

# GASB UPDATE

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**MA Municipal Accountants & Auditors Association**

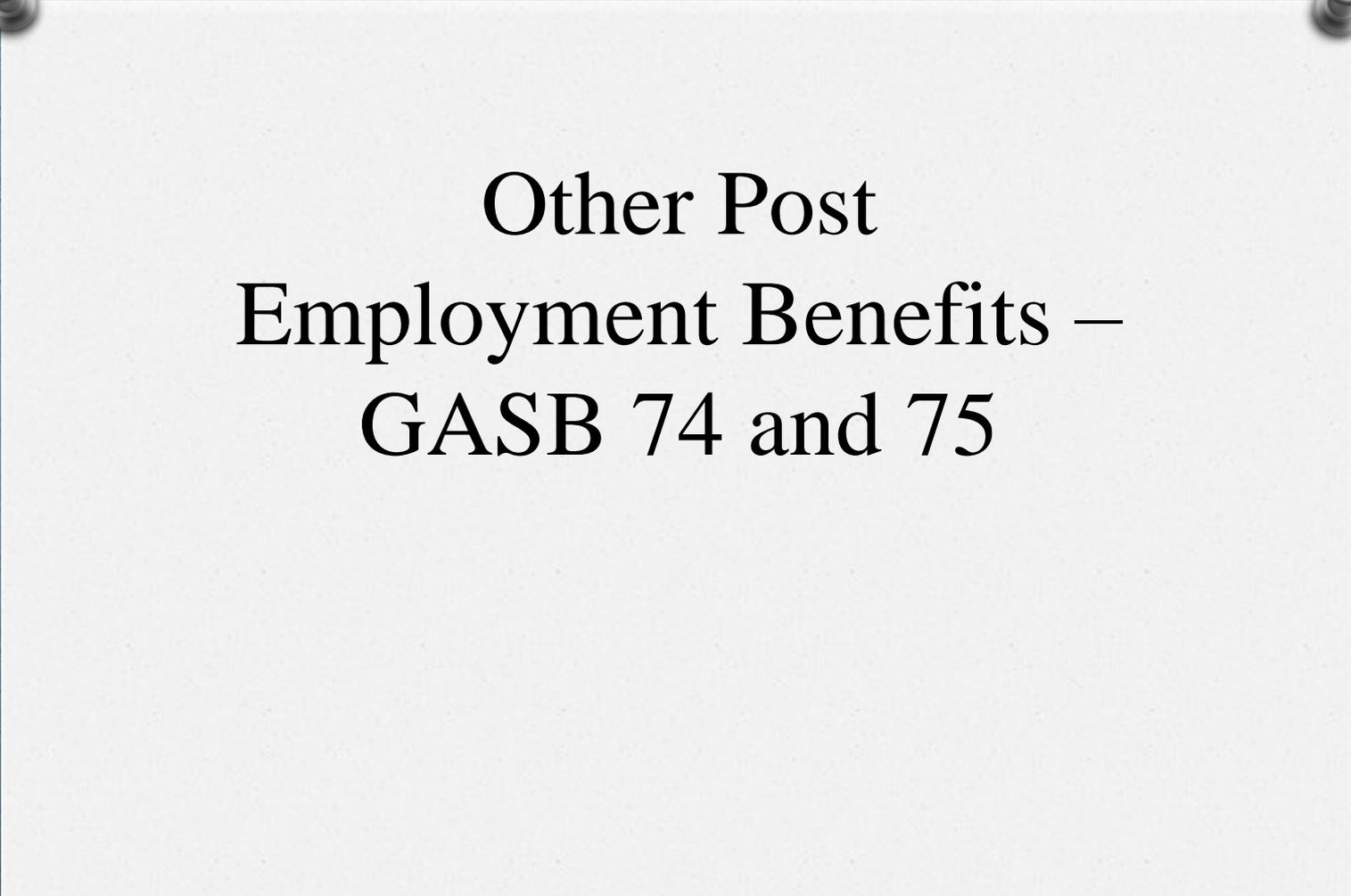
**Amherst, Massachusetts**

**March 12, 2018**

# Statements and Implementation Dates

- June 30, 2017
  - GASB 74 – OPEB for Plans
  - GASB 77 – Tax Abatement Disclosures
  - GASB 80 – Blending of non-profit component units
  
- June 30, 2018
  - GASB 75 – OPEB for employers
  - GASB 81 – Irrevocable split-interest agreements
  - GASB 85 – Omnibus
  - GASB 86 – Certain debt extinguishment issues
  
- June 30, 2019
  - GASB 83 – Certain asset retirement obligations
  
- June 30, 2020
  - GASB 84 – Fiduciary activities
  
- June 30, 2021
  - GASB 87 - Leases
  
- New GASB Reporting Model

Items highlighted red are those with more importance to Massachusetts communities.



Other Post  
Employment Benefits –  
GASB 74 and 75

# GASB 74 and 75

- Introduction
- OPEB statistics in Massachusetts
- Impact of Municipal Modernization Act on OPEB
- OPEB Trust Document
- GASB 74 vs GASB 43
- GASB 75 vs GASB 45

# Introduction

- GASB 74 superseded GASB 43 (which went back to 2007 – 2009 depending on size of municipality) and had a fiscal year 2017 implementation date for all plans regardless of size.
- GASB 75 supersedes GASB 45 (which went back to 2008 – 2010 depending on size of municipality) and has a fiscal year 2018 implementation date for employers regardless of size.
- Section 15 of the Municipal Modernization Bill cleared up a years' old argument in Massachusetts regarding plan assets and contributions and revocation ability.
- These summary highlights will be reviewed in detail during our discussion in addition to statistics that are being compiled by the Commonwealth by PERAC.

# OPEB Statistics in Massachusetts

- Paragraph (d) of Section 20 of Chapter 32B reads as follows:

20(d) “Every city, town, district, county, and municipal lighting plant shall annually submit to PERAC on or before December 31, a summary of its other post-employment benefits costs and obligations and all related information required under Governmental Accounting Standards Board standard 45, in this subsection called “GASB 45”, covering the last fiscal or calendar year for which this information is available. On or before June 30 of the following year, **PERAC shall notify any entity submitting this summary of any concerns that the commission may have or any areas in which the summary does not conform to the requirements of GASB 45** or other standards the commission may establish. **PERAC shall file a summary report of the information received under this subsection** with the chairs of the house and senate committees on way and means, the secretary of the administration and finance and the board of trustees of the Health Care Security Trust.”

# OPEB Statistics in Massachusetts

- Unfunded Massachusetts OPEB actuarial accrued liability, rough estimates under GASB 43/45
  - Commonwealth           \$ 9.4 – 15.9B
  - Cities/towns/districts   \$ 17.5 – 25.0B
  - Total                       \$ 26.9 – 40.9B

# OPEB Statistics in Massachusetts

<b>Commonwealth</b>					
<b>Valuation Date</b>	<b>Discount Rate</b>	<b>Actuarial Liability (AL)</b>	<b>Assets</b>	<b>Unfunded Actuarial Liability (UAL)</b>	<b>Funded Ratio</b>
1/1/15	7.75%	\$10.07B	\$610.0M	\$9.46B	6.1%
1/1/15	4.50%	16.50B	610.0M	15.89B	3.7%

# OPEB Statistics in Massachusetts

## Highest Funded Ratios – Towns (Dollars in Thousands)

	<b>Val. Date</b>	<b>Discount Rate – Funded Basis</b>	<b>AL</b>	<b>Assets</b>	<b>UAL</b>	<b>Funded Ratio</b>
West Newbury	7/1/13	7.00%	\$1,551	\$1,410	\$141	90.9%
Dover	7/1/13	7.00%	6,435	2,896	3,539	45.0%
Wayland	12/31/14	7.00%	29,560	12,089	17,471	40.9%
Wellesley (includes MLP)	6/30/14	7.00%	111,075	32,806	78,269	29.5%
Erving	7/1/12	7.00%	2,746	777	1,969	28.3%

