


GASB Update

NCGFOA
2018 Fall Conference
Winston-Salem, NC


Presented by
Lee Carter, CPA
Capital Management of the Carolinas

 **UNC**
SCHOOL OF GOVERNMENT

www.sog.unc.edu

Planned Agenda


- Recent relevant GASB pronouncements
 - GASB Statement Nos. 83, 84, 87, and 89
- *Financial Reporting Model Improvements (PV)*
- *Revenue and Expense Recognition (ITC)*
- NCGFOA Certified Finance Officer program

 **UNC**
SCHOOL OF GOVERNMENT

□□□□□□□□□□□□□□□□

GASB Statement No. 83

Certain Asset Retirement Obligations

 **UNC**
SCHOOL OF GOVERNMENT

www.sog.unc.edu

Overview of Standard

- Provides guidance on retirement of capital assets *that potentially create long-term liabilities related to closure*
 - Similar concept to landfill closure/post-closure and pollution remediation obligations

Examples of Asset Retirements

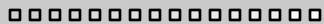
- Decommission a nuclear reactor
- Remove and dispose an x-ray machine
- Remove and dispose of wind turbines
- Closure and removal of a sewage treatment facility

Potential Retirement Costs Excludes....

- Cost of *planning* to sell/dispose tangible capital assets
- Prepping an asset for alternative use
- Pollution mitigation and landfill closure
- Routine maintenance
- Replacement of capital asset parts

When is an obligation incurred?

- Timing is based on a *combination* of an *external* and an *internal* event
- External?
 - Approval of federal/state/local law/regulation
 - Creation of a legally binding contract
 - Issuance of a court judgment
- Internal?
 - Contamination
 - Actual use of the asset itself
 - Permanent abandonment before even placed in use

[illegible]

Other Elements of the Standard

- Valuation calculations
 - “...should be based on the best estimate of current value of the outlays expected to be incurred”
- Outflows of resources / deferred outflows of resources recognized
- After initial measurement – current value of ARO adjusted annually
- Required note disclosures (of course!)
- Implementation date – FY beginning after 12/15/18

[illegible]

GASB Statement No. 84

Fiduciary Activities

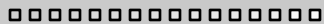


UNC
SCHOOL OF GOVERNMENT

www.sog.unc.edu

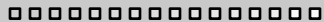
Fiduciary Fund Reporting

- Fiduciary fund types for *legally entrusted* arrangements
 - Pension (and other employee benefit) trust funds
 - Pension plans
 - OPEB trust
 - Investment trust funds – external investment pools
 - Private-purpose trust funds
 - Legally entrusted assets that are *not* pension or OPEB assets
 - Government named as trustee but *not* the beneficiary
 - May be expendable or nonexpendable in nature



Fiduciary Fund Reporting (cont.)

- Fiduciary fund type for such activities *not legally entrusted*
 - Custodial funds
 - Such funds may have equity




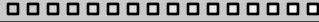
Fiduciary Financial Statements

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position


[illegible]

Implementation Date


- Fiscal years that begin *after* December 15, 2018
- i.e., FYE 6/30/20

GASB Statement No. 85




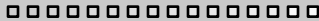
Omnibus 2017



www.sog.unc.edu

Background

- An Omnibus is basically a “catch-all” that is used to clean up or clarify previously issued guidance
- Omnibus 2017 covers 4 main topics:
 - Blending component units
 - Goodwill
 - Fair value measurement and application
 - OPEB

Blending Component Units

- Continuing questions with a primary government that is solely a business-type activity and the reporting of component units
 - Component units that meet blending would be blended with the primary government
 - Component units that are discrete would be in their own column

Fair Value

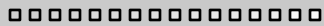
- Omnibus clarifies that money market investments and participating interest-earning investment contracts *may* be reported at amortized cost
 - Assuming the investment meets the definition allowable for amortized cost under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*

OPEB

- Employer financial statements using the current financial resource measurement focus
 - Defined benefit or OPEB, the liabilities due to employees should be measured at the end of the reporting period
 - Expenditures should be measured for the reporting period
 - Employers recognize on-behalf revenues and expenditures for pensions/OPEB for amounts paid by non-employer contributing entities

OPEB (cont.)

- Single-employer and cost-sharing OPEB plans
 - RSI should present covered payroll for the ratios presented, *assuming the contributions to the plan are based on a measure of pay*
 - If contributions are *not* based on a measure of pay, the plan should not provide payroll information

[illegible]

OPEB (cont.)

