



Presentation Title

Subtitle

[Date]



North Carolina Department of State Treasurer
State and Local Government Finance

Learn. Invest. Grow. Prosper.

GAAP/LGC UPDATE

AGENDA:

- GASBS 68, 73, 74 and 75 – What you should be doing now
- New Standards – review GASBS 76-82
- Upcoming standards
 - Exposure drafts and other preliminary documents
 - Upcoming documents/projects for review
- LGC Update
 - Announcements
 - Investment issues
 - Review of Treasurer's Conference on Sustainability and Innovation
 - Changes in Sample Statements
 - Common reporting problems



GASB 68 - CHANGES FOR 2016

- New tables – now available
- Two years of deferrals
 - Second year of 2015 deferrals
 - New set for 2016
- Templates have been updated to reflect 2 years
- Will keep Year 1 template for units with alternate FYE that are implementing for first time
 - Contributions outside of the measurement date are tricky with units with alternative year ends
- Some minor changes to Conversion Workbook
- GASB 82 allows us to use covered payroll for RSI rather than total payroll



GASB STATEMENT 73

- Pensions that are not accounted for in a GASB defined trust
 - GASB Defined Trust
 - Assets legally protected from creditors
 - Assets are dedicated to provide benefits
 - Contributions are irrevocable – both employee and employer
- For local governments with law enforcement officers, this standard will apply to LEOSSA (unless assets are being accumulated in a GASB defined trust, then you should implement GASB 67/68 immediately).



GASB STATEMENT 73

- One other circumstance that may invoke GASB 73
 - Unit that pays retirees a stipend intended to cover cost of health insurance but does not require the retiree to account to the unit for the purchase of the insurance has created a pension that is subject to GASB 73 (unless assets are being accumulated in a GASB defined trust and then 67/68 apply).



GASB STATEMENT 73

- Requirements of 73 not much different from 68
 - Single employer pension plan
 - Actuarial study required biennially
 - Valuation date cannot be more than 30 months and 1 day prior to financial statement date; measurement date can be no more than 12 months prior to financial statement date
 - 6/30/17 statements:
 - Valuation date no earlier than 12/31/14; roll forward to
 - Measurement date 6/30/16
 - NPL reported on economic resources basis of accounting financial statements
 - Allocate NPL between governmental and business type activities and again across proprietary funds if applicable



GASB STATEMENT 73

- We are requiring units to have an actuarial study on LEOSA for implementation of GASB 73 at 6/30/17
 - Many units have claimed LEOSA as immaterial without having a study done
 - Once we see the results of initial studies we may reconsider
 - May be special circumstances where it is truly immaterial – request in writing to SLGF
- Expect demand for actuarial services to increase so plan ahead!



GASB STATEMENT 73

- One part of Statement 73 that is effective for FYE starting June 30, 2016
- Can no longer report LEOSSA assets in a Pension Trust Fund UNLESS you have those assets in an irrevocable trust that meets GASB requirements
- For reporting purposes, roll existing PTF to the General Fund
 - Any fund balance will be committed
 - Restate beginning fund balance in General Fund (no PPA, no finding)
 - Account for all LEOSSA activity for 2016 in the General Fund



GASB STATEMENTS 74/75

- Accounting and Reporting for Post Employment Benefits and Plans Other than Pensions (OPEB)
- Memorandum #2016-14
- <https://www.nctreasurer.com/slgl/Memos/2016-14.pdf>
- Effective date for plans is 6/30/17; Employers 6/30/18
- Units with assets held in a GASB defined trust have plans
- Again, requirements for these standards are not much different from Statements 67 and 68



GASB STATEMENTS 74/75

- Implement regardless of existence of GASB defined trust and regardless of funding status
- Actuarial study required at least biennially (annual encouraged)
 - Can be no more than 30 months and 1 day prior to FYE
 - Measurement date no more than 1 year prior to FYE
 - Alternative method still an option for units with less than 100 members (not retirees) *
 - If unit pays for any part of the benefit, actuarial study will be required
 - Will need beginning balances

*If implicit rate subsidy is only benefit offered, alternative measurement method can be used



GASB STATEMENTS 74/75

- Discount rate for plans with no assets set aside in GASB defined trust will be 20 year tax-exempt GO municipal bond with average AA/Aa rating or higher
- Liability will be booked on full accrual statements – government-wide and proprietary funds, should be allocated as applicable
- Will have a significant impact on net position – start preparing clients and elected officials
- Fully note disclosed, RSI