# OPEB Statistics in Massachusetts

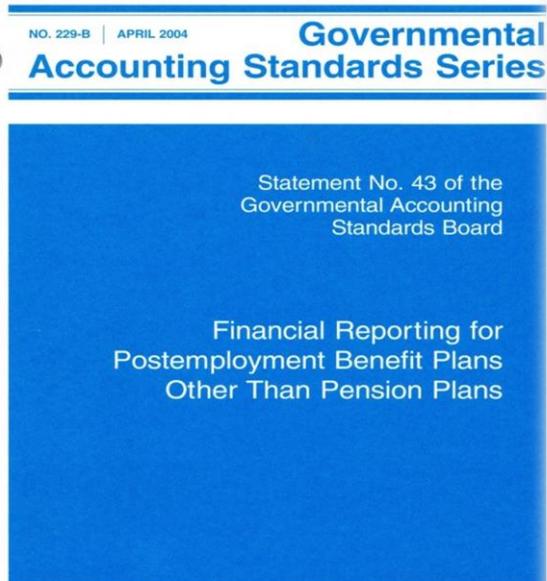
<b>Highest Unfunded Actuarial Liability For Cities* (Dollars in Thousands)</b>							
	<b>Val. Date</b>	<b>Discount Rate - Funded Basis</b>	<b>UAL</b>	<b>Funded Ratio</b>	<b>Discount Rate – Pay As You Go</b>	<b>UAL</b>	<b>Funded Ratio</b>
Boston	6/30/15	7.00%	\$2,262,557	12.9%			
Worcester	7/1/13	7.50%	431,531	0.0%	4.00%	\$727,823	0.0%
Waltham	6/30/14	8.00%	352,822	0.0%	4.00%	600,636	0.0%
Lynn	6/30/14	8.00%	323,198	0.0%	3.50%	649,600	0.0%
Quincy	12/31/13	7.50%	322,793	0.4%	3.50%	655,435	0.2%
Newton	7/1/14	7.04%	319,115	0.7%	2.04%	701,511	0.3%
Plymouth	1/1/15	7.50%	309,757	0.3%	4.00%	566,845	0.2%
Cambridge	7/1/14	8.00%	303,478	1.8%	4.00%	532,816	1.0%
Brockton	6/30/14	7.50%	254,208	0.0%	4.00%	416,954	0.0%
New Bedford	6/30/14	8.00%	252,907	0.0%	4.00%	424,774	0.0%
Springfield	7/1/13				3.50%	873,436	0.0%
Fall River	7/1/15				4.50%	569,826	0.0%
Lowell	7/1/14				3.50%	496,237	0.0%
Lawrence	7/1/14				4.00%	327,149	0.0%

# OPEB Statistics in Massachusetts

[http://www](http://www.mass.gov/perac/forms-pubs/memos/summaryreport2016.pdf)

**Report is available on  
PERAC Website at  
<http://www.mass.gov/perac/forms-pubs/memos/summaryreport2016.pdf>**

# GASB 43



GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
OF THE FINANCIAL ACCOUNTING FOUNDATION

- Administered as trusts, or equivalent arrangements.
- Employer contributions to the plan are irrevocable.
- Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan.
- Plan assets are legally protected from creditors of the employer(s) or the plan administrator.

# Impact of Municipal Modernization Act on OPEB

## ➤ Section 15 of the Municipal Modernization Bill.

- Total replacement of 32B:20 with 32B:20A added.
- All inclusive - any political subdivision of the commonwealth.
- “Other Post-Employment Benefits Liability Trust Fund” or “OPEB Fund”; a trust fund established by a governmental unit pursuant to this section for the deposit of gifts, grants, appropriations and other funds for the: (1) benefit of retired employees and their dependents, (2) payment of required contributions by the unit to the group health insurance benefits provided to employees and their dependents after retirement and (3) reduction and elimination of the unfunded liability of the unit for such benefits.

# Impact of Municipal Modernization Act on OPEB

## ➤ Section 15 of the Municipal Modernization Bill.

- The treasurer of the governmental unit shall be the custodian of the OPEB.
- Establishes “**OPEB Fund board of trustees**”; an independent board of trustees selected by the governmental unit with investing authority for the OPEB Fund. **If a board of trustees does not exist then treasurer is trustee by default.**
- The assets of which shall be held **solely to meet the current and future liabilities** of the governmental unit for group health insurance benefits for retirees and their dependents.

# Impact of Municipal Modernization Act on OPEB

## ➤ Section 15 of the Municipal Modernization Bill.

- Amounts in the OPEB Fund may be appropriated by a two-thirds vote of the governing body of the governmental unit **to pay the unit's share of health insurance benefits for retirees and their dependents** upon certification by the trustee or board of trustees that such amounts are available in the fund.
- Complemented by a “declaration of trust to be adopted by the trustee or board” where the trust is **irrevocable**
- All monies held in the fund shall **not be subject to the claims of any general creditor** of the governmental unit.
- An actuarial valuation report shall be submitted to PERAC no later than 90 days after receipt of such report (MGL 32B:20A). These should be emailed to Jim Lamenzo [james.r.lamenzo@state.ma.us](mailto:james.r.lamenzo@state.ma.us)

# Impact of Municipal Modernization Act on OPEB

- The Division of Local Services Legal Department is currently reviewing an IGR prepared by the Bureau of Accounts that addresses whether Chapter 32B section 20A satisfies the requirement of irrevocable as stipulated in both GASB 43 and 74.
- This is more clear than the language in the original Chapter 32B section 20 and brought more clarity to a years' old argument regarding the accounting treatment for OPEB.
- Provides a pathway to recording OPEB activity in a fiduciary fund; and a means by which plan assets are to be used to reduce the OPEB Liability

# Impact of Municipal Modernization Act on OPEB

- Allows better discount rate due to the recognition of accumulated OPEB contributions as plan assets.
- A conclusion could be coming that old 32B S20 does not legally require a declaration of trust or trust agreement to be irrevocable. New 32B S20(a) does require a declaration of Trust.
- Recommendations
  - Public subdivisions that did not accept Chapter 32B Section 20 should accept amended Chapter 32B section 20(a) as soon as possible.
  - A declaration of trust or trust agreement is suggested as a best practice under section 20 and required under section 20(a).
  - A sample trust document is available at <http://roselliclark.com/presentations/>

# Guide to Improved Liability

## ➤ Summary

- Adopt 32B Section 20 (a) unless Section 20 has already been adopted.
- Create declaration of trust – to be safe should do it no matter how it was adopted.
- Place assets in a plan as part of a fiduciary fund.
- Pension windfall = amounts that become available when pension becomes fully funded.
- Create a funding policy and discuss pension windfall with actuary; possibly need BOS or City Council approval to use pension windfall when it becomes available 10 or 12 years down the road.
- Place assets in a managed investment account with long-term investment goals.
- Health care design changes

# OPEB Trust Agreement

- Definitions
- Purpose
- Establishment
- Trust Funding
- Trustees
- Powers of Trustees
- Limitations of Trustees
- Actions by Trustees
- Meetings of Trustees
- Taxes, Expenses and Compensation
- Accounts
- Annual Reports
- Investment of Trust Funds
- Custody of Trust Funds
- Termination of Trust
- Amendments
- Merger
- Severability of Invalid Provisions
- Miscellaneous

# GASB 74

- Effective for fiscal years beginning after June 15, 2016 (i.e. fiscal year 2017).
- Supersedes GASB 43.
- Applies to financial reporting for postemployment benefit plans other than pension plans (OPEB plan).
- The plans are designed to administer other postemployment benefits (OPEB).
- Administered through a **trust** or equivalent arrangement.
- Guidance included in Implementation Guide No. 2017-2 issued April 2017.

# GASB 74

- The process is a team effort, essentially a collaboration of participants
  - Actuary – provides calculation
  - Auditor – audits calculation
  - Finance Director/Town Accountant/Equivalent – plan and choreograph the process from cradle to delivery
  - Treasurer – Custodian and responsible for transferring cash and investing into a segregated account
  - Investment advisor – provides managed asset allocation, investment rate of return
  - Human Resource/Equivalent – provides census data
  
- The typical oversight is that Human Resources handles everything; this has been a crucial contributor to delays and incorrect information
  
- Message – Involve everyone!!!

# GASB 74

- Trust must meet criteria in paragraph 3 of the Statement, reaffirmation of GASB 43 criteria
  - Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
  - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with benefit terms.
  - OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets are also legally protected from creditors of the plan members.

# GASB 74

- Although permissible, the Statement does not require stand-alone financial statements.
- Financial statement reporting is through a fiduciary trust.
- Significant difference from GASB 43 is activity **must** be grossed up for pay-as-you-go contributions, employee contributions and benefits paid.
- Under GASB 43, this was **optional**.
- Fiduciary Statement of Net Position is primarily the same under GASB 43 and GASB 74.

# GASB 74

**FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2017**

	<u>GASB 43 Other Postemployment Benefit Trust Fund</u>	<u>GASB 74 Other Postemployment Benefit Trust Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 488,078	\$ 488,078
Investment (at fair value)		
Securities	<u>2,065,995</u>	<u>2,065,995</u>
Total investments	<u>2,065,995</u>	<u>2,065,995</u>
<b>Total Assets</b>	<u>2,554,073</u>	<u>2,554,073</u>
<b>LIABILITIES</b>		
Payables	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>
<b>FIDUCIARY NET POSITION</b>		
Held in trust for Other postemployment benefits	<u>2,554,073</u>	<u>2,554,073</u>
<b>TOTAL FIDUCIARY NET POSITION</b>	<u>\$ 2,554,073</u>	<u>\$ 2,554,073</u>

The notes to the financial statements are an integral part of this statement.