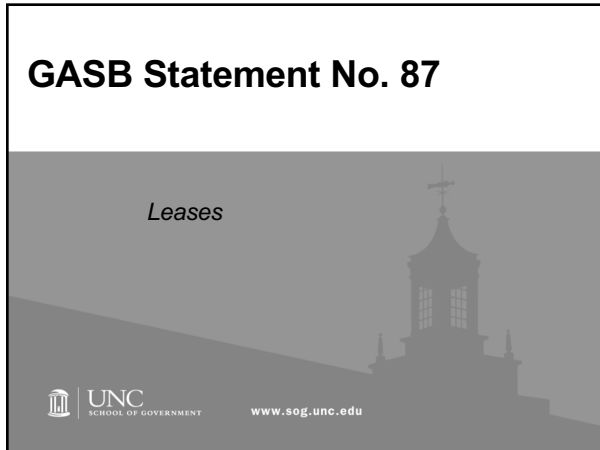
- OPEB offered through a trust, the RSI should present one of the following applicable measures of payroll
 - Covered payroll if contributions based on a measure of pay
 - Covered-employee payroll if contributions to the plan are not based on a measure of pay

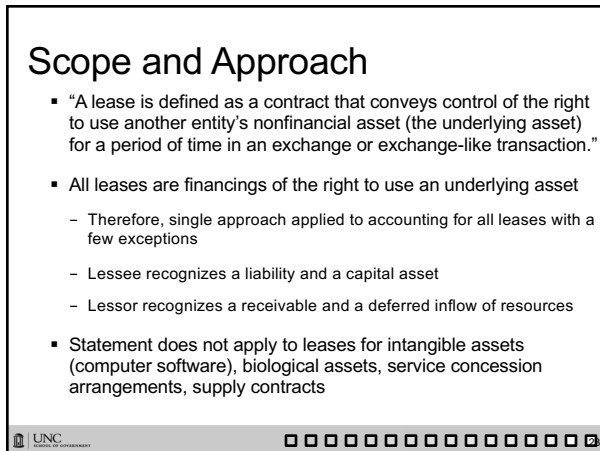
[illegible]

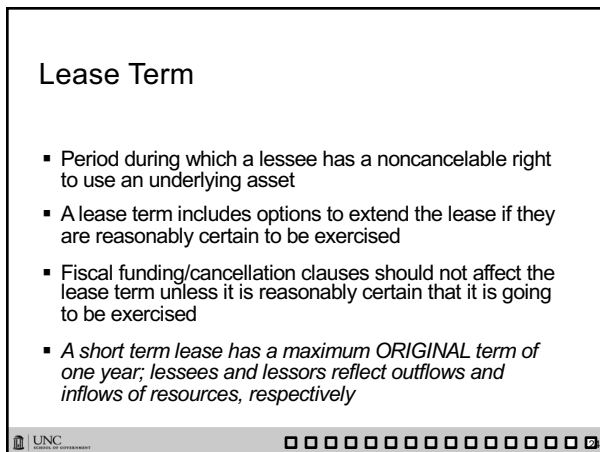
OPEB (cont.)

- Effective for fiscal years that begin *after* June 15, 2017 (FYE 6/30/18)
- Encourages early implementation
 - Furthermore, allows early implementation by topics
 - Blending
 - Goodwill
 - Fair value measurement
 - Certain OPEB issues









Initial Reporting - Lessor

- Recognize lease receivable
 - PV of payments received over lease term
- Recognize deferred inflow of resources
- Lessor should not derecognize asset underlying the lease
 - Accounting for depreciation and impairments continue
 - If asset must be returned in original condition, do not depreciate

[illegible]

Subsequent Reporting - Lessee

- Lease asset amortized in a systematic and rational manner
 - Shorter of lease term or underlying life of asset
 - If lease contains purchase option that lessee is reasonably certain to exercise, amortize over useful life of asset
 - For non-depreciable assets, no lease amortization
- Lease amortization reported as an outflow of resources – expense
- Discount on present value is amortized in a systematic way as an outflow of resources (interest expense)

Subsequent Reporting - Lessor

- Discount on receivable amortized as interest revenue at a constant periodic rate of return
- Recognize inflows of resources (revenues) over lease term in a systematic and rational manner

Other Items

- Governmental Fund accounting – no real change from current GAAP
- Implementation for periods beginning after 12/15/19
– FYE 6/30/21

GASB Statement No. 89

Accounting for Interest Cost Incurred Before the End of a Construction Period



Interest Capitalization

- *Accounting for Interest Cost during the Period of Construction*
- Issued June 2018
- Effective for fiscal periods beginning after 12/15/19 (FYE 6/30/21 in North Carolina)
- Applies to financial statements using the economic resources measurement focus

Interest Capitalization (cont.)