GASB STATEMENTS 74/75

- Plan documentation is a concern
 - GFOA Best Practice
 - <http://gfoa.org/opeb-governance-and-administration>
- Making changes to your plan? – Public Employment Law Bulletin #30 by Diane Juffras, SOG
 - <https://www.sog.unc.edu/publications/bulletins/when-can-public-employer-reduce-employee-benefits>



GASB STATEMENTS 74/75

- Will be some cost-sharing multi-employer plans
 - State Health Plan – any local entity with retiree health care through SHP – schools, charters, a few cities and/or counties
 - Death Benefit – Both TSERS and LGERS members
 - LEO Separate Insurance Benefit Plan
- Information will be provided by State similar to LGERS, etc.



The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments



GASB Statement No. 76 (cont.)

- GAAP hierarchy reduced to two authoritative and one non-authoritative levels
 - First level - GASB Statements
 - Guidance must be formally approved by the Board and publicly exposed for comment without limitations
 - Second level - primarily Technical Bulletins, approved AICPA guidance, and newly revised CIG
 - Guidance must be cleared by the Board and publicly exposed for comment without limitations



GASB Statement No. 76 (cont.)

- Non-authoritative level includes
 - GASB Concepts Statements
 - Widely recognized and prevalent practices
 - FASB Accounting Standards Codification
 - Other accounting literature



Practical Effects

- *If guidance for a transaction or event is not specified within a source of authoritative GAAP, a governmental entity should first consider accounting principles for similar transactions and then may consider other accounting literature.*



Practical Effects (cont.)

- *If the guidance for a transaction or event is not specified within a source of authoritative GAAP or cannot be analogized to similar transactions within a source of GAAP, governments should not select an accounting policy from a non-authoritative source that conflicts with or contradicts authoritative GAAP.*



Tax Abatement Disclosures



GASB 77 - Tax Abatement Disclosures

- Development of disclosure guidelines for governments that have granted tax abatements (i.e., reduction/exemption of taxes primarily for economic development)
- Project does not address programs that reduce tax liabilities of broad classes of taxpayers (e.g., senior citizens, veterans)



GASB 77 - Tax Abatements (cont.)

- Primary disclosures:
 - Name of the recipient/type of tax being abated
 - Authority under which abatements were granted
 - Criteria determining eligibility of abatements
 - Abatement mechanism details
 - Provisions, if any, for recapturing abatements
 - Commitments made by recipients of abatements
 - Dollar amount that reporting governments tax revenues were reduced during the reporting period



GASB 77 - Tax Abatements (cont.)

- Effective for fiscal periods beginning after December 15, 2015
 - For most of NC, June 30, 2017



Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans



General Purpose of 78

- Amends the scope of GASB Statement No. 68 (Employer Pensions) to exclude a plan that
 - Is not a state/local government pension plan,
 - Is provided to both state/local government employers and non-government employers, and
 - Does not have a state/local government predominant employer



Certain External Investment Pools and Pool Participants



Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14



GASB 80 - Blending Requirements for Certain Component Units

- Guidance for component units for which the primary government is the sole corporate member (Not-for-profit corporations are most common example)
- Under current guidance, such entities would almost always be discretely presented
- New guidance expands the blending criteria to include such situations



GASB 80 - Blending Requirements (cont.)

- Final standard issued in January 2016
- Effective date is periods ending after June 15, 2016 – for NC, June 30, 2017



Irrevocable Split-Interest Agreements



GASB 81 - Irrevocable Split-Interest Agreements

- Donor irreversibly places resources into a trust for the benefit of two or more parties
 - One of the parties is typically the donor
 - e.g., for the benefit of their alma mater, a couple places their retirement investment portfolio into a special trust whereby they get benefits until they pass away, and then the university gets the balance
- Not common for general purpose governments, but common for special-purpose governments



GASB 81 - Split-Interest Agreements (cont.)

- Intermediary typically administers the trust
 - Can be either the government itself or a third party
- Government as intermediary
 - Asset for the donated resources
 - Liability for portion of donated resources to be distributed to other beneficiaries
 - Deferred inflow of resources for the donated resources that are to benefit the government



GASB 81 - Split-Interest Agreements (cont.)