# GASB 74

TOWN OF ANYWHERE, MASSACHUSETTS

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED JUNE 30, 2017**

	GASB 43 Other Postemployment Benefit Trust Fund	GASB 74 Other Postemployment Benefit Trust Fund
<b>Additions:</b>		
Contributions:		
Employer	\$ 942,430	\$ 3,699,026
Plan participants	-	826,931
Investment earnings:		
Interest and dividends	34,684	34,684
Net appreciation in fair value of investments	187,734	187,734
Less - management fees	(14,568)	(14,568)
<b>Total Additions</b>	<u>1,150,280</u>	<u>4,733,807</u>
<b>Deductions:</b>		
Insurance premiums paid	-	3,583,527
<b>Total Deductions</b>	<u>-</u>	<u>3,583,527</u>
<b>Change in Fiduciary Net Position</b>	1,150,280	1,150,280
<b>Fiduciary Net Position Beginning of Year</b>	<u>1,403,793</u>	<u>1,403,793</u>
<b>Fiduciary Net Position End of Year</b>	<u>\$ 2,554,073</u>	<u>\$ 2,554,073</u>

Includes:

1. Employer portion paid directly to plans obtained from client
2. Employer portion to accumulate funds against the unfunded liability

Includes:

1. Amounts withheld from active plan participants obtained from client. Nonactives (retirees) are reported as assets and liabilities

This is the offset to the contributions from employer and employee to take into effect the entire gross up of the P+L.

Note that change in fiduciary net position is equal under both statements

The notes to the financial statements are an integral part of this statement.

# GASB 74

- If an employer offers an unfunded pay as you go defined benefit OPEB plan (i.e. contributions = benefit payments) and the plan is administered through a trust that meets the criteria in paragraph 3 of Statement 74 then the reporting requirements of GASB 74 still apply.
- These are commonly referred to as flow through fiduciary plans.
- These will require some extra, advanced planning as most of these employer's are not aware of this requirement in their situation and these are in effect for fiscal 2017.

# GASB 74

- Most OPEB plans in Massachusetts are single employer OPEB plans.
- Therefore AU805 reporting does not apply. (Most pensions were multiple employer plans so these reports were required).

# GASB 74

## ➤ **OPEB liability**

- Measured as of the end of the OPEB plan's fiscal year.
- Can be accomplished through using the results of an actuarial valuation as of the plan's fiscal year-end.
- Or can be calculated through the use of roll forward procedures provided the actuarial valuation is as of a date no earlier than 24 months prior to the fiscal year-end of the OPEB plan.
- If significant changes have occurred since the actuarial valuation date professional judgement should be given to whether a new actuarial valuation is needed.

# GASB 74

## ➤ **OPEB liability**

- Only the entry age normal actuarial cost method is permissible.
- This is in contrast to the six possible methods permissible under GASB 43.
- Discount rate is the risk free assumed rate of return on plan assets.
- For unfunded plans 20 year GO municipal bond index is used.
- Many plans will use both with a crossover point at the point the plan becomes unfunded.

# GASB 74

## ➤ **OPEB liability**

- Alternative method still permissible if plan members (active and inactive) are fewer than 100 at the beginning of the plan fiscal year.
- All plans will be required to have an actuarial valuation a minimum of every 2 years.
- The optional 3 year actuarial valuation for plan membership less than 200 under GASB 43 has been eliminated.

# GASB 74 - Disclosures

- If a stand-alone financial report is not issued the government should include all disclosures required under GASB 74.
- In this situation, the disclosures for an OPEB plan and those related to the employer will be included in the same financial report.
- Should try to avoid unnecessary duplication of disclosure.

# GASB 74 - Disclosures

- Plan description
  - Plan administration
  - Benefits provided
  
- Investments
  - Investment policy
  - Investment concentrations
  - Asset class and target allocation
  - Money weighted rate of return

# GASB 74 - Disclosures

## ➤ Discount rate

- Risk free expected rate of return
- 20 year GO bond index in the event plan becomes unfunded

## ➤ Sensitivity measurement of OPEB liability

- 1% plus or minus discount rate
- 1% plus or minus health trend rate

# GASB 74 - Disclosures

## ➤ Required Supplementary Information

- Schedule of changes in net OPEB liability (10 years)
- Schedule of net OPEB liability (10 years)
- Schedule of contributions (10 years)
- Schedule of investment returns (10 years)

# GASB 74 – Common errors

## ➤ Common errors in first year

- Treasurer did not make fiscal year transfer to dedicated bank account before June 30 (Actuary ends up with incorrect information.) Transfer should be made July 1 and in no event later than June 30.
- Finance Director/Town Accountant does not book GASB 31 adjustment (mark to market). Actuary ends up with different plan asset amount because Actuary uses bank/investment statement. Could skew investment rate of return.
- Plan Assets are comingled and not maintained in a separate bank account. Difficult to determine if investment income has been allocated properly.
- Not beginning the process early enough; results in delays in the audit.

# GASB 75

- Effective for fiscal years beginning after June 15, 2017 (i.e. fiscal year 2018).
- Supersedes GASB 45.
- This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers.
- It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

# GASB 75

- Terminology changes and new terminology
  - Total OPEB Liability -replaces Actuarial Accrued Liability (AAL).
  - Fiduciary Net Position – replaces Plan Assets.
  - Net OPEB Liability – replaces Unfunded Actuarial Accrued Liability (UAAL).
  - Deferred Inflow & Outflows – new terminology to report amortization of variations from expected assumptions.

# GASB 75

- In prior years, under GASB 45, the government-wide financial statements reflect a liability for the cumulative annual required contribution (ARC) less the cumulative actual contributions.
- Most employers have had 4 or 5 actuarial valuations to date and have begun to accumulate a significant liability in their statement of net position over the prior 9 or 10 fiscal years.
- In the government-wide statement of activities, the change from year to year is essentially recorded as the OPEB expense

# GASB 75

- This current liability will be eliminated under GASB 75 and replaced with the recording of the entire net OPEB liability.
- Many believe this will bring more transparency to the true net OPEB liability than in the past where it was footnote disclosure only.
- OPEB expense will be determined on a more complicated actuarial basis and also subject to the impact of deferred items.
- In most situations, the recording of the net OPEB liability will have a significant adverse impact on Net Position.
- In fact when combined with the recent implementation of pension standards under GASB 68 almost all communities in Massachusetts will have a total net position that is in deficit.

# GASB 75

- GASB 75 does not require the prefunding of the net OPEB liability.
- In situations where the employer has chosen to prefund the net OPEB liability, and adopted a trust, the accumulated plan assets are reported as fiduciary net position in a fiduciary trust fund as described in the GASB 74 slides.
- The amount accumulated as fiduciary net position has a direct inverse relationship to the net OPEB liability reported in the government-wide statement of net position.
- The larger the fiduciary net position amount, the smaller the net OPEB liability; and vice versa.

# GASB 75

Example:

<u>OPEB Liability</u>	50,000,000	50,000,000
Fiduciary Net Position	<u>5,000,000</u>	<u>10,000,000</u>
Net OPEB Liability	<u><u>45,000,000</u></u>	<u><u>40,000,000</u></u>

	GASB 75 Government-Wide Financials	GASB 74 OPEB Fiduciary Trust	GASB 75 Government-Wide Financials	GASB 74 OPEB Fiduciary Trust
Net OPEB Liability	<u>45,000,000</u>		<u>40,000,000</u>	
Fiduciary Net Position		5,000,000		10,000,000

The above example is illustration only and does not include deferred inflows and outflows which will exist in practice.

# GASB 75

- In Massachusetts, in almost all situations, the ratio of the fiduciary net position balance and the net OPEB liability will be very small since communities in Massachusetts have for the most part only begun to prefund the liability if at all. (see slides at the beginning of the discussion).
- Net OPEB liability under GASB 75 expected to be higher than actuarial accrued liability under GASB 45 due to differences in the discount rate and changes in the blend rate due to crossover in the event the plan becomes unfunded.

