Three New GASB Standards

By Stephen J. Gauthier

This article summarizes the key guidance to be found in the three new standards that GASB has issued so far this year.

So far this year, the Governmental Accounting Standards Board (GASB) has issued three new final statements: GASB Statement No. 80, *Blending Requirements for Certain Component Units*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, and GASB Statement No. 82, *Pension Issues*. This article summarizes the key guidance to be found in these three new standards.

BLENDING REQUIREMENTS FOR CERTAIN COMPONENT UNITS

GASB Statement No. 80 addresses a special issue raised by not-for-profit component units for which the primary government is the *sole corporate member* (that is, the only board member with the legal power to make corporate decisions). Such units logically ought to be blended rather than discretely presented, because they function for all practical purposes as part of the primary government. However, the existing criteria for blending are not broad enough to include them. GASB Statement No. 80 remedies this defect by adding an additional criterion that will henceforth allow such units to be blended.

GASB Statement No. 80 will not apply to component units that are included within the financial reporting entity pursuant to the criteria set forth in GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The new standard will first take effect for fiscal years ending June 30, 2017, with earlier implementation encouraged.

IRREVOCABLE SPLIT-INTEREST AGREEMENTS

GASB Statement No. 81 offers guidance for governments that benefit from *irrevocable split-interest agreements* (typically colleges, universities, and hospitals).

An irrevocable split interest agreement is an arrangement whereby a donor irreversibly places resources in trust for the benefit of two or more parties, one of which is typically the donor. For example, a wealthy retired couple who wish to help their alma mater might place their retirement investment portfolio into a special trust fund that is administered by an intermediary, with the couple entitled to regular payments for the rest of their lives and the university entitled to the balance of the portfolio upon the death of both spouses. The couple's right to receive payments during the term of the agreement is described as a lead interest; whereas the university's right to receive whatever resources are left over at the end of the agreement is described as a *remainder interest*. The *intermediary* that administers a split-interest trust can be either the government itself or a third-party

If the government is the intermediary, GASB Statement No. 81 directs that it recognize: 1) the donated resources received by the government (asset); 2) the portion of those resources that will be distributed to other beneficiaries (liability); and 3) the portion of the donated resources that will unconditionally benefit the government (deferred inflow of resources).

Most commonly, the government is the remainder interest beneficiary of the trust, in which case it would report a liability to the lead interest beneficiary. Conversely, if the government itself is the lead interest beneficiary, it would report a liability to the remainder interest beneficiary. Either way, the difference between the resources held in trust and the liability to outside parties would be reported as a deferred inflow of resources.

Sometimes governments receive a *life-interest in real estate*, meaning the donors retain the right to use the donated property for the rest of their lives. In that case, the donated asset would be classified as an investment or a capital asset at the time of donation. The government also would report a liability for any obligations assumed in connection with the donation (for example, insurance payments, maintenance, repairs), with the balance being reported as a deferred inflow of resources.

If the intermediary is a third party, rather than the government, the government should recognize an asset and a deferred inflow of resources as soon as it becomes aware of the agreement and has sufficient information to measure its beneficial interest.

The new standard will take effect starting with the fiscal year that ends December 31, 2017, with earlier application encouraged.

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PENSION ISSUES

GASB Statement No. 82 addresses three specific issues that have been raised in connection with the implementation of the GASB's recent pension standards.

Measure of Payroll. Required Supplementary Information (RSI) includes the net pension liability expressed as a percentage of payroll. The GASB's recent pension standards directed that *covered-employee payroll* be used for this purpose (that is, total remuneration paid to active employees covered by the plan, even if a portion of that amount is not relevant to the calculation of contributions), whereas employers and pension plans normally focus on *covered payroll* (that is, the portion of payroll on which contributions to the pension plan are based). GASB Statement No. 82 will replace the former (*covered-employee payroll*) by the latter (*covered payroll*).

Selection of Assumptions. The GASB's new pension standards rely upon actuarial standards of practice (ASOPs) issued by the Actuarial Standards Board to ensure the reasonableness of the assumptions used to calculate the total pension liability. GASB Statement No. 82 clarifies that a *deviation* from an ASOP in this regard would *not* be in compliance with the GASB's new pension standards.

Classification of Employer-Paid Member Contributions. Sometimes employers pick up all or a portion of *member contributions* as defined by the plan. GASB Statement No. 82 clarifies that employers should treat any employer-paid portion of member contributions as *employee contributions* and classify them like similar forms of compensation other than pensions (for example, fringe benefits). In the same way, pension plans should treat such amounts as *plan member contributions*.

Most of the guidance in GASB Statement No. 82 will first be required for the fiscal year that ends June 30, 2017, with earlier application encouraged.

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