- If third party is intermediary
 - Government that is beneficiary would report
 - Asset at fair value
 - Deferred inflow of resources as soon as sufficient info is available to measure the value of the benefit
 - Guidance provides criteria on how and when to measure values
- Effective for periods beginning after December 15, 2016
 - For NC, fiscal years ending December 31, 2017 and later



Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73



GASB 82 - Pension Issues

- Key issues addressed
 - Presentation of payroll-related measures in required supplementary information
 - The selection of assumptions and the treatment of deviations from the guidance in Actuarial Standards of Practice for financial reporting purposes
 - The classification of payments made by employers to satisfy employee contribution requirements



SB 82 - Covered Payroll

- Statements No. 67 and 68 required covered payroll, defined as the total payroll of an employee covered by the pension plan, to be included in RSI
- Statement No. 82 redefines covered payroll as payroll on which contributions are based



GASB 82 - Assumptions

- Deviation, as defined by the Actuarial Standards of Practice, should *not* be considered as being in conformity with GASB Statement Nos. 67, 68, or 73
- Thus, it should not be used in the assumptions used in determining total pension liability and related measures



GASB 82 - Employer-Made Contributions

- Occasionally the employer makes contributions to satisfy contribution requirements that the plan defines as member contributions
- Such contributions should be reported as member contributions



GASB 82 – Effective Date

- Fiscal years beginning after June 15, 2016
- For NC, fiscal years ending June 30, 2017 and later
- Early implementation is encouraged



Current Major Projects

- Major Projects
 - Asset Retirement Obligations
 - Fiduciary Responsibilities
 - Financial Reporting Model
 - Leases
- Practice Issue – debt refundings



Asset Retirement Obligations

- Project addressing certain types of significant asset **retirements** such as nuclear power plants, coal-fired plants and sewerage treatment facilities
- Will not apply to:
 - Landfill closure/post-closure – addressed GASB Statement 18
 - Pollution remediation – GASB Statement 49
 - Obligations that arise solely from a plan to sell or otherwise dispose of a tangible capital asset
 - Obligations associated with the preparation of a tangible capital asset for an alternative use
 - Obligations for asbestos removal that result from the other than normal operation of a tangible capital asset
 - Obligations associated with maintenance, rather than retirement, of a tangible capital asset
 - The cost of a replacement part that is a component of a tangible capital asset
 - Conditional obligations to perform asset retirement activities



Asset Retirement Obligations (cont.)

- Project expected to address
 - Definition of an “retirement” in this context
 - General approach to recognition and measurement
 - Should such costs be capitalized?
 - Note disclosure requirements
- ED issued December 2015
- Final statement October 2016



Fiduciary Activities

A government that controls assets through one of the following four conditions:

- Assets resulting from a pass-through grant where the government does not have direct involvement
- Assets are administered through a trust arrangement where the government itself is not a beneficiary
- Assets used for the benefit of individuals that are not required to be residents or recipients of services
- Assets used for the benefit of organizations/other governments that are not part of the reporting entity



Basic Proposed Guidance

- Pension trust funds, private-purpose trust, and investment trust funds continue to be reported in the basic financial statements
 - All are evidenced by trust agreements
- Agency fund eliminated and replaced with a *custodial fund*
 - Fiduciary activities with no trust agreement
 - Resources held for short duration of time
 - Continue to also be reported in the basic financial statements



Fiduciary Responsibilities (cont.)

- Exposure Draft issued December 2015
- Comment period ended March 2016
- Final standard anticipated October 2016
- Implementation anticipated for fiscal years beginning after December 15, 2017, so fiscal year ends December 31, 2018 and after



Financial Reporting Model Review

- GASB 34 finalized in June 1999
- The GASB regularly reviews existing standards to examine effectiveness
- Pre-agenda research to identify how project has been implemented in practice
 - 11 roundtables
 - Surveys of preparers, auditors, and users
 - Review of audited financial reports
 - Literature research
 - 150+ interviews



Major Issues Anticipated

- MD&A – Explore options for enhancing analysis and suspending “boilerplate”
- Government-wide – Alternatives for format of Statement of Activities and consideration of a statement of cash flows
- Major funds – Options for more info about debt service funds
- Project added to agenda in September – implementation in 2020 – 21 most likely
- ***Expected to issue an Invitation to Comment Fourth Quarter 2016***



Major Issues (cont.)

- Governmental funds – revisit measurement focus and basis of accounting and statement presentations
- Proprietary funds – evaluate operating indicator options and other presentation issues
- Fiduciary funds – where do they belong?.
- Budgetary comparisons – appropriate location and level of detail?