# GASB 75

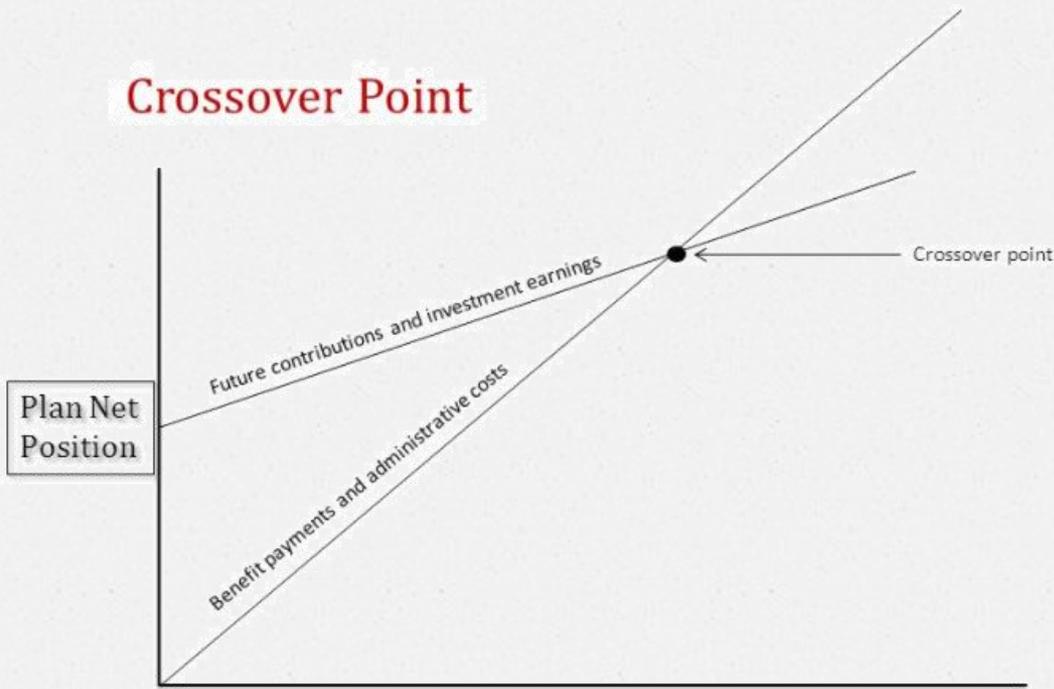
## ➤ Crossover Date

- Measurement period when plan assets and expected future contributions are no longer sufficient to pay expected future benefits.
- The date is used to determine a discount rate that is a blended rate based on the long-term rate of return prior to crossover and a 20 year high grade municipal bond index rate after the crossover date.
- The municipal bond index yield is normally less than the current 4% yield used for unfunded plans.
- Thus plan sponsors can expect to see OPEB liabilities increase as much as 5%.
- Also, the expectation amongst actuaries is that the OPEB liability will be very volatile due to the changes in yield from period to period.

# GASB 75

## NPL: FINDING THE DISCOUNT RATE

### Crossover Point



# GASB 75

- Calculation of long-term rate of return (discount rate)
  - Based on plan sponsor's investment policy.
  - Review target allocation by investment class and weight the expected real rates of return for each class.
  - Once blended rate is determined, add the long-term inflation assumption to arrive at long-term rate of return.

# GASB 75

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	59.00%	4.50%
International Equity	0.00%	5.50%
Fixed Income	35.00%	3.00%
Real Estate	0.00%	4.00%
Cash	6.00%	1.00%
<b>Total</b>	<b>100.00%</b>	<b>3.77%</b>
Assumed Long-Term Inflation		2.50%
Assumed Long-Term Rate of Return		6.27%

# GASB 75

## ➤ Measurement Date

- Valuation date may be up to 30 months and 1 day prior to the reporting date.
- Most efficient to choose an initial valuation date that can cover the entire two-year valuation cycle.
- Measurement date can not be earlier than the plan sponsor's prior year-end.
- Valuation results will be rolled forward for the 2<sup>nd</sup> reporting date.

# GASB 75

## ➤ First year implementation example

### Town of Anywhere - Sample data

1. OPEB Liability	33,000,000	From actuarial report
2. Fiduciary Net Position	1,000,000	From employer Fiduciary Trust
3. Actuarially calculated pension expense	3,200,000	From actuarial report
4. OPEB expense recorded by employer	4,800,000	From employer general ledger
5. Difference between projected and actual investment earnings	250,000	From actuarial report
6. Prior OPEB related liability	12,500,000	From prior year financial statements

# GASB 75

## Town of Anywhere worksheet to post entries

<b>Entry 1</b>	Total for government	
	<b>Debit</b>	<b>Credit</b>
Net OPEB liability	\$ -	\$ 32,000,000
Differences between expected and actual experience	-	-
Net differences between projected and actual investment earnings	250,000	-
Changes of assumptions	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
OPEB expense calculated by actuary	3,200,000	-
OPEB expense recorded by plan employer	-	4,800,000
Prior period adjustment (net difference of debits and credits)	33,350,000	-
	<u>\$ 36,800,000</u>	<u>\$ 36,800,000</u>

Prior period adjustment is calculated by rolling back all the components in the above sample.

<b>Entry 2</b>	<b>Debit</b>	<b>Credit</b>
Prior year OPEB liability - GASB 45	\$ 12,500,000	\$ -
Prior period adjustment	-	12,500,000.0
	<u>\$ 12,500,000</u>	<u>\$ 12,500,000</u>

# GASB 75

## Town of Anywhere - Impact to Statement of Net Position

Adjust prior year liability - GASB 45	\$ 12,500,000
Post current year liability - GASB 75	<u>(32,000,000)</u>
Impact on Statement of Net Position	<u><u>\$ (19,500,000)</u></u>

# GASB 75

## ➤ Impact on audit field work

- Census testing will be a large part of interim testing (adds 2 to 3 days depending on if errors are found)
- Benefit claims will be reviewed closer especially the ability to carve out claims paid for retirees since these are often commingled
- Contributions will be tied out closer
- Investment analysis and reasonableness tests
- Review assumptions used by actuary

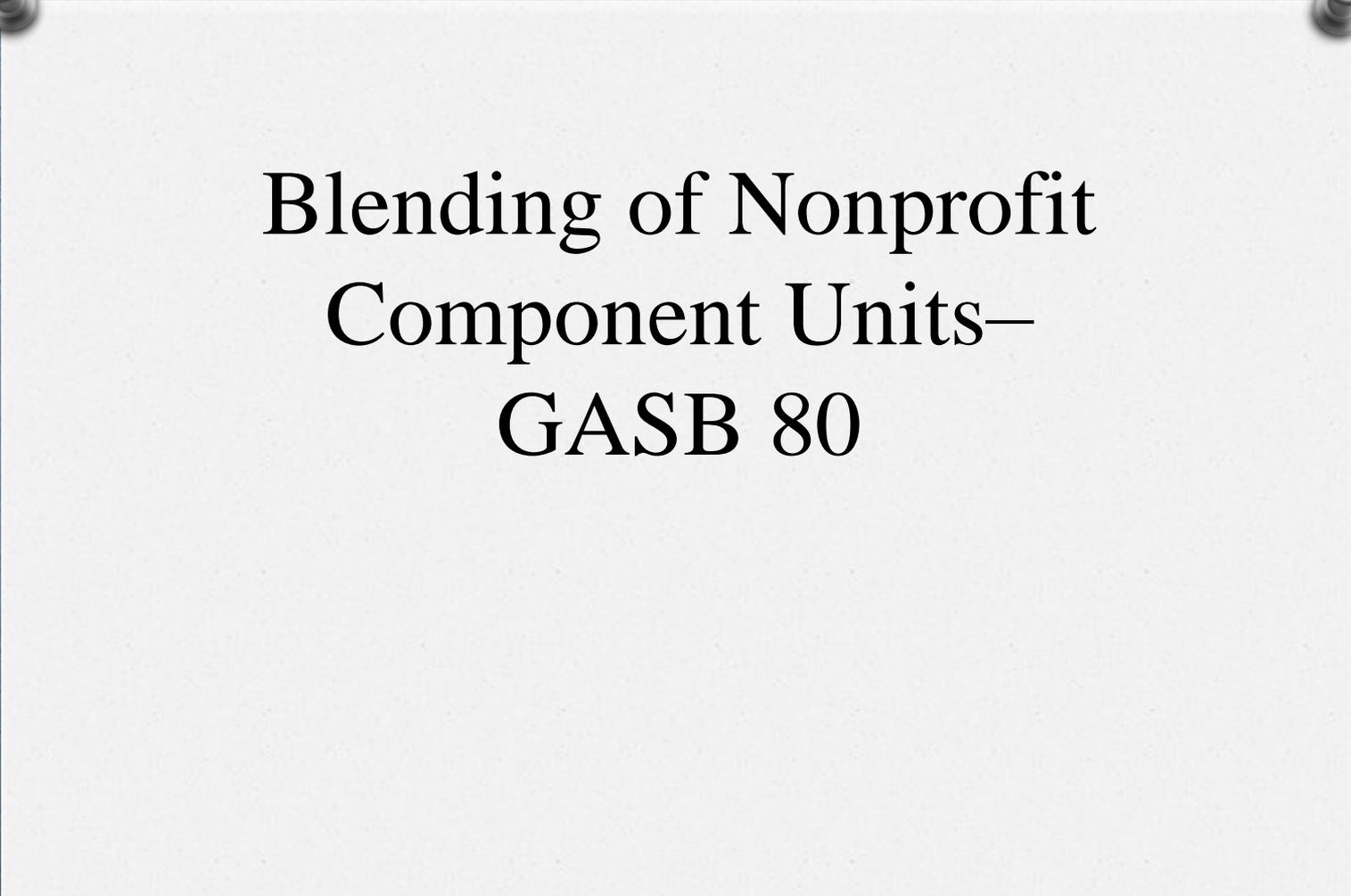
Tax Abatement  
Disclosures—  
GASB 77

# GASB 77

- Implementation in 2017
- Many questions have been asked and the reason we added it to the discussion this year
- Purpose of this statement is to identify for the public where a government has made deals with taxpayers to reduce their taxes in exchange for a benefit such as plant expansion or job creation.
- Most common form in Massachusetts takes the appearance of a tax increment financing (TIF)
- DIF is less common
- Example what did Boston offer GE to relocate.

