GOALS FOR TODAY

1. Recently issued pronouncements
2. Projects in process
3. How to stay informed
## Recently Issued Pronouncements

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GASB STATEMENT 81 – IRREVOCABLE SPLIT-INTEREST AGREEMENTS

- Irrevocable split-interest agreement
  - Donor enters into trust or other legally enforceable agreement
  - Donor transfers resources to intermediary to administer
  - At least two beneficiaries, one of which could be a government
  - Donor has not reserved or conferred right to terminate agreement at will

- Examples: charitable lead trusts, charitable remainder trusts, life interests in real estate
  - Lead interest – right to receive benefits during term of split-interest agreement
  - Remainder interest – right to receive benefits from resources remaining after end of split-interest agreement

- Does not include beneficial interests in perpetual trusts
- Effective for periods beginning after December 15, 2016
Government has remainder interest
- Assets for resources received
- Liability for lead interest to other beneficiaries
- Deferred inflow for remainder, recognized at termination of agreement

Government has lead interest
- Assets for resources received
- Deferred inflow for lead interest, recognized as benefits are received

Liability for remainder interest to other beneficiaries
THIRD PARTY IS INTERMEDIARY

- Beneficial interest asset & deferred inflow when government becomes aware of agreement & it meets certain criteria
  - Government is named in legal document underlying donation
  - Donation is irrevocable
  - Donor has not granted variance power to intermediary
  - Donor does not control intermediary
  - Agreement establishes legally enforceable right for government’s benefit

- Measure at fair value initially & remeasure at fair value at each reporting date
GASB STATEMENTS 74 (PLANS) & 75 (EMPLOYERS) – OTHER POST-EMPLOYMENT BENEFITS

- Companion statements that update accounting for OPEBs by plans & employers
- Very similar to GASB 67 & 68
  - Net unfunded liability recognized
  - Deferred inflows & outflows
  - Assumptions & discount rates
- GASB 74 effective for periods beginning after June 15, 2016
  - Implementation Guide 2017-2 for GASB 74 issued April 2017
- GASB 74 effective for periods beginning after June 15, 2017
GASB 74 – OPEB PLAN REPORTING

Applies to standalone reports & OPEB trust funds reported by other governments

Statements of fiduciary net position & changes in fiduciary net position

Significant notes & RSI

Unfunded liability is disclosure only
GASB 74 & 75 – UNFUNDED LIABILITY

Actuarial valuation

- Plan – as of (or rolled forward to) **fiscal year-end**
  - Must be performed within 24 months of plan’s year-end

- Employer – as of (or rolled forward to) **measurement date** between end of prior fiscal year & end of current fiscal year
  - Must be performed within 30 months plus one day of employer’s year-end
GASB 74 & 75 – UNFUNDED LIABILITY

If not already as of measurement date, actuarial valuation must be rolled forward to measurement date.

Employer Standard
Measurement of net OPEB liability in employer’s financial statements must be as of a date no earlier than end of employer’s prior fiscal year.
Measurement must be based on an actuarial valuation performed within 30 months plus one day of employer’s year-end. If actuarial valuation not performed as of measurement date, update procedures must be performed to roll forward amounts to measurement date.

Plan Standard
Measurement of net OPEB liability in plan’s notes to financial statements must be as of plan’s fiscal year-end.
Measurement must be based on an actuarial valuation performed with 24 months of plan’s year-end. If actuarial valuation not performed as of measurement date, update procedures must be performed to roll forward amounts to measurement date.
GASB 74 & 75 – UNFUNDED LIABILITY

Discount rate
- Long-term expected rate of return on plan investments &
- 20-year index rate for tax-exempt General Obligation bonds if investments not expected to be sufficient

Alternative, simplified measurement method allowed if fewer than 100 plan members
Defined benefit plans administered through trusts
- Recognize net OPEB liability
- Proportionate share of cost-sharing plans
- Deferred inflows & outflows
- Note disclosures & RSI

Defined benefit plans not administered through trusts
- Recognize total OPEB liability
- Any assets set aside recognized separately
- Note disclosures & RSI

Defined contribution
- Provisions for recognizing OPEB expense

Note disclosures
Similar to pensions
- Initial journal entry will require an entry to reverse previously recorded OPEB obligation & record beginning measurement date net or total OPEB liability with resulting restatement of beginning net position

Unlike pensions that always have contributions as starting point, OPEB will not be so uniform
- Turnkey trust that collects, invests & pays benefits-employer contributions to the trust
- Reimbursement Trusts
  - Self-Insured-actual OPEB payments including retiree claims, stop loss & administrative expense less retiree premium contributions & employer contributions to trust
  - Insured-premiums paid for retirees less retiree premium contributions plus implicit subsidy portion of active premiums & employer contributions to the trust

Non-Trusts
- Same as Reimbursement Trust but no employer contributions
GASB STATEMENT 86 – CERTAIN DEBT EXTINGUISHMENT ISSUES

- GASB 7, Advance Refundings in Defeasance of Debt
  - Applied when refunding debt proceeds are placed in trust to be used solely for satisfying scheduled payments of principal & interest of defeased debt

- GASB 86
  - Same requirements when government places cash or other monetary assets from **existing resources** in irrevocable trust to extinguish the debt
  - Defeased debt & related assets placed in trust to repay debt are no longer reported on face of the financials

