GASB Update

Washington Finance Management Advisory Council Conference
September 17, 2013—Olympia, Washington

The views expressed in this presentation are those of Ms. Parker. Official positions of the GASB on accounting matters are determined only after extensive due process and deliberation.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

GASB Website

www.gasb.org

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Download and respond to draft standards and discussion documents that are available for public comment. More
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Technical information to assist in understanding and applying GASB standards. More...
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Organizational information about the GASB including its mission, history, processes, and Board membership. More
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Website Resources

Meeting the needs of constituents is one of the GASB's key goals. In support of this goal, the GASB makes a variety of resources available through its website, www.gasb.org, including up-to-date information and resources addressing:

- Current projects
- Recent proposals and final pronouncements
- Free copies of proposals and final pronouncements
- Educational resources
- Resources for users.

Plain-Language Materials

- The GASB is committed to communicating in plain language with constituents about its standards and standards-setting activities.
- Key major proposals may be accompanied by a supplement that explains the document using a minimum of technical language.
- Plain-language articles typically accompany major proposals and final Statements.

The Newly Updated and Expanded GASB User Guide Series

- *What You Should Know about Your Local Government's Finances*
- *What You Should Know about Your School District's Finances*
- *An Analyst's Guide to Government Financial Statements—now* available
- *What You Should Know about the Finances of Your Government's Business-Type Activities*

Where Are We Now?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates—June 30

- June 30, 2013
  - Statement 60—Accounting and Financial Reporting for Service Concession Arrangements
  - Statement 61—The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)
  - Statement 62—Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,1989 FASB and AICPA Pronouncements
  - Statement 63—Reporting Deferred Outflows, Deferred Inflows and Net Position
- June 30, 2014
  - Statement 65—Items Previously Reported as Assets and Liabilities
  - Statement 66—Technical Corrections—2012, an amendment of GASB Statements No. 10 and No. 62
  - Statement 67—Financial Reporting for Pension Plans
  - Statement 70—Accounting and Financial Reporting for Nonexchange Financial Guarantees

Effective Dates—June 30 or December 31

- June 30, 2015
  - Statement 68—Accounting and Financial Reporting for Pensions
  - Statement 69—Government Combinations and Disposals of Government Operations

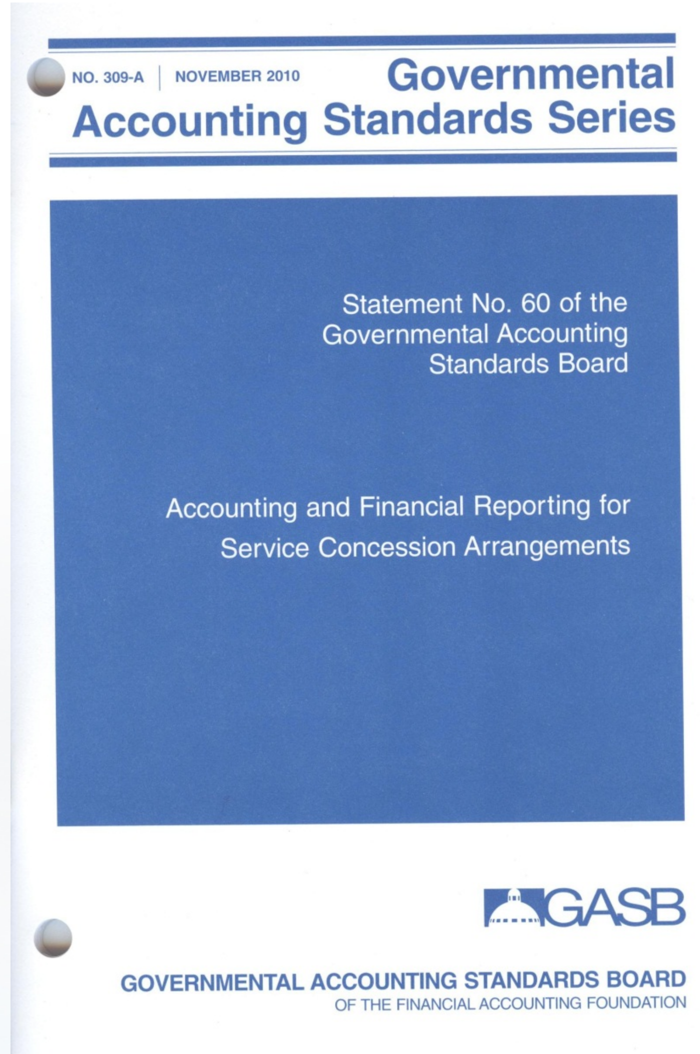
GASB Statement 60

Accounting and Financial Reporting for Service Concession Arrangements

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Issued
November 2010

Effective for periods beginning after December 15, 2011


NO. 309-A | NOVEMBER 2010 Governmental Accounting Standards Series

Statement No. 60 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Service Concession Arrangements