# GASB 77

- Assessor is critical in this roll to communicate information to the auditors
- Many were not prepared in fiscal year 2017
- Information may also be available with City Council/Board of Selectmen
- If material total amount of TIF tax break in current year should be included in a list
- The more material individual TIFs should be described using who, what, when where, why and how
- Larger governments may organize TIFs by industry type



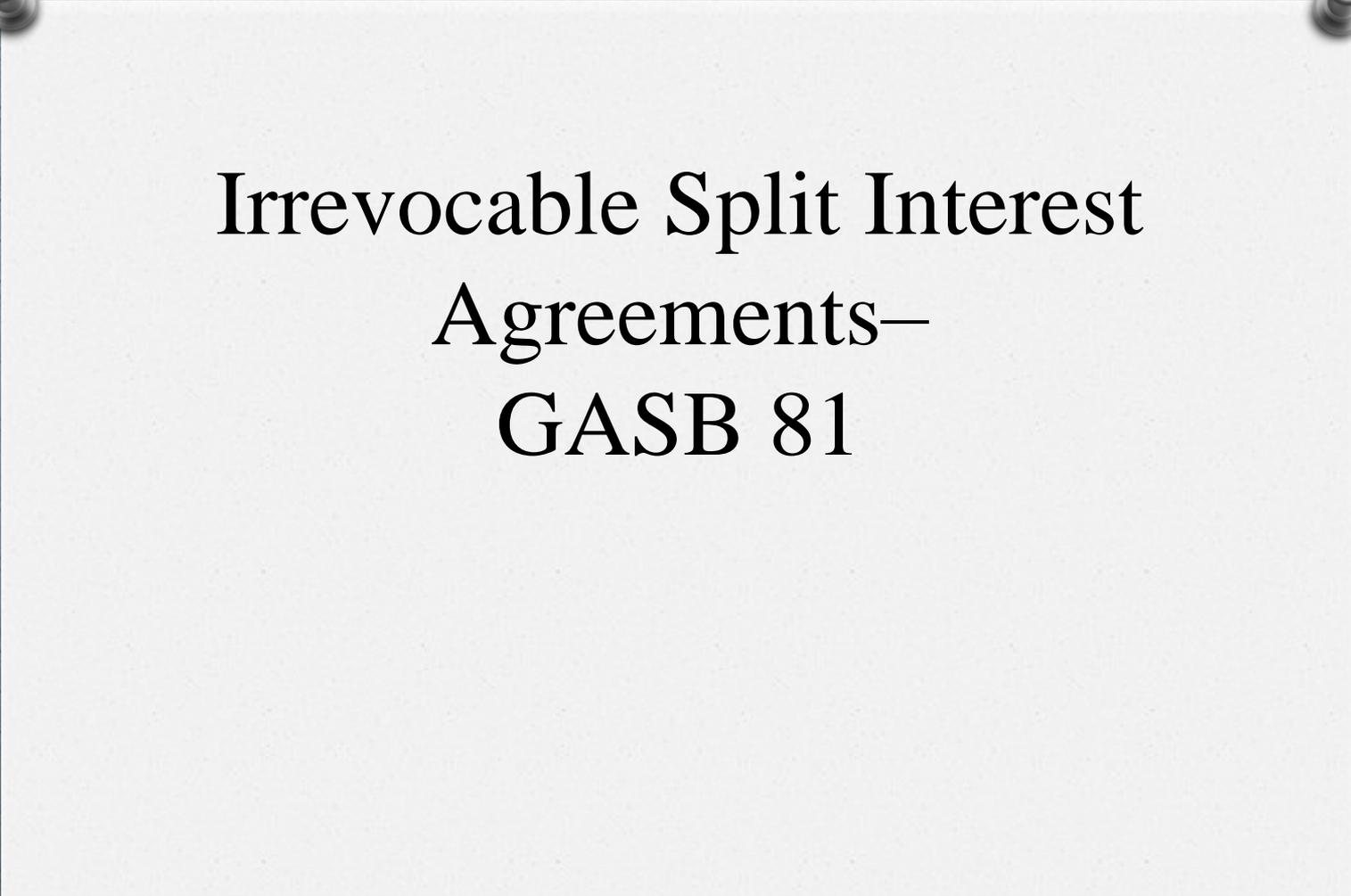
Blending of Nonprofit  
Component Units—  
GASB 80

# GASB 80

- Implementation in 2017
- Went under the radar and may not have been done correctly
- Relates to component units that are organized as 501 (C) 3
- A Library is the most common example
- Prior GASBs required these be included as discretely presented component units
- GASB 80 directs us to blend when certain situations are met

# GASB 80

- If the primary government is the sole corporate member as described in the articles of incorporation or bylaws, and
- Criteria under GASB 14 paragraph 21 – 37 (financial benefit or burden and operational responsibility are met)
- Then GASB 80 requires the component unit to be blended rather than discretely presented.



Irrevocable Split Interest  
Agreements—  
GASB 81

# GASB 81

- Implementation in 2018
- Could apply when the government is a party to an irrevocable split interest agreement
- This is the type of agreement where a donor has assigned the government an interest to a trust or real estate.
- The assignment must be irrevocable and the intermediary (i.e., trustee) does not have the power to modify the terms of the agreement at all.

# GASB 81

- An asset is recorded as either investments or capital in the case of life interests in real estate.
- Fair value accounting is applied.
- Liabilities and deferred inflows will be recorded depending on whether the government is the intermediary or not and the type of interest the government has.

# GASB 81

- A lead interest beneficiary is one in which it receives regular distributions over the term of the irrevocable split interest agreement and turns over the remainder to another party at the conclusion of the agreement.
- A remainder beneficiary receives the right to all or a portion of the resources remaining at the end of the agreement. .
- In both cases, market fluctuations run through deferred inflows of resources.

# GASB 81

- What a City or Town should complete in preparing for an audit
  - Identify all irrevocable split interest agreements.
  - Are you receiving regular benefits from a third party that is not one of your investment managers? .
  - Are you making payments to third parties regularly from your trust accounts?

# GASB 81

## ➤ Example One

- A community that receives \$200,000 each year from a wealthy family. The family has committed to \$3 million payable to the Town over 15 years. The donation comes from a family trust controlled by the family. This is **NOT** a situation in which GASB 81 applies. There is no irrevocable trust.

