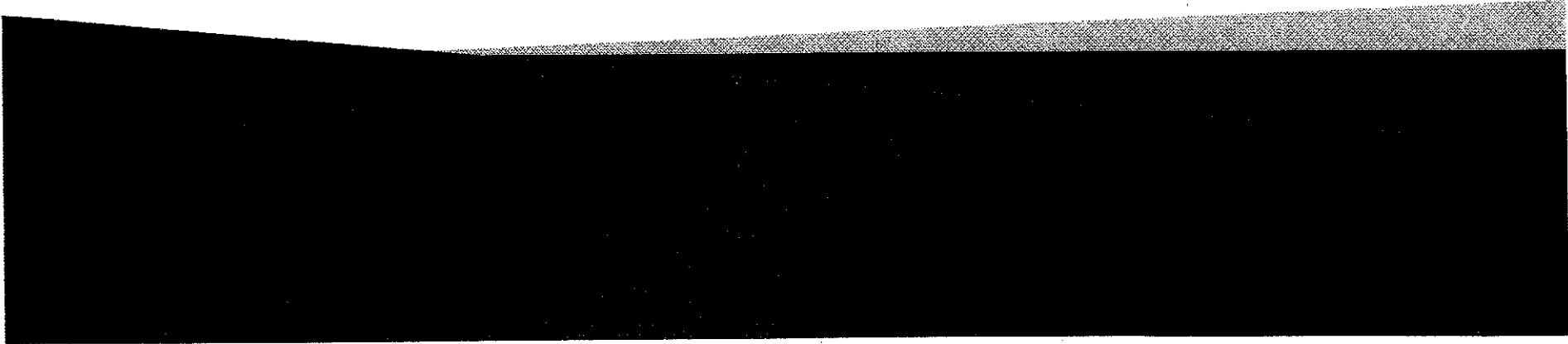


NAPAA- Finance and Accounting Conference

May 14 - 16, 2014



GASB UPDATE

ACCOUNTING FOR LEASES

REVISED OPEB STANDARD

Focus of the presentation today:

- Implementation dates
- Changes from current Practice
- Information needed to comply
- Financial statement presentation requirements
- Financial Statement Disclosure
- Impact at the Distributor Level
- New GASB projects

NAPAA – GASB UP-DATE PRESENTER

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FIRM QUALIFICATIONS AND EXPERIENCE TO UTILITY AUDITS

GENERAL

Dyer & Smith LLC, has a total of 5 personnel including 2 active partners, 1 full-time staff and two part-time administrative staff persons. The two partners have 70 years combined experience in public accounting, including 66 years of experience working with utility distributors, municipal and governmental entities.

We have experience with municipal and governmental agencies, non-profit organization audits, audits of manufacturing companies, automotive retail, credit unions, utility industry computer software conversion and transition, and other services.

Thomas T. Dyer – CPA, CGCA

Tom has conducted audits for 35 years and has conducted audits of Utility Distributors for 32 years. The scope of the work provided to these Utility Distributors includes Audits under all three levels of quality assurance: 1) Generally Accepted Auditing Standards – GAAS, 2) Generally Accepted Governmental Auditing Standards – GAGAS “Yellow Book,” 3) OMB Circular A-133 or “Single Audit.”

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FIRM QUALIFICATIONS AND EXPERIENCE TO PERFORM UTILITY AUDITS

AUDIT ASSURANCE AND CONSULTING SERVICES:

- 25 UTILITY CLIENTS – POWER, WATER, NATURAL GAS, SEWER IN NORTH ALABAMA AND CENTRAL TENNESSEE
- Bond covenant certifications,
- Evaluation of and compliance reporting on FEMA storm damage reimbursements,
- Assistance with utility industry software installation and conversion with the following utility software vendors: CSA – 1) Legacy, 2) CISNG, and 3) Orbit, SAP, NISC, LG, SEDC, ADS, American Software (Atlanta, Georgia) and, Custom in-house installations.
- Construction Work In Progress (CWIP) overhead rate analysis,
- SAS #70 end-use Billing compliance issues and implementation. 18 reports total related to TVA end-use billing compliance requirements.

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ADDITIONAL QUALIFICATIONS

Tom has been a guest speaker at utility industry conferences since 1985 as well as other trade associations and professional groups including the Alabama and Tennessee Societies of CPA's, The Tennessee Valley Public Power Association (TVPPA). TVPPA has retained our firm 3 times to make presentations to the entire membership at its annual Finance & Accounting Conference. TVPPA also hired us to present analyses and results of the SAS #70 – End-use Billing reporting process to the entire membership at a meeting in Florence in 2006.

Tom was a guest speaker, May 2010 – Huntsville, AL, at the North Alabama Public Power Association's annual meeting and made a presentation on business ethics in the utility industry.