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Service Concession Arrangements

- Statement addresses service concession arrangements (SCAs)
- SCAs are a *type* of public-private or public-public partnership
- The term public-private partnership is used to refer to a variety of:
  - Service arrangements (outsourcing a service)
  - Management arrangements (outsourcing mgmt)
  - SCAs (last type before being a privatization)

Accounting and Financial Reporting For Service Concession Arrangements

What is a service concession arrangement?

•Public-private or public-public partnership

•An arrangement between a transferor (a government) and an operator (governmental or nongovernmental) in which:

1) the transferor conveys to an operator the right and related obligation to provide public services through the operation of a capital asset in exchange for significant consideration, such as an up-front payment, installment payments, a new facility (constructed by the operator), or improvements to an existing facility
2) the operator collects and is compensated by fees from third parties

Accounting and Financial Reporting For Service Concession Arrangements

What is a service concession arrangement? (continued)

•An arrangement between a transferor (a government) and an operator (governmental or nongovernmental) in which:

3) the transferor is entitled to significant interest in the service utility of the facility at the end of the arrangement (a residual interest)
4) The transferor determines or has the ability to modify or approve:
   - What services the operator is required to provide
   - To whom the operator is required to provide the services
   - The prices or rates that can be charged for the services

Examples of SCA's

- Toll roads
- Airports
- Hospitals
- Prisons
- City swimming pools
- Golf courses

Benefits of SCAs

- May provide government with the ability to leverage existing infrastructure and other public assets to generate additional resources in the form of up-front payments from the operator for the right to operate such assets
- May be used to facilitate construction and financing of new infrastructure and other public assets and transfer the risks associated with their construction and maintenance to a private entity
- May be used to provide services to the general populace in a more efficient and cost-effective manner

Service Concession Arrangements

Transferor Accounting:

- If facility associated with the SCA is an existing facility—transferor should continue to report the facility as a capital asset
- If facility associated with the SCA is a new facility, purchased or constructed by the operator, or an existing facility that has been improved by the operator—transferor should report:
  - The new facility or the improvement as a capital asset at **fair value** when it is placed in operation,
  - Any contractual obligations as liabilities, and
  - A corresponding deferred inflow of resources equal to the difference between the fair value of the asset and the liabilities
- There is no booking of construction in progress—cost/benefit concerns

Service Concession Arrangements

Transferor Accounting (continued):

- A transferor should recognize a liability for certain obligations to sacrifice financial resources under the terms of the arrangement. Liabilities associated with the SCA should be recorded at their PRESENT VALUE if the obligation is significant and meets either of the following criteria:
  - Contractual obligations that directly relate to the facility (for example, obligations for capital improvements, insurance, or maintenance on the facility)
  - Contractual obligations that relate to a commitment made by the transferor to maintain a minimum or specific level of service in connection with the operation of the facility (for example, providing a specific level of police and emergency services for the facility or a minimum level of maintenance to areas surrounding the facility)

Service Concession Arrangements

Transferor Accounting (continued):

- After initial measurement, the capital asset is subject to existing requirements for depreciation, impairment, and disclosures
  - The capital asset should not be depreciated if the arrangement requires the operator to return the facility to the transferor in its original or an enhanced condition
  - The corresponding deferred inflow of resources should be reduced and revenue should be recognized in a systematic and rational manner over the term of the arrangement
  - If a liability is recorded to reflect a contractual obligation, the liability should be reduced as the transferor's obligations are satisfied. When the obligation is satisfied, a deferred inflow should be reported and the related revenue should be recognized in a systematic and rational manner over the term of the arrangement
- Improvements made to the facility by the operator during the term of the SCA should be capitalized as they are made and are subject to the requirements for depreciation, impairment, and disclosures