Leases

- Primarily a re-examination on the accounting and financial reporting of operating leases
- Exposure draft issued in January 2016
- Financial standard anticipated November 2016
- Anticipated effective date fiscal years that begin *after* December 15, 2018, meaning fiscal year ends December 31, 2019 and later



Leases (cont.)

- Guidance would not change current accounting and financial reporting guidance for capital leases
- Most operating leases would now be accounted for in a similar way, creating an intangible asset and liability
 - Assuming cancellation is remote possibility
- Short-term leases (12 month max or less) would not be capitalized



Leases (cont.)

- A lease would be defined as a contract that conveys the right to use a nonfinancial asset for a period of time in an exchange or exchange-like transaction
- Fiscal funding clauses would not affect classification *unless* reasonable certainty that it will be invoked



Leases (cont.)

- *Lessee* would recognize a lease liability and lease asset at the beginning of a lease term at the present value of payments expected to be made for the lease term
- *Lessor* would recognize a lease receivable and a deferred inflow of resources

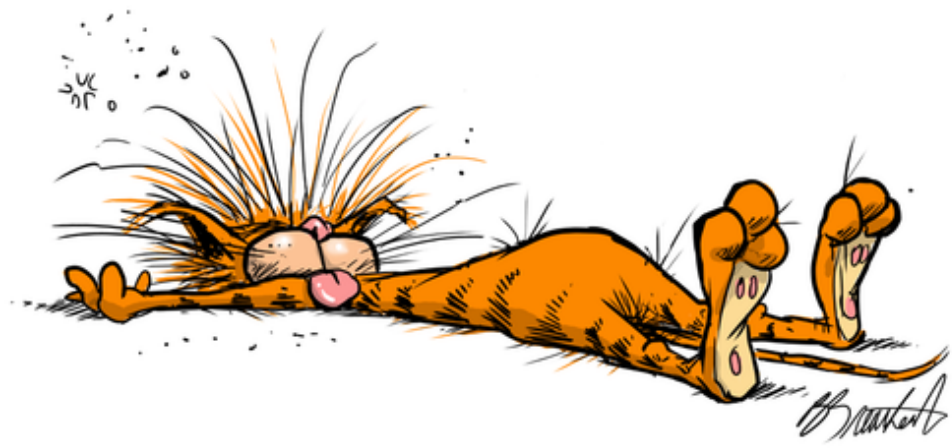


Practice Issues

- Debt Refundings
 - GASBS 7 and 23 provide guidance for current and advance refundings
 - GASB looking at revising guidance on refundings, particularly those using existing resources
 - Expect ED Third Quarter 2016 and final standard Second Quarter 2017



LGC UPDATE



PASSED OUT FROM LIFE



LCG ANNOUNCEMENTS

- Treasurer's Conference Friday September 30, 2016 in Greenville
- New Employees
 - David Erwin and Ann Cutler – COACH team to help units struggling with financial and internal control issues
- H1035 – Local government training
 - LGC developing in conjunction with NC Community College System a class for local government finance staff
 - Very basic, designed for staff in finance roles without proper background or training
 - Should help prepare staff to then go the SOG for further training
 - LGC can mandate as needed for units on watch list – not intended to be punitive



COLL 91 (INV-91) – Notification of Public Deposit

NEW COLL 91 report and related instructions on DST website. NEW submission process for the June 2016 COLL 91 report cycle.

- Prepare, sign and email directly to
 1. Department of State Treasurer **Banking operations (NEW email) - sbu.collateral@nctreasurer.com**
 2. Keep a copy for the Unit's records

Both the LGC-203 and the COLL 91 reports are required to be filed by all public depositors, except Charter Schools



INVESTMENT CONCERNS - CUSTODY AND SAFEKEEPING

- Custody is important in maintaining the physical safety of the securities.
- In a “book-entry” system there are no physical documents so investment securities must be held by custodians in Third Party safekeeping or trust accounts in the name of the Unit of Government.



INVESTMENT CONCERNS – CUSTODY AND SAFEKEEPING

- Issue: A signed contract/custodial safekeeping agreement directly between the unit of government and the custodian is not identifiable
- Best Practice – Signed custodial/safekeeping agreement exists specifically between the unit of government and the custodian



SAFEKEEPING DEPOSIT ACCOUNTS

Issue: A government's public funds being held in a temporary custodian deposit account or mutual fund for a period of time until they are wired to the Unit.

