

The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. The shapes are primarily triangles and polygons, creating a dynamic, layered effect. The overall composition is clean and modern.

GASB

Wow, have they been busy!

Pronouncements Issued Since 2015

- ▶ Statement No 72 - 2/15 - Fair Value Measurement and Application
- ▶ Statement No 73 - 6/15 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68
- ▶ Statement No 74 - 6/15 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
- ▶ Statement No 75 - 6/15 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
- ▶ Statement No 76 - 6/15 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments
- ▶ Statement No 77 - 8/15 - Tax Abatement Disclosures

Pronouncements Continued...

- ▶ Statement No 78 - 12/15 - Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans
- ▶ Statement No 79 - 12/15 - Certain External Investment Pools and Pool Participants
- ▶ Statement No 80 - 1/16 - Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14
- ▶ Statement No 81 - 3/16- Irrevocable Split-Interest Agreements
- ▶ Statement No 82 - 3/16 - Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73
- ▶ Statement No 83 - 11/16 - Certain Asset Retirement Obligations

Pronouncements Continued Again...

- ▶ Statement No 84 - 1/17 - Fiduciary Activities
- ▶ Statement No 85 - 3/17 - Omnibus 2017
- ▶ Statement No 86 - 5/17 - Certain Debt Extinguishment Issues
- ▶ Statement No 87 - 6/17- Leases

More to Come -



Technical Agenda Overview

Revised July 25, 2017

FRAMEWORK PROJECTS	Current Stage	Timing
Conceptual Framework: Recognition	PV Redeliberations	

MAJOR PROJECTS	Current Stage	Timing
Financial Reporting Model	ITC Redeliberations	
Revenue and Expense Recognition	Initial Deliberations	

PRACTICE ISSUES	Current Stage	Timing
Capitalization of Interest Cost	Added to Agenda	
Certain Disclosures Related to Debt	Exposure Draft Comment Period	Ends September 15, 2017
Equity Interest Ownership Issues	Initial Deliberations	
Implementation Guidance—Other Postemployment Benefits	Exposure Draft Comment Period	Ends September 25, 2017
Implementation Guidance—Update	Initial Deliberations	

Still More to Come -

PRE-AGENDA RESEARCH ACTIVITIES
Conduit Debt–Reexamination of Interpretation 2
Going Concern Disclosures Reexamination
Information Technology Arrangements, including Cloud Computing
Note Disclosures
Public-Private Partnerships, including Reexamination of Statement 60
Social Impact Bonds

What is the impact to State CAFRs?

- ▶ We are in a time of constant change.
- ▶ Some of these statements are MAJOR changes from prior reporting requirements.
- ▶ Departments will be asked questions that are different from what has been asked in the past.
- ▶ The comparability between years will be diminished as new standards change the presentation of data.

GASB 72 - Fair Value Measurement

- ▶ Implemented for the June 30, 2016 CAFR
- ▶ **Largest impact was to the State Treasurer's Office**
- ▶ Biggest headache - Classification of Assets as Tier 1, Tier 2, Tier 3
 - ▶ The tiers are a disclosure of risk that the fair value presentation is not accurate
 - ▶ Not a disclosure of the inherent risk of the investment
 - ▶ Tier 1 - Quoted prices for identical instruments in active markets
 - ▶ Tier 2 - Quoted prices for similar in active markets OR identical in inactive markets OR model driven valuations in which all significant inputs are observable
 - ▶ Tier 3 - Valuations in which significant inputs are not observable

GASB 74/75 - OPEB Statements

- ▶ OPEB stands for Other Post Employment Benefits (most significantly this is employer subsidized health insurance for retirees but includes other benefits too)
- ▶ Similar to the GASB 67/68 Standards for Pension disclosures that were implemented June 30, 2015.
- ▶ Implementation is expected to create large liabilities on the balance sheet for the State.

FLASHBACK - Government Statement of Net Position FY14 and FY15

Before Pension GASB 67/68

	11,073	---	11,073
Liabilities			
Bank Overdraft (Notes 3 and 10)	2	---	2
Payables (Note 14)	1,418,056	19,056	1,437,112
Securities Lending Obligation (Note 3)	147,048	7,131	154,179
Unearned Revenue (Note 1)	57,058	993	58,051
Escheat/Unclaimed Property	121,825	---	121,825
Long-Term Liabilities (Note 11):			
Due Within One Year	588,829	78,906	677,745
Due in More Than One Year	6,453,805	110,200	6,564,005
Total Liabilities	8,796,633	216,286	9,012,919
Deferred Inflows of Resources			
Advance from Other Funds	15	---	15
Differences between Projected and Actual Earnings on Pension Plan Investments	---	---	---
Total Deferred Inflows of Resources	15	---	15
Net Position			
Net Investment in Capital Assets	28,519,443	53,757	28,573,200
Restricted for:			
Budget Reserve	556,284	---	556,284
Debt Service	389,977	---	389,977
Grants	283,004	---	283,004
Enabling Legislation (Note 1)	467,856	---	467,856
Loans Receivable	1,119,071	---	1,119,071
Permanent Trusts:			
Expendable	107	---	107
Non-Expendable	47,538	---	47,538
College and Universities:			
Expendable	---	---	---
Non-Expendable	---	---	---
External Parties	926,246	4,889	931,135
Unrestricted	(1,342,157)	248,082	(1,094,075)
Total Net Position	\$ 30,967,369	\$ 306,728	\$ 31,274,097