Service Concession Arrangements

Transferor Accounting (continued):

- If an SCA requires up-front or installment payments from the operator, the transferor should report:
  - The up-front payment or present value of installment payments as an asset
  - Any contractual obligations as liabilities, and
  - A deferred inflow of resources equal to the difference between the two
- Revenue should be recognized as the deferred inflow of resources is reduced. This revenue should be recognized in a systematic and rational manner over the term of the arrangement

Service Concession Arrangements

Governmental Operator Accounting:

- The governmental operator would report an intangible asset for the right to access the facility and collect third-party fees from its operation at cost (for example, the amount of an up-front payment or the cost of construction of or improvements to the facility)
  - Amortized over the term of the arrangement in a systematic and rational manner
- Improvements made to the facility during the arrangement would increase the governmental operator's intangible asset if the improvements increase the capacity or efficiency of the facility

Service Concession Arrangements

Governmental Operator Accounting:

- If the arrangement requires a facility to be returned in a specified condition and information is prominent that indicates the facility is not in the specific condition, and the cost to restore the facility to that condition is reasonably estimable, then a liability, and generally and expense to restore the facility should be reported

Service Concession Arrangements

Other provisions:

Revenue-sharing arrangements

- *Governmental operator* reports all revenues earned and expenses incurred
- Unconditional payments (regardless of revenues earned)—present value of those amounts should be treated like installments at the inception of the arrangement
- Conditional amounts—recognized when earned according to the agreement

Disclosures:

- Description of the arrangement
- Nature and extent of rights retained or transferred
- Nature and amounts of assets, liabilities, and deferred inflows of resources

Statement No. 60

- Effective Date
  - Effective for financial statements for periods beginning after December 15, 2011
  - Earlier application is encouraged
  - The provisions generally would be required to be applied retroactively for all prior periods presented.