Matured funds or earnings are legally required to be wired directly into a statutorily allowable (§159-30 and/or §159-31) account in the name of the unit – no detours to a brokerage deposit account, not even temporarily.

- ✓ Units' Official Depository
- ✓ NC Cash Management Trust G.S. 159-30 (c)(8)

NCCMT is an allowable investment account

Not allowable: *Federated Government Obligation*
First American Treasury Obligation



INVESTMENT MATURITY CONCERNS

- Seeing units purchasing legally allowable investments but going out 10 to 15 years on maturity
- Same units do not have formal investment policies or if they do, policies don't limit amount that may be invested in one issuer
- Safety – liquidity – yield in that order!



Sparking Sustainability and Innovation in NC

- Successful conference in April, 2016
- Sustainability in its broadest sense
- Close to releasing conference paper summarizing the themes from the conference
 - Sustainability and Innovation Strategies
 - A North Carolina Snapshot
 - Financing Sustainable and Innovative Initiatives
 - Future of Sustainability for North Carolina Local Governments
- Next steps – gather input on how units with successful projects made them happen
 - If you have success stories please share with us
 - If you have questions about how to successfully implement a particular type of sustainable project please let us know
 - We want to act as a clearinghouse to match up units that have been successful with those that are wanting to move forward but need assistance



Sample Financial Statements

- City of Dogwood
 - Updated references to Uniform Grant Guidance instead of A-133
 - Updated cash and investment disclosures for implementation of GASB 72
 - Update RSI for early implementation of GASB 82
 - Updated pension disclosures and entries to reflect second year of implementation of GASB 68
 - Clarified note to preparer information on Analysis of Tax Levy
 - Added note regarding purchase of NCEMPA sale of assets to Duke Energy



Sample Financial Statements

- Carolina County Board of Education
 - Same as City of Dogwood – UGG references, GASB 82, GASB 72, and second year of pension and GASB 68
- 2016 versions of Cardinal Charter School and City of Dogwood Public Housing Authority also available
- Carolina County will be completed shortly
- Also will be posting this week a sample SFSFA



Common Reporting Deficiencies GASB 68

- No netting of deferrals
 - Can aggregate, must disaggregate in notes
- Cannot present an outflow as a negative inflow
- Net pension assets or liabilities can be aggregated but not netted with net pension liabilities or assets
- Sensitivity analysis is unique to each unit – cannot copy our example verbatim
- If pension is truly immaterial, remove all mention of it from report
 - Encourage you to consider including regardless



Common Reporting Deficiencies

- Financial opinion letter
 - Missing or incorrect budgetary references
 - Missing an opinion unit
 - Missing Yellow Book paragraph
 - Missing references to RSI as applicable
- MD&A
 - Materially different from financials
- Financial Statements
 - RSS calculated incorrectly
 - Statements don't tie
 - Using outdated terminology (deferred revenues, operating transfers)



Common Reporting Deficiencies

- Financial statements (continued):
 - Reporting a negative deferred inflow instead of a deferred outflow and vice versa
 - Netting deferrals
 - Misclassifying unearned revenues as deferred inflows at GW level
 - Net investments in capital assets calculation incorrect
 - Issues with budgetary presentations
 - Unbalanced
 - Incorrect budget numbers
 - Missing budgets
- Notes/RSI
 - Deficit component unit disclosures
 - Note should reflect full criteria for including
 - Note missing discussion of financial benefit/burden – financial accountability no longer enough by itself
 - Not enough detail on transfers and interfund borrowing
 - Need description and purpose
 - Not enough detail on long term debt



Common Reporting Deficiencies

- Notes/RSI (continued):
 - Revenue bond compliance with debt covenants
 - Missing
 - In violation but not included in statutory compliance note
 - LEOSSA presentation not consistent
 - PAYGO vs PTF
 - Motor vehicle tax collection rate significantly below 100%
 - RSI for Pension, OPEB not complete or not consistent with financial statement presentation and disclosures
- Supplemental Statements and Schedules
 - Budgetary statements must reflect legal level of control
 - Missing budgetary statements
- Miscellaneous
 - Not a PDF compliant file
 - Row and column titles not on all applicable pages
 - Missing pages, missing amounts
 - Debt issuance costs are now expensed and no longer amortized





Thank You!

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