Tom was asked to speak at NAPAA's conference in September 2013 regarding new accounting standards for Pension Plans.

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FIRM QUALIFICATIONS AND EXPERIENCE TO PERFORM UTILITY AUDITS

RECENT UTILITY INDUSTRY CONTINUING PROFESSIONAL EDUCATION

Through Michigan State University Institute of Public Utilities (The only one of its type)

- National Association of Regulatory Utility Commissioners (NARUC) Utility Rate School – Electric, Water and Natural Gas
- The Financial Effect of Energy Efficiency on Utilities – A Closer Look at Decoupling
- Electric Demand Forecasting

NAPAA – GASB UP-DATE

LEASE ACCOUNTING

BACKGROUND

- This project began in 2011
- Project was heavily influenced by International Accounting Standards Board
- Focus is to consider whether operating leases meet the definition of assets or liabilities and financing transactions
- Results will modify GASB #62

TIME LINE

- Draft of Standard – December 2014
- Final Standard Issue – November 2015
- Implementation Date – FYE June 15, 2016 and after

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LEASE ACCOUNTING

CONCEPT

- Utilities routinely enter into leases
- Under current authoritative literature, many of these leases are reported as operating leases
- Even though operating leases may represent long-term commitments to make payments, no liabilities are reported
- Similarly, no assets are reported when governments have long-term rights to receive operating lease payments.

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LEASE ACCOUNTING

EXCLUSIONS:

The following types of activities are not part of the Lease Accounting Project:

- Any agreement with maximum possible term of 12 months, including renewal options, shall be excluded.
- Service agreements that do not transfer the right to use a capital asset – software support
- Leases to explore for or use coal, natural gas, and similar non-regenerative resources
- Licensing agreements – patents, copyrights

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LEASE ACCOUNTING

EXCLUSIONS – Continued:

- Service Concession Agreements – Arrangement between a government, utility, and private sector partner to construct and transfer an asset and related public service to a private sector partner.
 - a. toll road or bridge
 - b. golf course
 - c. sports and events stadium / facilities
 - d. outdoor lighting

- Biological assets – timber

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LEASE ACCOUNTING

Primary Definitions:

- Term: The GASB Board has decided that operating leases with a term of 12 months or longer meet the definition of assets and liabilities.
- Measurement Focus: Present Value of Future Payments
- Fixed Payments
- Purchase Options
- Renewal Options

Definitions Under Consideration Without Conclusions

- Variable payments based on rate, index or performance. Lots of discussion, no final definitions.
- Residual Value – At this time, the Board has not presented recommendations regarding residual value

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

BACKGROUND

- Release of standards impacted recent Bankruptcy filing in Detroit, Michigan – \$5 billion in pension related liabilities and \$6 billion in Other Post Employment Benefit (OPEB) liabilities
- Release of standards impacted recent bond rating downgrade in Chicago, Illinois "OPEB and Pension Liability Crisis."
- Widespread criticism that measurement standards were too broad. Same preamble for GASB 67 & 68

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

HEALTH CARE COST DYNAMICS

- A survey in 2010 found that the average family health insurance premium is more than the typical minimum wage earner makes in a year.
- At Starbucks Coffee, health care costs are greater than the cost of the coffee beans.
- At General Motors, health care costs are greater than the cost of the steel.

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

AGING POPULATION

- Fastest growing percentage of the population in the next 40 years – those over age 80
- Highest health group cost groups on an individual basis:
 - a. Over 65 – 3 times the cost of under 65
 - b. Over 80 – 9 times the cost of under 65

WHO CURRENTLY PROVIDES RETIREEE HEALTH BENEFITS?

- LARGE PRIVATE SECTOR – APPROX 30%
- SMALL PRIVATE SECTOR – APPROX 5%
- STATE GOVERNMENTS – APPROX 75%
- LOCAL GOVERNMENTS – APPROX 60%

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

MODIFIES GASB #43 AND GASB #45

TIME LINE

- Added to GASB agenda in April 2011
- January 2014 – Preliminary draft
- April through July 2014 – Public comment period
- June 2015 – Final Statement issued

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

CONCEPT

- Develop and apply a common framework and to improve accounting and transparency for all post employment benefits including both pensions and OPEB.
- Therefore, many of the concepts promulgated under GASB Pension standards #67 & #68 carryover.
- Alternative accounting treatment for small governments under old GASB 43 & 45 are available with some modifications

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

KEY CONCEPTS WITHIN THE NEW STANDARD

- Post-employment / Retiree healthcare benefits
- Life insurance if provided separately from a defined pension plan
- Blended premium rates are not permitted, either for the entire population or stratified within the population
- Unless retirees pay 100% of true cost for medical benefits, employer is considered to be subsidizing and therefore employer must fall under the new standard.
- OPEB costs will be expensed / amortized systematically over each employees' years of service.