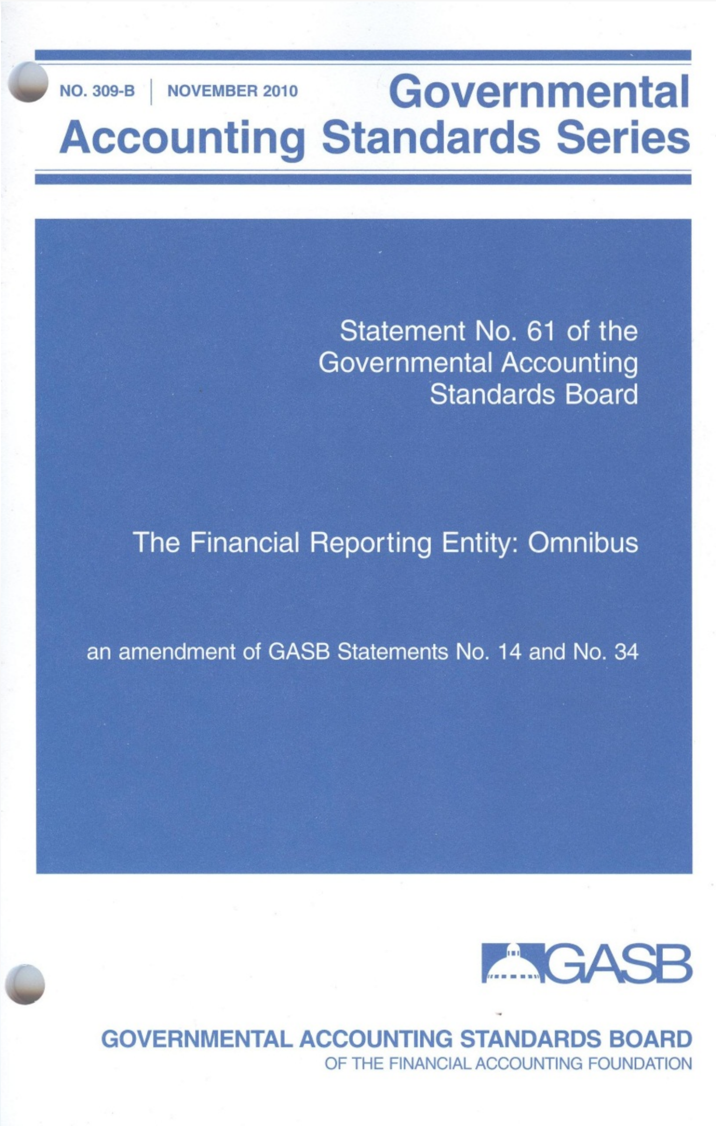
GASB Statement 61

The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Issued
November 2010

Effective for periods beginning after
June 15, 2012



Project Objectives

- Determine whether the standards for defining and presenting the financial reporting entity in Statement 14, as amended:
  - Include the organizations that *should be* included
  - Exclude organizations that *should not be* included
  - Display and disclose the financial data of component units in the most appropriate and useful manner
  - Are consistent with the current conceptual framework
- Amends Statement 14 and Statement 34 to better meet user needs and to address reporting issues that have arisen since their issuance
- Does not include Statement 39 (Determination of Component Units) in the reexamination

Reporting Entity Framework

- Retains current reporting entity framework
- This framework includes:
  - The criteria for inclusion of component units
    - Fiscal dependence
    - Appointment of voting majority, plus
      - Imposition of will
      - Financial benefit or burden
  - The methods of presenting component units
    - Discrete presentation
    - Blending

Significant Changes

- The most significant effects of the new standard are to:
  - Increase the emphasis on financial relationships
    - Raises the bar for inclusion
  - Refocus and clarify the requirements to blend certain component units
  - Improve the recognition of ownership interests in
    - Joint ventures
    - Component units
    - Investments

Inclusion Criteria

- Statement 14 requires inclusion if the component unit is fiscally dependant. That is, primary government has authority over:
  - Determining the budget, or
  - Levying taxes and charges or setting rates, or
  - Issuing debt
- Statement 61 adds a requirement for a financial benefit or burden relationship to exist between the primary government and that organization for it to be included in the reporting entity as a component unit.

Inclusion Criteria

The following circumstances set forth a primary governments financial accountability for a legally separate organization:

a) The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

b) The primary government **is** *may be* financially accountable if an organization is fiscally dependent on **and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on,** the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

Inclusion Criteria

An organization has a financial benefit or burden relationship with the primary government if ANY ONE of these conditions exist:

- The primary government is legally entitled to or can otherwise access the organization's resources
- The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization
- The primary government is obligated in some manner for the debt of the organization

Inclusion Criteria

- Statement 14 requires inclusion of a component unit if exclusion would make the reporting entity's statements "misleading or incomplete"
- Statement 61 eliminates "incomplete" (If misleading then is also incomplete) and emphasizes that the determination would normally be based on financial relationships
  - Such as significant financial benefit to/burden on the primary government that is other than temporary

Blending Requirements

- Statement 14 requires blending if the primary government & component unit have “substantively the same” governing body
  - Sufficient representation to allow complete control—decisions of the primary government can not be overridden by the component unit
  - For example, a County Board that also services as the Board of the Forest Preserve District
- Statement 61 expands that requirement to also require that:
  - A financial benefit/burden relationship exists, or
  - Management (below the elected official level) of the primary government has “operational responsibility” for the activities of the component unit
    - Primary government’s personnel manage activities of the component unit in essentially the same manner in which they manage their own funds, programs, or departments

Blending Requirements

- To illustrate
  - Voters elect individuals as board members of:
    - County Board of Supervisors, AND
    - Forest Preserve Board (FPB)
      - So the two Boards are "substantively the same."
- REQUIRED TO BE BLENDED UNDER STATEMENT 14

Blending Requirements

- However, under Statement 61, if:
  - FPB is essentially autonomous and financially independent – DISCRETE PRESENTATION
  - If the county is required to pay pension costs for FPB employees – BLENDED (financial burden)
  - If the county does the FPB's accounting and the county administrator manages the FPB's activities and oversees the budget – BLEND (operational responsibility)

Blending Requirements

- Statement 61 expands the blending criteria to include component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government
  - Even if the component unit provides services to constituents or other governments, rather than exclusively or almost exclusively to the primary government

Blending Requirements

- Statement 61 clarifies that for financial reporting purposes, funds of a blended component unit have the same financial reporting requirements as those of a fund of the primary government
  - Major fund reporting—not required to be separately displayed unless it meets the requirements
  - Could be combined with primary governments other funds in the appropriate fund financial statements or combining statements