# GASB 81

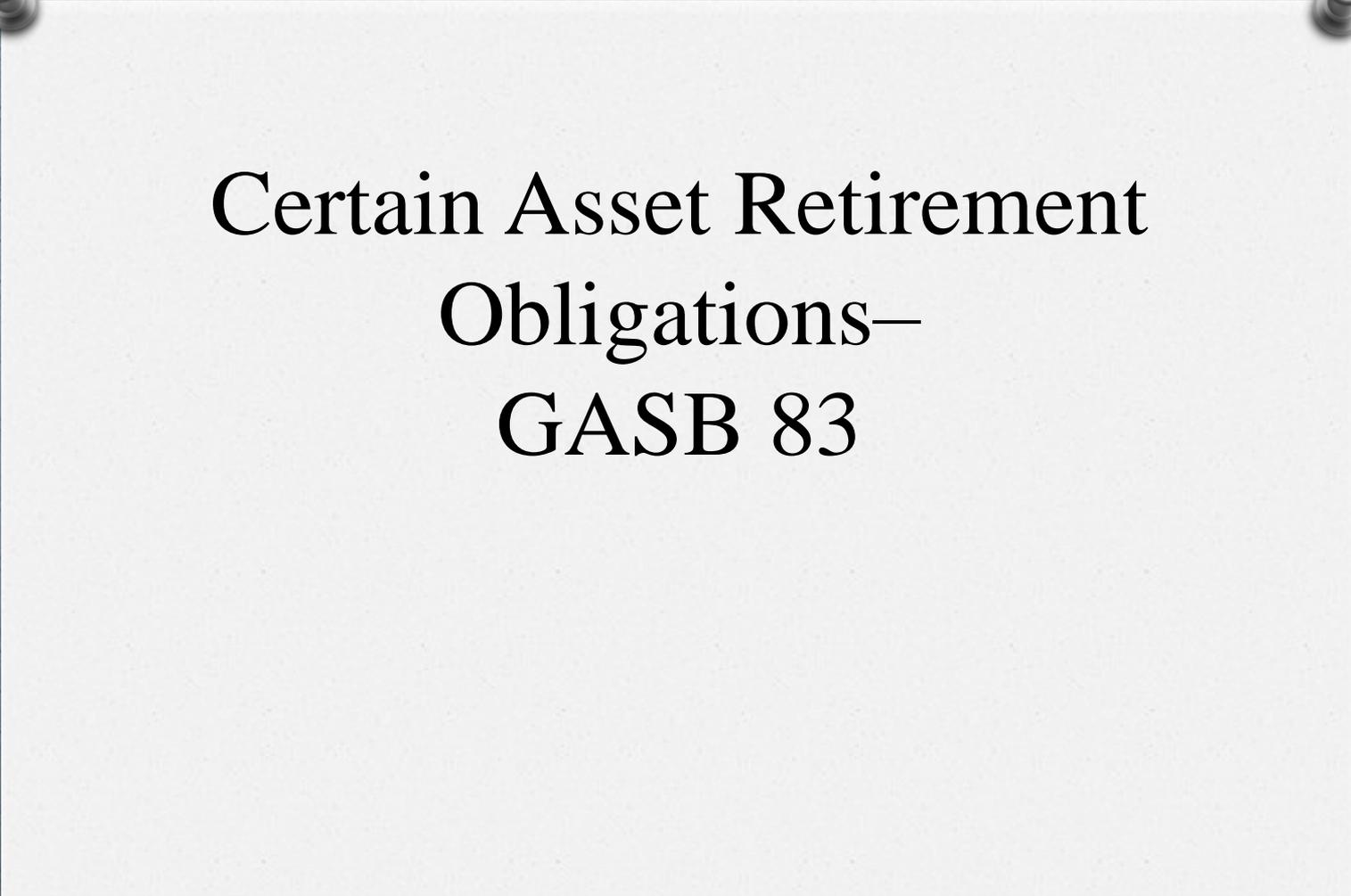
## ➤ Example Two

- A community that has a \$2 million trust in which the donor and Town entered into an agreement where annual income is to be used as follows – 33% to maintain parks, 22% to maintain the library and the remainder for general purposes. This is NOT a situation in which GASB 81 applies – there is a single beneficiary – the Town.

# GASB 81

## ➤ Example Three

- A community receives \$15,500 each year from the Ford Foundation. They will need to inquire with the Ford Foundation for a copy of the documentation that the Ford Foundation uses to give them this money. If they determine that this is an irrevocable split interest agreement, they will need to record the investment at fair value and a corresponding deferred inflow of resources based on their beneficial percentage of the investments based on:
  - The terms of the irrevocable split-interest trust and
  - The value of the investments at the time all facts and circumstances are known



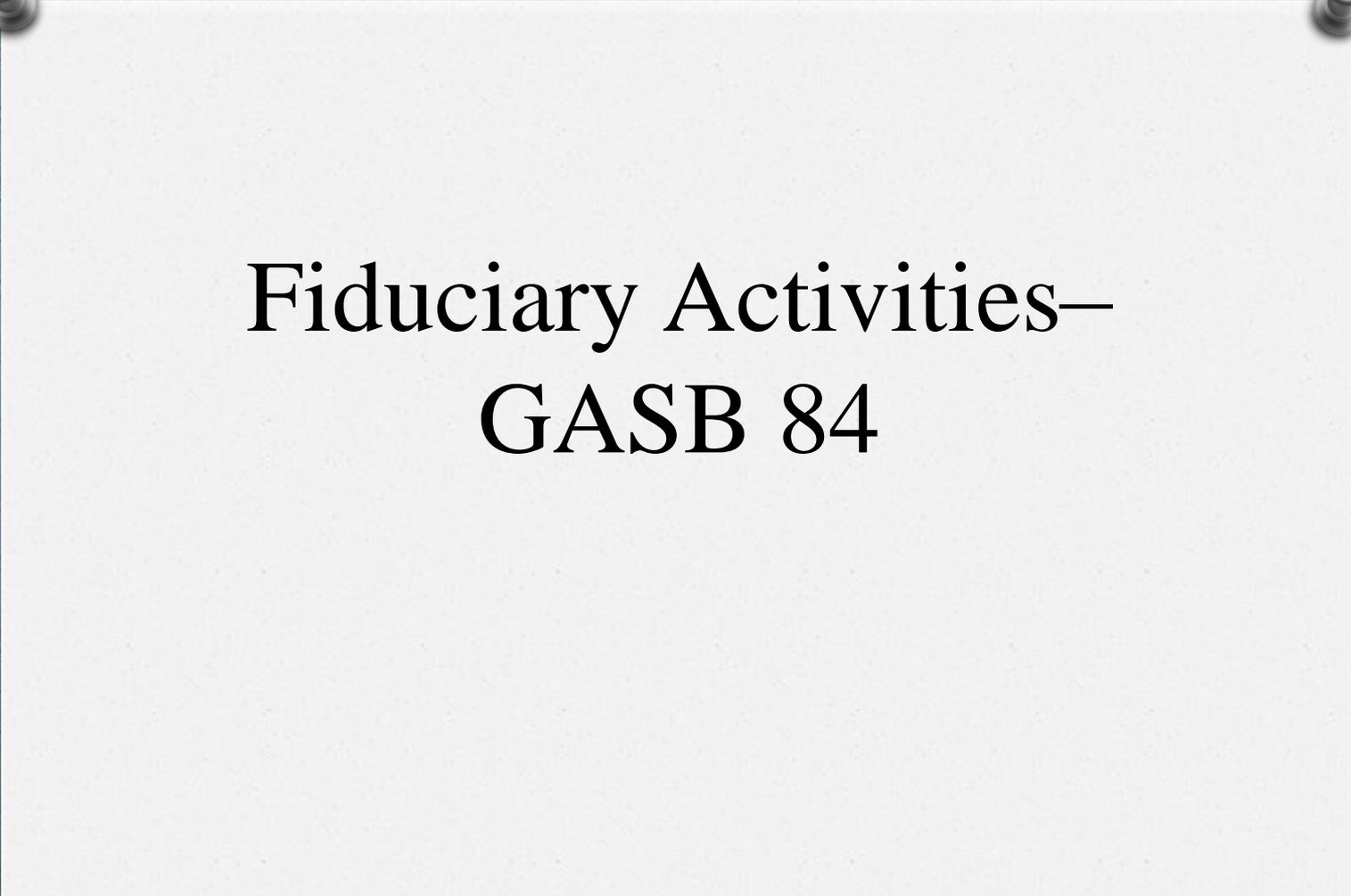
Certain Asset Retirement  
Obligations—  
GASB 83

# GASB 83

- Implementation scheduled in 2019
- Issued to establish accounting and financial reporting standards for legal obligations to retire certain capital assets (nuclear plant, wind farm, sewage treatment plant)
- Similar to GASB 18 estimated cost for landfills
- Incurrence is manifested by both external and internal obligating events.
- Measured based on best estimate of the current value of outlays expected to be incurred.
- Recorded as a deferred outflow and liability.