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

After Pension GASB 67/68

Liabilities			
Bank Overdraft (Notes 3 and 10)	1	---	1
Payables (Note 14)	1,426,378	20,438	1,446,816
Securities Lending Obligation (Note 3)	3,588	---	3,588
Unearned Revenue (Note 1)	89,568	1,113	90,681
Escheat/Unclaimed Property	110,545	---	110,545
Long-Term Liabilities (Note 11):			
Due Within One Year	646,460	82,242	728,702
Due in More Than One Year	10,161,644	156,659	10,318,303
Total Liabilities	12,438,184	260,452	12,698,636
Deferred Inflows of Resources (Note 15)	724,484	20,952	745,436
Net Position			
Net Investment in Capital Assets	29,032,232	52,191	29,084,423
Restricted for:			
Budget Reserve	542,447	---	542,447
Debt Service	397,780	---	397,780
Grants	289,795	---	289,795
Enabling Legislation (Note 1)	459,820	---	459,820
Loans Receivable	1,179,695	---	1,179,695
Permanent Trusts:			
Expendable	102	---	102
Non-Expendable	49,837	---	49,837
External Parties	889,753	4,588	894,341
Unrestricted	(5,017,126)	421,066	(4,596,060)
Total Net Position	\$ 27,824,335	\$ 477,845	\$ 28,302,180

Summary of Impacts

- ▶ **The State's unrestricted net position become very negative**
 - ▶ FY14 - negative \$1,342,157 (in thousands, so this is billion)
 - ▶ FY15 - negative \$5,017,126
- ▶ The adjustment for pensions became the largest liability other than bonds
 - ▶ FY14 - 123,089
 - ▶ FY15 - 3,859,430
- ▶ The pension liability is booked on every full accrual statement. This means the equity of certain funds have become negative.
 - ▶ **Examples: State Lottery, Missouri Veterans' Homes, Natural Resources Cost Allocation Fund etc.**

How Big is OPEB now?

	FY06	FY08	FY10	FY12	FY14	FY16
MCHCP	-	35,644	90,487	185,185	275,663	357,046
MHPML	-	71,067	221,324	377,530	499,473	584,625
CEIP	-	5,933	18,147	32,075	47,314	61,762
Total	-	112,644	329,958	594,790	822,450	1,003,433

Key points of OPEB disclosure

- ▶ Currently only accrual is the unfunded ARC contribution
- ▶ Currently ARC is calculated on a 30 year open period (i.e. 30 year period is constant)
- ▶ Future accrual will be amount required for full funding
- ▶ Obligation is calculated on a 30 year closed period (i.e. first year calc 30 years, second year calc 29 years etc)
- ▶ Since not pre-funded the discount rate will be the bond rate, not investment rate, making liabilities higher
- ▶ OPEB is generally not pre-funded therefore the liabilities may be larger
- ▶ The year before pension changes, we carried \$123,089 as a liability. The year before OPEB changes, we are at \$1,003,433.
- ▶ OPEB are often easier to change than pensions which may increase employee risk of benefit losses.

Statement No 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

- ▶ Changes what is GAAP for Governments
 - ▶ Preparers can no longer look to FASB or peers when GASB does not provide guidance
 - ▶ **GASB pronouncements and implementation guides' questions are GAAP**
 - ▶ Implementation guides now go through a due diligence review process

Statement No 77 - Tax Abatement Disclosures

▶ The Rules:

- ▶ 1. Results from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues,

And

- ▶ 2. The individual or entity promises to subsequently take specific action *after* the agreement that contributes to economic development or otherwise benefits the government or its citizens.

- ▶ The agreement need not be in writing or legally enforceable.
- ▶ Applies to all taxes and tax reductions, regardless of whether they take the form of an exemption, credit, rebate, or traditional abatement.
- ▶ Applies to taxes only, not licenses or fees.
- ▶ Does not apply to broadly available tax provisions.

Key Points of Tax Abatements

- ▶ There are a TON of required disclosures if there is a qualifying tax abatement.
- ▶ There has been lots of interest (financial and political) as to the size of tax abatement programs, the diversity of the programs, and the resulting impact on other government priorities.