Blending Requirements

- Statement 61 clarifies how to blend a component unit if the primary government is a Business-type Activity:
  - For a single column presentation, a component unit may be blended by:
    - Consolidating component unit data into the single column of the primary government and presenting condensed combining information in the notes
    - Additional column(s), with the primary government total column
  - For a multiple column Business-type Activity (same)
    - Additional column(s), as if funds of the primary government

Major Component Units

- Statement 61 clarifies the types of relationships that should generally affect the determination of major component units:
  - Determination that a component unit is “major” should be based on the nature and significance of its relationship to the primary government (professional judgment still applies):
    - The services provided by the component unit to the citizens are such that separate reporting as a major component unit is considered to be essential to financial statement users
    - Significant transactions with the primary government
    - Significant financial benefit/burden relationship with the primary government
- Eliminates the requirement that the major component unit determination include consideration of each component unit’s significance relative to the other component units

Reporting Equity Interests

- An **asset** should be recognized for an equity interest in a discretely presented component unit:
  - A joint venture
  - A partnership
  - An investment
  - A component unit
    - If the component unit is blended, the equity interest is eliminated in the blending process—the financial reporting entity would report the component unit rather than the asset
    - Minority interests would be classified in net assets as "Restricted, nonexpendable"
- Recognition and Measurement is based on joint venture equity interest requirements in Statement 14

Note Disclosures

- Clarifies that *current* disclosures require:
  - Brief description of the component units of the reporting entity and their relationship to the primary government
  - Rationale for including <u>*each*</u> component unit
  - Whether it is discretely presented, blended, or included as a fiduciary fund

(Practical consideration: Can aggregate similar component units that have common characteristics as long as each component unit is separately identified)

Effective Date

- Effective for financial statements for periods beginning after 6/15/12 (FYE 6/30/13 and 12/31/13)
- Earlier application is encouraged
- In the first period that the Statement is applied, changes made to comply should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated
  - If restatement is not practical—cumulative effect should be reported as a restatement of beginning net assets for the earliest period restated