# GASB 83

- Engineering costs and other analysis are used to estimate this cost
- The deferred outflow is amortized to expense over a period of time estimated to retirement
- It is expensed immediately if the asset is immediately abandoned



Fiduciary Activities—  
GASB 84

# GASB 84

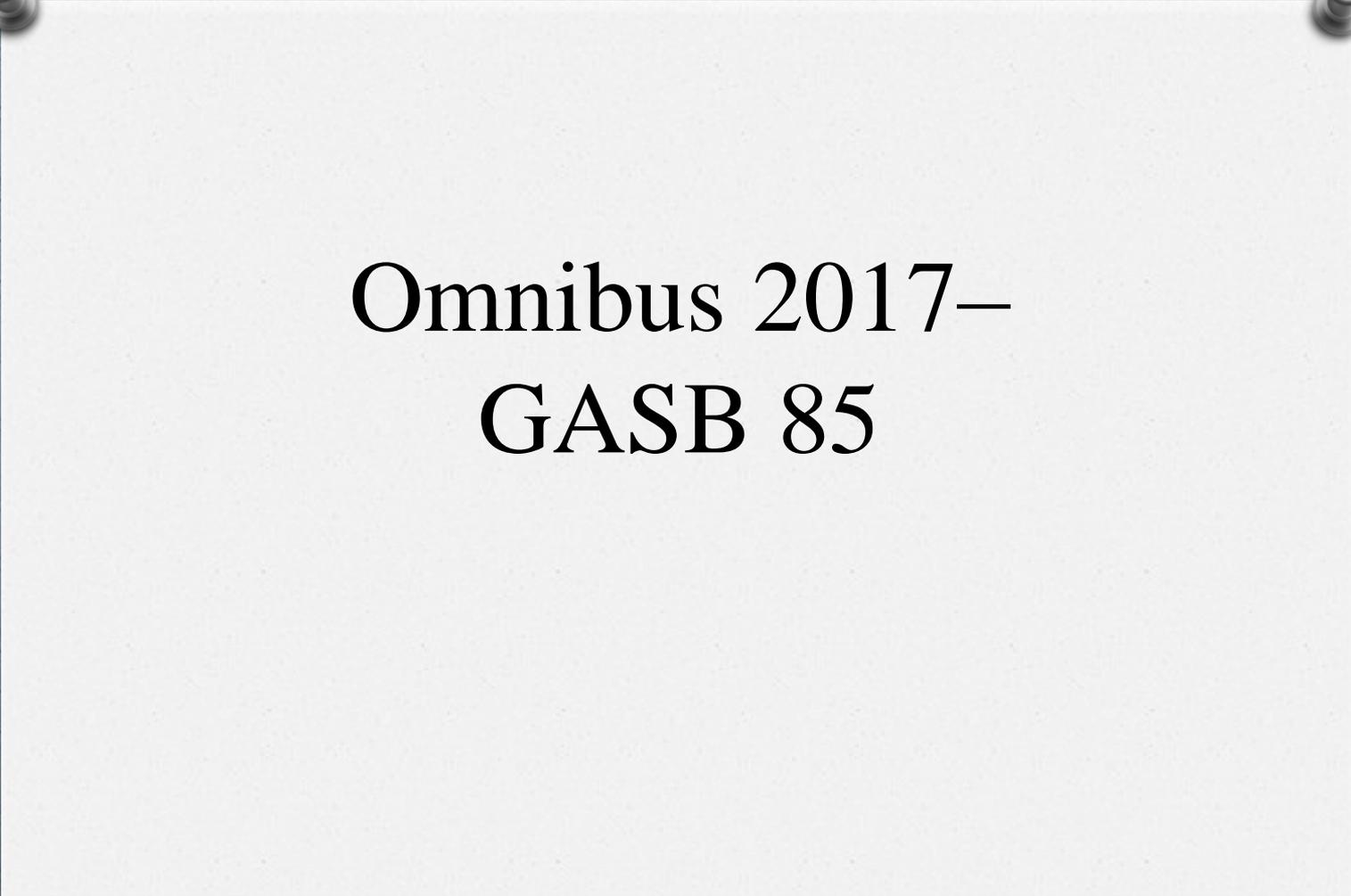
- Implementation in 2020
- As a general rule, fiduciary funds represent monies held by a government on behalf of others.
- The beneficiary is not the general government.
- In Massachusetts the majority of fiduciary funds include:
  - Pension Trust (if you have your own pension system)
  - OPEB Trust
  - Private-purpose Trust Funds
  - Investment Trust
  - Custodial Funds

# GASB 84

- All except custodial funds are already for the most part recorded as required in this Statement.
- Custodial funds are a new way of classifying agency funds. As a general rule, fiduciary funds represent monies held by a government on behalf of others.
- Currently in your audited financial statements, you only present the Statement of Fiduciary Net Position for agency funds.
- With this adoption, you will also present a Statement of Changes in Fiduciary Net Position .
- This is intended to increase the transparency of the government's operations to the general public.

# GASB 84

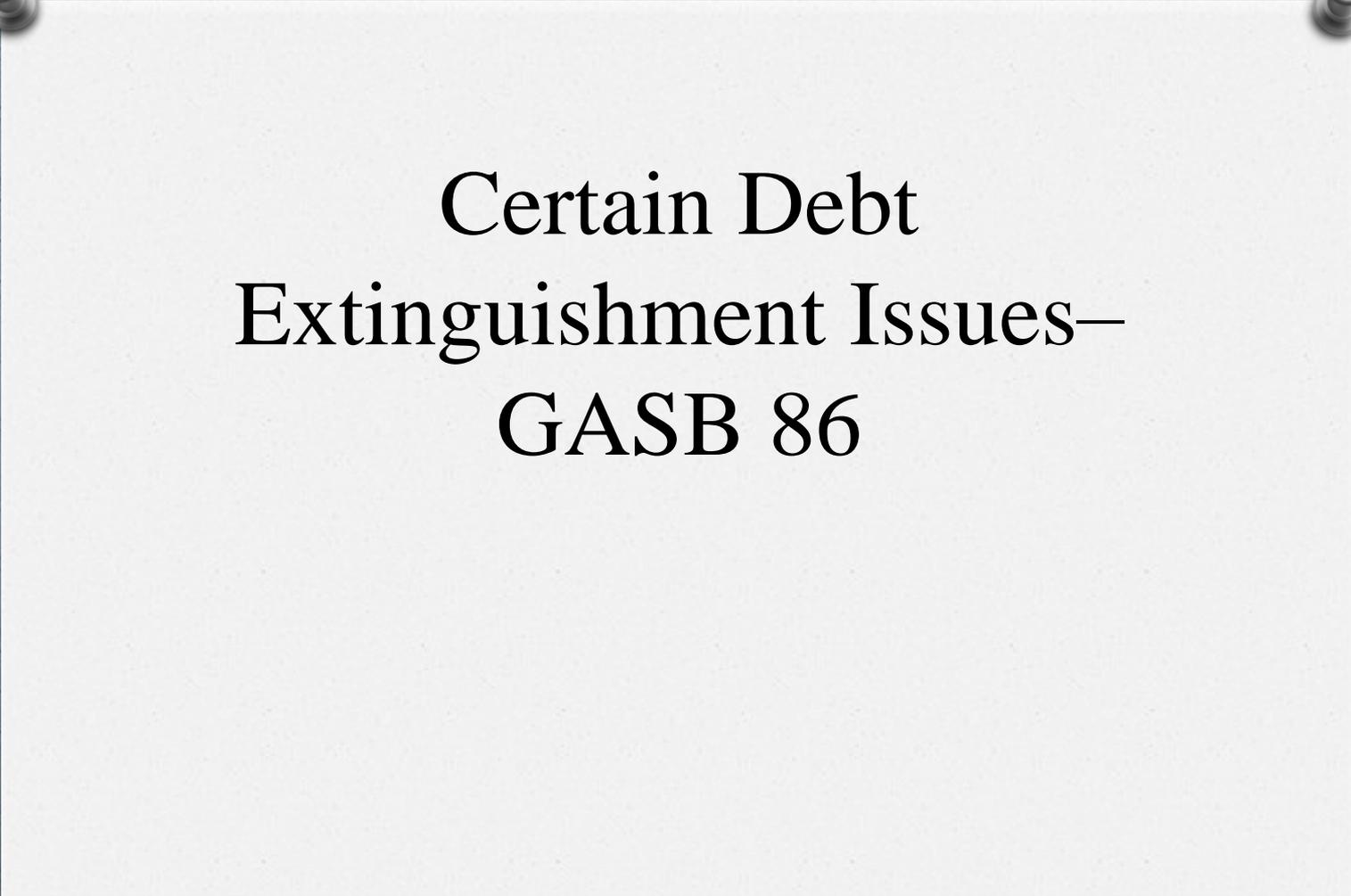
- This will not affect your day-to-day accounting under UMAS or your DOR reporting.
- However, your accounting records must be in sufficient detail to identify all revenues and other inflows of resources and expenditures and outflows of resources.



Omnibus 2017–  
GASB 85

# GASB 85

- Implementation 2018.
- The Board periodically reviews the need for amendments to existing literature based on stakeholder feedback and technical inquiries.
- Omnibus projects are used to address issues in multiple pronouncements that individually, would not justify a separate project.
- This Omnibus does not include any major revisions to any Statements and mainly clarifies minor items.