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- ▶ I personally expect the first year to be interesting but as trend data becomes available across similar governments, I expect this to get future attention.

Statement No 83 - Certain Asset Retirement Obligations

- ▶ An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset.
- ▶ Includes **an asset's** sale, abandonment, recycling, or disposal in some other manner
- ▶ It does not include the temporary idling of a tangible capital asset
- ▶ Examples:
 - ▶ 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
- ▶ Excludes - landfill closures and pollution remediation activities
- ▶ Effective 6/15/2019

Statement No 84 - Fiduciary Activities

- ▶ Probably a bigger deal than we realize at the moment.
- ▶ Goal is to create consistency across all governments of their fiduciary funds
- ▶ It is expected that there may be a change from what is currently reported as fiduciary funds.
- ▶ Four fund types:
 - ▶ Pension (and OPEB) trust funds
 - ▶ Investment trust funds
 - ▶ Private-purpose trust funds
 - ▶ Custodial funds (replaces agency funds)
 - ▶ These will have full operating statements instead of current additions/deletions

Statement No 87 - Leases

- ▶ Provides guidance for lease contracts for nonfinancial assets.
 - ▶ Includes: vehicles, heavy equipment, and buildings
 - ▶ Excludes: nonexchange transactions, donated assets, and leases of intangible assets (such as patents and software).
- ▶ A lessee government is required to recognize:
 - ▶ A lease liability
 - ▶ An **intangible asset representing the lessee's right to use the leased asset**
- ▶ A lessor government is required to recognize:
 - ▶ A lease receivable
 - ▶ A deferred inflow of resources

Leases Cont.

- ▶ Leases - idea of operating lease will go away (unless it is 12 months or less with no opportunity to extend) and all will be booked as liabilities with the offset of an intangible right to use asset; will amortize over the lease term.
- ▶ Lease term is the period during which a lessee has a noncancelable right to use the asset
 - ▶ Cancellation for fiscal funding clauses can only affect the lease term if the government is reasonably certain that the clause will be exercised.
 - ▶ Cancelable periods are ones in which both the lessee and the lessor have the option to terminate the lease without permission from the other party.

Leases - Cont.

- ▶ Lessee reporting-
 - ▶ Measure the liability as the present value of payments expected to be made over the lease term.
 - ▶ Calculate the amortization on the discount of the liability and report to interest expense.
 - ▶ Remeasurement
 - ▶ Note disclosures about the lease, includes:
 - ▶ General description.
 - ▶ Amount of the lease assets recognized.
 - ▶ Schedule of future payments.
 - ▶ Commitments under the leases before commencement of term

Leases - Cont

- ▶ Lessor -
 - ▶ Lease receivable, recognized over the term of the lease, corresponding with the reduction of the deferred inflow for the present value of lease payments expected to be received during the lease term, reduced by uncollectible amounts.
 - ▶ Amortization of the discount on the lease receivable (interest revenue)
 - ▶ Remeasurement
 - ▶ Note disclosures about the lease, includes:
 - ▶ General description
 - ▶ Amount of inflows during the period

Pending GASB work - the big stuff

- ▶ Financial Reporting Model ITC
 - ▶ Presented 3 models (Near Term, Short Term, Long Term Approach) for changing financial statements.
 - ▶ **Ranged from very similar to today's modified accrual statements to nearly full accrual statements.**
 - ▶ ITC resulted in 7 models instead of 3.
 - ▶ NO consensus on which is best. Must have 3 board members support a model to move forward in deliberation process.
- ▶ Revenue and Expense Recognition
 - ▶ **Don't know much yet however, has potential to radically change when revenue and expenses are recognized.**

Deloitte Website:

Revenue recognition

Is your company ready? Don't run out of time.

In January 2018, the new revenue recognition standard (Update No. 2014-09; ASC 606) takes effect. The standard has broad implications and may affect many parts of your organization: financial statements, business processes, taxes, and internal controls over financial reporting. It requires the collaborative efforts of multiple departments within the company, including financial reporting, IT, sales, tax, investor relations, human resources, and others. Read on to learn what your organization can do to get started now or to continue down your current path toward implementation.



Time remaining until the new standard takes effect:

04:03:15:22:02
months days hours minutes seconds

Jointly issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board, the revenue recognition standard will supersede virtually all existing revenue recognition guidance in Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS). The intent of the new standard is to replace the existing guidance with a single industry-neutral revenue recognition model that will reduce complexity and increase financial statement comparability across companies and industries. The core principle of the model is to recognize revenue when *control of the goods or services* transfers to the customer, as opposed to recognizing revenue when the *risks and rewards* transfer to the customer under the existing revenue guidance.

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Thank You!

Stacy Neal, CPA

Director

OA-Accounting