

University of California
Governmental Accounting Standards Board (GASB) Statement No. 85,
Omnibus 2017



Issues Resolution Memo No. 85-1

Issued: March 2017

BACKGROUND

GASB Statement No. 85, *Omnibus 2017*, is effective for the University's fiscal year beginning July 1, 2017. This Statement addresses issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

DEFINE ISSUES

The University must determine whether GASB Statement No. 85 (GASB 85) changes any existing financial reporting and disclosure requirements for any of the University's financial reporting entities.

AUTHORITATIVE GUIDANCE AND ANALYSIS

Specifically, this Statement addresses the following topics:

BLENDING COMPONENT UNITS

Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation

GASB 85 Clarification: Under above circumstance, a component unit may be blended only if the component unit meets a criterion for blending in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended.

Per paragraph 53 of Statement No. 14;

53. A component unit should be included in the reporting entity financial statements using the blending method in either of these circumstances:

- a. The component unit's governing body is substantively the same as the governing body of the primary government.
- b. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. The essence of this type of



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arrangement is much the same as an internal service fund—the goods or services are provided to the government itself rather than to the citizenry. Usually the services provided by a blended component unit are financing services provided solely to the primary government. For example, a building authority may be created to finance the construction of office buildings for the primary government. However, a component unit that provides services to more than just the primary government should also be blended if the services provided to others are insignificant to the overall activities of the component unit. Other component units that should be blended are those that exclusively, or almost exclusively, benefit the primary government by providing services indirectly. For example, a component unit established by a primary government to administer its employee benefit programs exclusively benefits the primary government even though it provides services to the employees rather than directly to the primary government itself.

Analysis: This is applicable since the University is a business-type activity reporter. A component unit should be included in the reporting entity financial statements using the blended method in any of the circumstances described in Codification 2600.113. Clarification provided in GASB 85 is consistent with the University's interpretation of blending component units as described in the GASB 14 – Reporting Entity Checklist.

GOODWILL

Reporting amounts previously reported as goodwill and “negative” goodwill

GASB 85 Clarification: For acquisitions that occurred prior to the effective date of Statement No. 69, *Government Combinations and Disposals of Government Operations*, (a) paragraph 39 of Statement 69 should be applied for circumstances in which consideration provided exceeded the net position acquired and (b) “negative” goodwill should not be reported.

Analysis: Clarification provided in GASB 85 is consistent with UC interpretation of goodwill. No impact on reporting since the University does not report any goodwill.

FAIR VALUE MEASUREMENT AND APPLICATION

Classifying real estate held by insurance entities

GASB 85 Clarification: Real estate held by insurance entities should be classified either as an investment or as a capital asset, based on the definition of an investment in Statement 72.



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Analysis: As of the implementation of the standard, Fiat Lux Risk and & Insurance Company, a wholly owned blended component insurance entity by the University, held no real estate. Therefore, this clarification is not applicable for the University.

Measuring certain money market investments and participating interest earning investment contracts at amortized cost

GASB 85 Clarification: For money market investments and participating interest-earning investment contracts described in paragraph 69c of Statement 72, measurement should be at amortized cost to the extent permitted by paragraph 9 of Statement 31.

Analysis: Clarification provided in GASB 85 is consistent with the University's interpretation that only certain money market investments and participating interest-earning investment contracts may be measured at amortized cost, provided that the fair value of those investments are not significantly affected by the impairment of the credit standing of the issuer or other factors. The University's policy is to measure and record investments at fair value. Cash and cash equivalents are not measured at fair value (including amortized cost) and are not subject to the fair value disclosure requirements. Therefore, this clarification is not applicable for the University.

POST EMPLOYMENT BENEFITS

Timing of the measurement of pension or Other Post Employment Benefit (OPEB) liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus

GASB 85 Clarification: In financial statements prepared using the current financial resources measurement focus, liabilities to employees for defined benefit pensions or defined benefit OPEB should be measured as of the end of the reporting period. All expenditures for defined benefit pensions or defined benefit OPEB (including (a) amounts for payables to a pension or OPEB plan and (b) amounts for costs incurred by the employer related to the administration of defined benefit pensions or defined benefit OPEB provided through a pension or OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 of Statement 73 or paragraph 4 of Statement 75, respectively) should be measured for the reporting period.

Analysis: The University's follows accounting principles issued by the GASB and uses the economic resources measurement focus and the accrual basis of accounting. Therefore, this clarification is not applicable for the University.



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Recognizing on-behalf payments for pensions or OPEB in employer financial statements

GASB 85 Clarification: In financial statements prepared using the current financial resources measurement focus, an employer should recognize expenditures for on-behalf payments for pensions or OPEB equal to the total of (a) amounts paid during the reporting period by nonemployer contributing entities to the pension or OPEB plan (or for benefits as they come due) and (b) the change between the nonemployer contributing entities' beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Both (a) and (b) include amounts for payables to a pension or OPEB plan. With the exception of the circumstances noted in the paragraph below, an employer should recognize revenue equal to the amount of expenditures.