- Interest cost will simply be expensed in the period incurred
- Interest will *not be* capitalized prospectively
- Do not restate prior period numbers
- Adopted June 2018 – options for early implementation

Preliminary Views

Financial Reporting Model Improvements



UNC
SCHOOL OF GOVERNMENT

www.sog.unc.edu

Background

- Preliminary Views issued September 2018
- Exposure Draft anticipated in June 2020
- Final standard anticipated in February 2022
- Implementation most likely in 2023 – 24 fiscal year

Governmental Fund Recognition Concepts

- Short-term financial resources measurement focus replaces the current financial resources measurement focus
 - Balances, outflows and inflows of resources from short-term transactions recognized as they occur
 - Balances, outflows and inflows of resources from long-term transactions recognized when payments are due

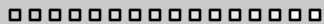
Governmental Fund Recognition (cont.)

Examples

- Concept of availability as currently known replaced – attempt to have consistency across governments – what is “normally” expected
- Accrued interest on long-term debt reported on the balance sheet
- Inflows & outflows reported
- Consumption method only
- Effects on non-exchange revenue
- Accrued liabilities
- Long-term receivables are not recorded

Governmental Fund Financial Statements

- Short-term Financial Resources Balance Sheet
- Statement of Short-term Financial Resource Flows
- Short-term assets/liabilities, deferred inflows/outflows
- Inflows and outflows would be reported separately for current and non-current activity
 - E.g., Salaries vs. debt service



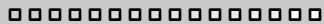
Proprietary Fund Financial Statements

- Multiple categories on the resource flows statement
 - Operating revenues/expenses
 - Nonoperating revenues/expenses
 - Subsidies
 - Financing revenues/expenses
 - Resources from capital and inventory disposals
 - Investment revenue/expenses
 - Other (e.g., capital contributions)



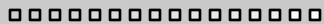
Budgetary Comparisons

- Budgetary information reported one way – Required Supplementary Information (RSI)
- Original and final budget amounts presented
- Final budget vs. actual amounts reported

[illegible]

Other Issues Addressed

- Major component units
 - Report in individual columns in government-wide statements or as combining financial statements following the fund financials
- Schedule of government-wide expenses by function or program
 - Only by entities that prepare a CAFR
 - Presented as supplementary information
 - Similar to not-for-profit reporting



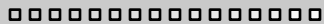
Revenue and Expense Recognition ITC

- Invitation to Comment issued January 2018
- Preliminary Views anticipated May/June 2020
- Exposure Draft anticipated December 2021
- Final standard Spring 2023



Key Considerations in the ITC

- Exchange/nonexchange model – current model
- Performance obligation/no performance obligation model
- Alternative model



Exchange/Nonexchange Model

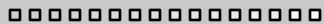
Exchange transaction?

- Recognize revenue and expense on an earnings recognition approach
 - Government controls a resource or incurs an obligation, AND
 - Event not applicable to a future period

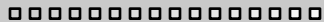
Nonexchange transaction?

- Recognize based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
 - Derived tax revenues
 - Imposed nonexchange revenues
 - Government-mandated and voluntary nonexchange transactions

Definitional work needed on exchange vs. nonexchange

[illegible]Performance Obligation/No
Performance Obligation Model

- Performance obligation defined:
 - A promise in a binding arrangement between a government and another party to provide distinct goods or services to a specific beneficiary
 - A binding arrangements includes contracts, grant agreements, enabling legislation, etc.
 - Recognize revenue when there is a transfer of goods and services to a beneficiary for consideration expected to be received
 - Recognize expense when there is a receipt of goods or services from another party in return for consideration committed to be paid

[illegible]

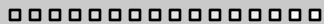
Performance Obligation Determinants

- Determine consideration
- Allocate consideration to performance obligation
- Recognize revenue/expense as each performance obligation is fulfilled



No Performance Obligation

- Recognize based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*

[illegible]

Alternative Models

- Exchange transaction?
 - Follow the performance obligation approach
- Nonexchange transaction?
 - Recognize based on GASB Statement No. 33,
*Accounting and Financial Reporting for
Nonexchange Transactions*

[illegible]

Finance Officers Certification Exam

- Multiple choice format – 50 questions
- On-line
- Still scheduled for October 25 – 26
- Questions uploaded next week
- Additional information distributed next week

[illegible]