



# North Carolina Office of the State Controller

## Financial Reporting Update

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### GASB 85 Effective for FY 2018

January 16, 2018

In March 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 85, *Omnibus 2017* (GASB 85). The objective of this Statement is to enhance consistency in the application of accounting and financial reporting requirements by providing technical clarification of issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Although every entity should review the standard to evaluate its impact, we anticipate that GASB 85 will have a limited impact on state agencies, universities, community colleges, and other component units of the state.

The topics addressed by GASB 85 include:

- **Blending Component Units.** Some business-type activities (BTAs) that report in a single column misinterpreted previous guidance as permission to blend any component unit. This Statement clarifies that a primary government that is a BTA can only blend a component unit that meets one of the blending criteria in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* and GASB Statement No. 80, *Blending Requirements for Certain Component Units*.
- **Goodwill.** Prior to the fiscal year 2015 implementation of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69), entities reported goodwill (note that this amount is now technically referred to as 'excess consideration paid in an acquisition') as an asset. Based on the requirements of GASB 69, entities now report positive goodwill as a deferred outflow of resources and negative goodwill as a reduction in the values assigned to certain noncurrent assets acquired. However, because GASB 69 was implemented prospectively, entities were confused about how to report goodwill resulting from acquisitions prior to the Statement's effective date. For such amounts, GASB 85 clarifies that entities should reclassify positive goodwill as a deferred outflow of resources and should no longer report negative goodwill. Consequently, entities currently reporting negative goodwill should restate beginning net position in fiscal year 2018.
- **Fair Value Measurement and Application.** This Statement requires insurance entities to classify each unit of account of real estate as either an investment or a capital asset based on the definition of an investment contained in GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). This Statement also clarifies that GASB 72 permits, but does not require, the use of amortized cost for certain money market investments and participating interest-earning investment contracts described in paragraph 69(c) of GASB 72.



- Postemployment Benefits. This Statement includes several provisions related to pensions and other postemployment benefits (OPEB).
  - Employers that provide OPEB through OPEB plans administered through a qualifying trust should present one of the following measures of payroll in required supplementary information (RSI), as applicable:
    - Covered-employee payroll, if contributions to the OPEB plan are not based on a measure of pay, or
    - Covered payroll, if contributions to the OPEB plan are based on a measure of pay. Covered payroll is defined as the payroll on which contributions to the OPEB plan are based. Because contributions to both the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina are based on a measure of pay, employers participating in these OPEB plans should use covered payroll as the measure of payroll for these plans in their RSI.
  - Employers that provide pensions or OPEB through plans that are not administered through qualifying trusts, such as the Special Separation Allowance, should continue to use covered-employee payroll as the measure of payroll for such plans in their RSI.
  - This Statement addresses the recognition of on-behalf payments for pensions or OPEB in employer financial statements, the classification of employer-paid member contributions for OPEB, and various other provisions related to postemployment benefits.

GASB 85 is effective for the fiscal year ending June 30, 2018. The provisions of GASB 85 need not be applied to immaterial items.

To gain additional understanding of GASB 85, please refer to the following resource:

- The GASB webpage from which you can access a PDF file of GASB 85 as well as other GASB pronouncements – [GASB Pronouncements](#)

Thank you for your time and attention to this important change. OSC will continue to provide updates as the standard is implemented. Questions regarding this specific update should be directed to Megan Wallace at (919) 707-0590 or [megan.wallace@osc.nc.gov](mailto:megan.wallace@osc.nc.gov).