For on-behalf payments that are not legally required to be made by a nonemployer contributing entity for defined contribution pension or defined contribution OPEB, an employer should apply the revenue recognition requirements of paragraph 8 of Statement 24.

Analysis: The University's follows accounting principles issued by the GASB and uses the economic resources measurement focus and the accrual basis of accounting. Therefore, this clarification is not applicable for the University.

Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB

GASB 85 Clarification: For single-employer OPEB plans and cost-sharing OPEB plans, covered payroll should be the measure of payroll presented in schedules of required supplementary information. Covered payroll (per paragraph 36, Statement 74) is the payroll on which contributions to the OPEB plan are based. If contributions to the OPEB plan are not based on a measure of pay, no measure of payroll should be presented.

For employers that provide OPEB through OPEB plans that are administered through trusts that meet the criteria in paragraph 4 of Statement 75, the measure of payroll presented in the schedules of required supplementary information (paragraphs 57 and 97 of Statement 75) should be one of the following, as applicable:

- a. Covered payroll, if contributions to OPEB plan are based on a measure of pay
- b. Covered-employee payroll, if contributions to the OPEB plan are not based on a measure of pay (see paragraph 246 of Statement 75)

Analysis: The University provides OPEB / retiree health benefits to retired employees and their eligible family members. The University established the University of California Retiree Health



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Benefits Trust (UCRHBT) to allow certain University locations and affiliates to share the risks, rewards and costs for providing retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from the University's assets. Employer contributions to UCRHBT are based on a rate assessed using covered payroll. The disclosures in the University's and Medical Centers' required supplementary information currently reflect covered payroll. Therefore, there is no change required in reporting required as a result of this clarification.

Classifying employer-paid member contributions for OPEB

GASB 85 Clarification: In some circumstances, payments are made by the employer to satisfy contribution requirements that are identified by the OPEB plan terms as plan member contribution requirements. For purposes of applying Statement 74, those amounts should be classified as plan member contributions. For purposes of applying Statement 75, including for purposes of determining a cost-sharing employer's proportion, those amounts should be classified as employee contributions. An employer's expense and expenditures for those amounts should be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than OPEB (for example, as salaries and wages or as fringe benefits).

Analysis: Clarification provided in GASB 85 is consistent with the University's interpretation. Therefore, there is no change required in reporting required as a result of this clarification.

Simplifying certain aspects of the alternative measurement method for OPEB

GASB 85 Clarification: The following specific modifications may be incorporated into application of the alternative measurement method in accordance with paragraph 56 of Statement 74 or paragraph 225 of Statement 75:

- a. Expected point in time at which plan members (employees) will exit from active service. The assumption should reflect past experience and future expectations for the covered group. For active plan members (employees) covered under the terms of the OPEB plan, the assumption may incorporate (1) a single assumed age at which plan members (employees) will exit from active service or (2) an assumption that plan members (employees) will exit from active service upon attaining a certain number of years of service.
- b. Turnover. The requirement of paragraphs 56e, 57a or 57b, as applicable, of Statement 74 or paragraphs 225e, 226a or 226b, as applicable, of Statement 75 may be applied to determine the assumed probability that an active plan member will remain employed until the assumed



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age at which the plan member will meet employment related eligibility requirements to receive benefits.

If the alternative measurement method is used, the following should be recognized in the current reporting period;

- a. The change in proportion described in paragraphs 64, 102, 121, 178, 196 or 208 of Statement 75, if applicable.
- b. The difference between (1) contributions during the measurement period and (2) the proportionate share of contributions, described in paragraphs 65, 103, 122, 179, 197 or 209 of Statement 75, if applicable.

Analysis: The actuarial cost method used to describe the total OPEB liability is the entry age normal method as prescribed by Statement 75. This method is in the family of future benefit cost methods, which requires an estimate of the projected benefit payable at retirement to determine costs and liabilities. Per paragraph 55 of Statement 75, "In place of an actuarial valuation, the total OPEB liability may be measured using the alternative measure if there are fewer than 100 plan members (active and inactive) as of the beginning of the OPEB plan's fiscal year." Therefore, this clarification is not applicable for the University.

Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

GASB 85 Clarification: Paragraphs 19-25 of GASB 85 address defined benefit OPEB provided through a cost-sharing OPEB plan that meets the criteria in paragraph 4 of Statement 75 and that (a) is not a state or local governmental OPEB plan, (b) is used to provide defined benefit OPEB both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer. Paragraphs 20-25 of GASB 85 apply to the financial statements of state and local governmental employers whose employees are provided with defined benefit OPEB through cost-sharing OPEB plans that have the characteristics just described.

Analysis: No impact on the financial statements. While there was a multiple-employer defined benefit pension plan identified under Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* (Children's Hospital and Research Center at Oakland participates in IUOE Stationary Engineers Local 39 Pension Plan, a multiemployer pension plan managed by the Stationary Engineers Local 39 Pension Trust Fund), there was no multiple-employer defined benefit OPEB plans identified for the University (including the medical centers).



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CONCLUSION:

Implementation of GASB Statement No. 85 has no impact to the University's (including its Medical Centers') financial statements. The University will continue to assess future impacts to the financial statements.