Certain Debt  
Extinguishment Issues—  
GASB 86

# GASB 86

- Implementation 2018.
- Debt considered defeased in substance **when only existing resources** are used to acquire cash and other monetary assets placed in an irrevocable trust.
- Recognize the difference between net carrying amount of the debt and the reacquisition price as a gain or loss in the period of defeasance and not amortized.
- In the notes, describe transaction in the period it occurs and disclose outstanding balance each period; consistent with current treatment.



Leases—  
GASB 87

# GASB 87

- Implementation 2021.
- Current accounting standards include two types of leases – operating and capital.
- An operating lease is essentially a rental arrangement.
- A capital lease is essentially a financing arrangement.

# GASB 87

- The accounting and presentation of operating and capital leases varies greatly in your audited financial statements. Current accounting standards include two types of leases – operating and capital.
- However, in your underlying accounting records, most Massachusetts governments simply record the periodic lease payment as an expenditure and there's an adjustment made for capital leases when preparing the full-accrual government-wide and/or proprietary fund financial statements.
- GASB 87 has created three types of leases.

# GASB 87

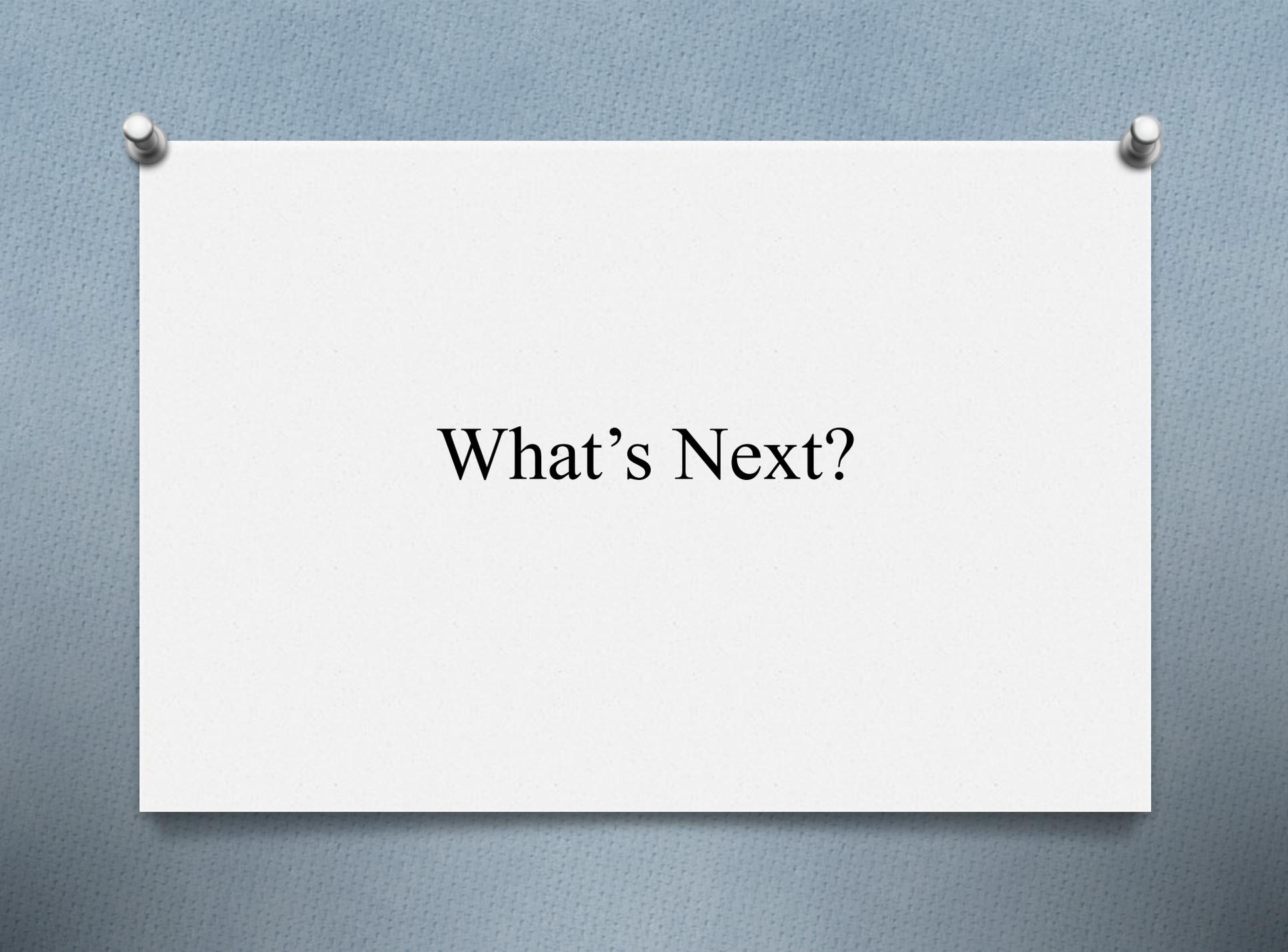
- Short-term leases – these have terms of less than 12 months and are simply expensed over the term of the lease agreement similar to the way operating leases work and will require little effort on the Town's part.
- Contracts that transfer ownership – these are leases that essentially serve as loans/mortgages. Often times there's a \$1 bargain purchase option at the end. Leases like this are accounted for in a similar manner as capital leases are currently accounted.
- All other leases – these are the long-term leases where ownership doesn't necessarily transfer to the government at the conclusion of the lease term. For most governments, the usual suspects would be your copiers, iPads and computer equipment. In these cases, an intangible assets referred to as a "right to use" will be recorded together with a lease liability that represents the NPV of the future lease payments.

# GASB 87

- Governments can also serve as lessors or essentially landlords. Is your government leasing out facility space to another government or organization? Are you leasing a portion of a municipal building's roof top to a solar power company?
- If your government is a lessor, it will have the inverse accounting of the party that is leasing from your government (i.e., the lessee). Your government will recognize a lease receivable, which is the net present value of future lease collections and a deferred inflow of resources for this same amount. As collections are received, the principal portion is deducted from the receivable and deferral and the remainder is interest income.

# GASB 87

- GASB 87 will require a significant amount of work on the part of governments. You must first identify every lease arrangements, regardless of the dollar amount of periodic lease payments. Lease agreements will need to be gathered analyzed and sorted into the three categories.
- Small dollar leases like your Pitney Bowes postal meter can be passed over as it is most likely immaterial; but in order to make that call, you must first have identified it!
- Where are we making periodic payments to and where are we receiving periodic payments from. That will usually be the best place to start!



What's Next?

# What's Next

- GASB was created in 1984 to establish generally accepted accounting principles for state and local government entities.
- First major GASB that created major changes to the reporting model was GASB 11 Measurement Focus and Basis of Accounting--Governmental Fund Operating Statements.
- The philosophy of this GASB was so ground breaking, that it took 11 years to put in effect.
- Work in process began in 1984, was issued in 1990 but was not effective until 1995.

# What's Next

- Concurrent with its implementation were the building blocks in place for the next revolutionary changes to the reporting model under GASB 34.
- GASB 34, *Basic Financial Statements and Managements Discussion and Analysis - for State and Local Governments*
- This was implemented in three phases based on State and Local Government size; the first phase was for fiscal year 2002 so this was a seven year cradle to implementation change.
- GASB 34 has undergone many changes over the past 16 years but has been the reporting model that has endured the longest

# What's Next

- New examination of the reporting model is currently underway.
- All areas are being reviewed
- Key focus areas
  - MD+A – valuable piece of reporting model but typically prepared by auditor not management; the current project finds that its boilerplate and copied from year to year and loses meaning.
  - Government-wide statements – mixed reactions, complicated, difficult to understand, internal decision makers do not use them; Statement of Activities presentation is the weakest link; thoughts to a statement of cash flows in the future.
  - Funds Statements – generally well liked, most useful for decision making; however is the direction to trend toward a more accrual based model; some have suggested RSI
  - Budgetary comparisons, modified approach, capital assets and debt are all on the table.

# What's Next

- Area gaining traction:
  - Major changes to measurement focus in the funds statements
    - Near term approach – 60 – 90 day accrual
    - Short term approach – working capital – one year
    - Long-term approach – total financial resources
  - Each component of the balance sheet is being reviewed and treatment under each approach

# What's Next

## ➤ Example

- Compensated absences
  - Current approach – Recognize liability for amounts normally expected to be liquidated with expendable available resources
  - Near term approach – Recognize liability to extent payable and due in near term (60 – 90 days)
  - Short term approach – Recognize liability due in operating cycle (one year)
  - Long-term approach – Recognize entire liability similar to statement of net position

# What's Next

- Preliminary timeline to implementation
  - Invitation to comment – January 2018
  - Preliminary views – October 2019
  - Exposure draft – April 2021
  - Final – June 2022
  - Implementation - ????

# Questions

