner of use
- Nonfinancial asset –
 - Land, buildings, equipment; not *securities*

GASB 87 Exceptions

- Short term lease – A lease that, at its beginning, has a maximum possible term under the contract of 12 months or less, including all options to extend
 - Recognize revenue or expense when payments are due
 - No revenue or expense during rent holidays
- Contracts that transfer ownership – A contract whereby a lessee will become owner of the underlying asset at end of contract term and that contains no termination options (except fiscal funding clauses reasonably certain not to be exercised)
 - Account for as a financed purchase of the underlying asset

Lease Liability

- Present value of lease payments expected to be paid during the lease term, including:
 - Fixed payments,
 - Variable payments - if dependent on an index or rate, or if fixed in substance, (not dependent on future events)
 - Penalties for termination or cancellation if assumed in lease term, and
 - Other amounts reasonably certain to be paid (including purchase options, where applicable, or residual value guarantees); and,
 - Reduced for incentives receivable from lessor.

Lease Receivable

- Present value of lease payments expected to be paid during the lease term, including:
 - Fixed payments,
 - Variable payments - if dependent on an index or rate, or if fixed in substance, (not dependent on future events)
 - Residual value guarantees – if fixed in substance with a guarantee of payment; and
 - Reduce by incentives payable to lessee.

Discount Rates for PV

- Lessee – discount rate is:
 - Rate charged by lessor, if determinable, or
 - Estimate of the rate that the lessee would have to pay to borrow the lease payment amounts during the lease term.
- Lessor – discount rate is the rate charged to the lessee.

GASB 2018

Big Three Items

- Financial Reporting Model
- Revenue and Expenditures Recognition
- Note Disclosure

Questions?

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