“Whether you borrow the money to extinguish the debt or use cash you already have, the treatment ought to be the same because the economic substance of the transaction is the same,” said GASB Chair David A. Vaudt. “From a government’s perspective, the source of the money that is being used to refund debt should not matter as long as the requirements for in-substance defeasance are met.”
Economic resources measurement focus – recognize difference between reacquisition price & net carrying amount of debt defeased in substance as gain of loss in period of defeasance

Prepaid insurance related to extinguished debt
- Any remaining should be included in net carrying amount of that debt for purpose of calculating difference between reacquisition price & net carrying amount

New disclosure required if a government is not prohibited from substituting escrowed trust investments with non-risk free assets
- Separately disclose aggregate amount of defeased debt covered by substitutable investments

Effective for periods beginning after June 15, 2017
GASB STATEMENT 83 – CERTAIN ASSET RETIREMENT OBLIGATIONS

- Legally enforceable liability associated with retirement of tangible capital asset

- Examples
  - Decommissioning of nuclear power plant
  - Disposal of radioactive material from retired X-ray machine
  - Restoration of land by removing wind turbines

- Does not include
  - Obligations for maintenance
  - Obligations that result from other-than-normal operation
  - Preparation for alternative use
  - Landfill & pollution remediation

- Effective for periods beginning after June 15, 2018
Both external & internal obligating events must occur
- External – laws passed, contract signed, court judgment
- Internal – placing asset into service, contamination around asset

Liability & deferred outflow of resources
- Current value of all outlays expected to be incurred – best estimate
- Annual re-measurement for inflation
- Revalue outlays only if indication of significant change
- Deferred outflow recognized over life of capital asset

Special provisions for minority ownership when majority owned by nongovernmental entity
Both external & internal obligating events must occur
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Special provisions for minority ownership when majority owned by nongovernmental entity
GASB 84 – FIDUCIARY ACTIVITIES

- Improve guidance on identification of fiduciary activities & how those should be reported
- Report fiduciary funds
  - Assets controlled by government & for benefit of recipient which government does not have administrative control over and/or is not part of financial reporting entity
  - Trust funds
  - Custodial funds
- Fiduciary fund financial statements
- Effective for periods beginning after December 15, 2018
Address practice issues in multiple pronouncements

- Blending component units
  - Single-column business-type activities
- Legacy goodwill
  - Reclassify existing goodwill as deferred outflows
  - Existing negative goodwill included as part of restatement of beginning net position
Measuring certain investments at amortized cost
OPEB issues
- Timing of measurement using current financial resources measurement focus based on reporting period (rather than measurement period)
- Recognition of on-behalf payments in employer financial statements

Effective for periods beginning after June 15, 2017
Earlier application allowed by topic
IMPLEMENTATION GUIDE 2017-1

- Annual update
- Most items relate to pensions
- Other topics include
  - Blending LLC component units
  - External investment pools
  - Tax abatement disclosures
- Effective for periods beginning after June 15, 2017
Current – operating or capital leases
- GASB 87 eliminates operating lease category

Overall, leases will be treated comparable to current capital lease
- Lessee will recognize lease liability & intangible right-to-use asset
  - Asset is reported as capital asset
- Rent expense replaced with interest & amortization expense
  - Interest recognized on lease liability & amortization on intangible lease asset over lease term (or underlying asset useful life, if shorter)
GASB 87 – LEASES

- Lessor will recognize lease receivable & deferred inflow at lease inception
  - Lease revenue recognized over lease term with corresponding reduction in deferred inflow
  - Interest income on lease receivable recognized using effective interest method

- Lessees & lessors need to disaggregate non-lease components (i.e. service components) & contracts with multiple lease components
GASB 87 – LEASES

Scope exceptions

- Short term leases – defined as leases with maximum possible term of 12 months or less, including options to extend
- Leases of inventory or other financed purchases where ownership is transferred
- Supply contracts such as power purchase agreements that convey access to assets’ outputs, rather than control of right to use underlying asset
- Leases of investment assets & certain regulated leases
- Biological assets (timber, living plants & living animals)
GASB 87 – LEASES

- Other topics covered by GASB 87
  - Sale-leasebacks
  - Subleases
  - Lease-leasebacks
  - Lease incentives
  - Lease modifications & terminations
  - Contract combinations
  - Lease term

- Effective for periods beginning after December 15, 2019
PROJECTS IN PROCESS

Conduit Debt

- Interpretation 2 in effect for 20 years
- Exposure draft expected in July 2018
- Topics being considered
  - Definition of conduit debt obligation
  - When should conduit debt obligation be reported as a liability by government issuer, if ever?
  - Government-issuer disclosures
PROJECTS IN PROCESS

Financial Reporting Model

- Review of Statements 34, 35, 37, 41 & 46
  - Deemed effective but could be significantly improved
- Plan to issue Preliminary Views in September 2018
- Topics being considered
  - Governmental Funds financial statements
  - Separate presentation of operating & nonoperating revenues & expenses in proprietary & BTA financial statements
  - Presentation of budgetary comparisons
  - MD&A
PROJECTS IN PROCESS

Revenue & Expense Recognition

- Objective to develop a comprehensive model for classification, recognition & measurement of revenues & expenses
- Invitation to Comment period will end 2018
- Topics being considered
  - Exchange/nonexchange model
  - Performance obligation model
HOW TO STAY INFORMED

- GASB Website
- BKD Thoughtware®
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Questions?

Jim Creeden // Partner
jcreeden@bkd.com
513.562.5540

Mike Behme // Director
mbehme@bkd.com
513.562.5550

Jessica Haag // Director
jhaag@bkd.com
513.562.5538
Thank You!