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

FINACIAL REPORTING PROVIDES RELEVANT INFORMATION ABOUT:

- Actuarial accrued liabilities for promised benefits associated with past service.
- The annual cost of OPEB – and its effect on the total cost of utility services.
- Progress made in funding the plan.

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

ANNUAL OPEB COST (EXPENSE)

Annual OPEB Expense Equals:

- Annual required contribution (ARC), plus
- Interest on net OPEB obligation, plus
- Effect of the Affordable Care Act, including excise tax on employer provided health insurance that are determined to be an excess benefit under the ACT, and therefore, an excise tax, or other assessment on providing the benefits in the projection of measurement of net OPEB liability, less
- Any adjustments to ARC, that is any adjustments to scope of post employment benefits provided.

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

NET OPEB OBLIGATION (BALANCE SHEET)

NET OPEB OBLIGATION EQUALS:

- Accumulated / calculated OPEB cost, less
- Employer contributions

EMPLOYER CONTRIBUTIONS / PLAN ASSETS

- Must be irrevocably held in a Qualified Trust
- Dedicated to providing benefits to retirees and beneficiaries
- Legally protected from creditors of the employer or the plan administrator
- Earmarking employer funds, in acct 125 or 128 will not qualify under the standard

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

ASSET FUNDING DEFINITIONS

- Advance Funding – "Consistently" contributes the ARC – money contributed to the Qualified Plan to pay future benefits
- Unfunded – Retiree paid out of pocket as they are due
- Partially Funded – Combination of the two

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

CONCEPTS REQUIRED TO CALCULATE OPEB – (SAME as GASB 67 & 68)

- Project costs based on current plan
- All changes made and communicated at the time of the actuarial valuation
- Anticipated future changes should not be included
- Active employees should be stratified as a group
- Retirees should be stratified as a group
- "Implicit rate subsidy" – difference between actual cost of providing benefit and blended premium rates
- Discount rate for determining present value of Funded Plans – (DEFAULT) a yield or index rate for 20 year tax exempt GO municipal bonds with a rating of at least AA/Aa or higher.

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

CONCEPTS REQUIRED TO CALCULATE OPEB – Continued

- Discount Rate for Unfunded / PAY AS YOU GO –
lower but not defined – so estimated and disclosed

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

NOTE DISCLOSURE AND REQUIRED SUPPLE. INFORMATION – Same concepts as presented in GASB 67 & 68

- Accrued Actuarial Liability – AAL
- Actuarial Value of Plan Assets
- Unfunded AAL – UAAL
- Funded Ration
- Ratio of UAAL to covered payroll
- Date of Actuarial Valuation
- All assumptions used
- Related Notes
- Ten (10) year presentation

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

COST SHARING – MULTIPLE EMPLOYERS – SAME CONCEPTS AS IN GASB 67 & 68

- Pooled Plans are permitted
- Assets must be in a Qualified Trust
- Contributions are irrevocable
- Assets dedicated to paying OPEB benefits
- Assets are protected from creditors

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

SMALL GOVERNMENTS – SMALL PLANS

- Plans with 100 or less active eligible employees
- Provisions of GASB #45 Carryover
- Alternative measurement permitted – GASB #45
- Discount rate will be as provided in new standard
- 10 year Disclosure required.

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

EFFECT OF PATIENT PROTECTION AND AFFORDABLE CARE ACT (ACA)

- 2018 cost thresholds will be adjusted by actuaries to reflect the additional impact of the trend from current to 2018 compared to a limit on cost increases for a benchmark plan included in the ACA
- Actuaries will tend to increase CPA after 2018
- Excise tax for "Cadillac" / high cost plans will be grossed up after 2018 using a 35% tax rate
- Actuaries will include extended costs for children, 100% of preventative care, eliminations of lifetime maximums, elimination of limits on essential healthcare
- Projected that claims trends from beginning of ACA to 2018 will have huge impact on net OPEB liability.

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OTHER POST EMPLOYMENT BENEFITS (OPEB)

Financing / Cost Recovery of Additional OPEB

- The utility is in a regulated environment. A third party approves your rates.
- Next generation of employees might be under a different post retirement package

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GASB UPDATE

GASB PROJECTS UNDER CONSIDERATION:

- GASB #68 IMPLEMENTATION GUIDE – Last meeting was in January 2014 – Ongoing.

- GAAP HIERARCHY – Last meeting was in January 2014 – GASB addressed this topic, This is revision , ongoing, June 2015 is target date.
 1. GASB is authoritative
 2. FASB is non-authoritative
 3. Comprehensive Implementation Guide (CIG)