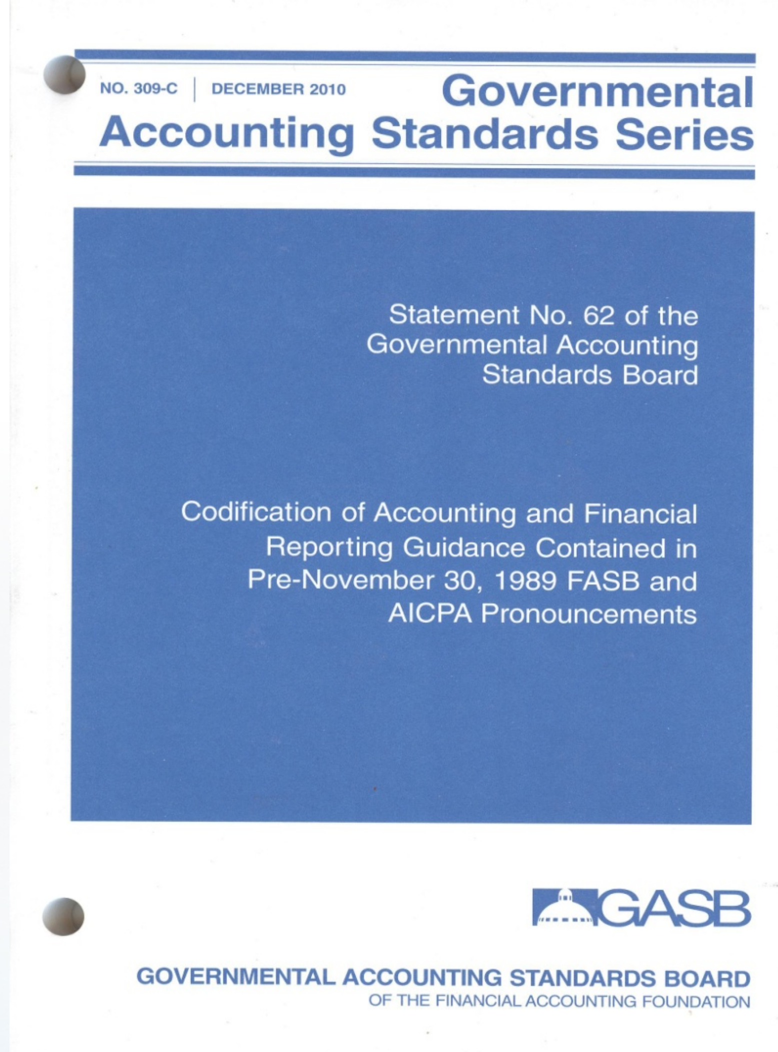
GASB Statement 62

Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Issued
December 2010

Effective for periods beginning after December 15, 2011


NO. 309-C | DECEMBER 2010

Governmental Accounting Standards Series

Statement No. 62 of the Governmental Accounting Standards Board

Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

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GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements

Overview of the Project:

- Since FASB introduced its codification, its original pronouncements are nonauthoritative
- Paragraph 17 of Statement 34 requires application of pre-November 30, 1989, FASB pronouncements, unless they conflict with or contradict GASB pronouncements

Scope and Applicability

- Applies to accounting and financial reporting for governmental activities, business-type activities, and proprietary funds
- Statement 20 is superseded
  - All applicable pre-November 30, 1989 FASB and AICPA pronouncements are contained in the GASB's codification
  - All potentially applicable post-November 30, 1989 non-GASB standards would be "other accounting literature"
    - Can be adopted as long as not considered conflicting with GASB Statements

GAAP Hierarchy Summary

Established Accounting Principles
GASB Statements and Interpretations plus AICPA and FASB pronouncements if made applicable to state and local governments by a GASB Statement or Interpretation
GASB Technical Bulletins, and the following pronouncements if specifically made applicable to state and local governments by the AICPA: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position
Consensus positions of the GASB Emerging Issues Task Force *(has not been established)* and AICPA Practice Bulletins if specifically made applicable to state and local governments by the AICPA *(none currently exist)*
"Qs and As" published by the GASB staff, as well as industry practices widely recognized and prevalent
Other Accounting Literature
Other accounting literature, including GASB Concepts Statements; pronouncements in the first four categories of the hierarchy for nongovernmental entities when not specifically made applicable to state and local governments

Approach to Development of the Statement

- The Board considered two approaches in developing the Statement.
  - The first approach
    - Adoption of the accounting and reporting requirements as, modifying the language as appropriate without affecting the substance of the provisions
    - Would not significantly affect practice as accounting and financial reporting would not change; Only the source of the guidance would be different
  - The second approach
    - Redeliberation of individual issues
    - Could result in changes in practice depending on the extent of the modifications made the Board.
- The Board adopted the first approach.

FASB and AICPA Pronouncements

- **Guidance on 29 topics is brought into the GASB literature, including:**
  - Capitalization of interest costs (FASB Statements 34 and 62)
  - Statement of net assets classification (ARB 43, APB Opinion 12, and FASB Statement 6)
  - Special and extraordinary items (APB Opinion 30)
  - Comparative financial statements (ARB 43)
  - Related parties (FASB Statement 57)
  - Prior-period adjustments (FASB Statement 16 and APB Opinion 9)
  - Accounting changes and error corrections (APB Opinion20 and FASB Interpretation 20)
  - Contingencies (FASB Statement 5 and FASB Interpretation 14)
  - Extinguishments of debt (APB Opinion 26 and FASB Statement 76)
  - Troubled debt restructuring (FASB Statement 15)
  - Inventory (ARB 43)
  - Leases (FASB Statements 13, 22, and 98 and FASB Interpretation 23, 26, and 27)

FASB and AICPA Pronouncements

- Guidance on 29 topics is brought into the GASB literature, including (continued):
  - Sales of real estate (FASB Statement 66)
  - Real estate projects (FASB Statement 67)
  - Research and development arrangements (FASB Statement 68)
  - Broadcasters (FASB Statement 63)
  - Cable television systems (FASB Statement 51)
  - Insurance enterprises (FASB Statement 60)
  - Lending activities (FASB Statement 91)
  - Mortgage banking activities (FASB Statement 65)
  - Regulated operations (FASB Statement 71, 90, and 101)

Effective Date

- Effective for financial statements for periods beginning after December 15, 2011
- Earlier application is encouraged
- Accounting changes adopted to conform with the provisions of the Statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented.

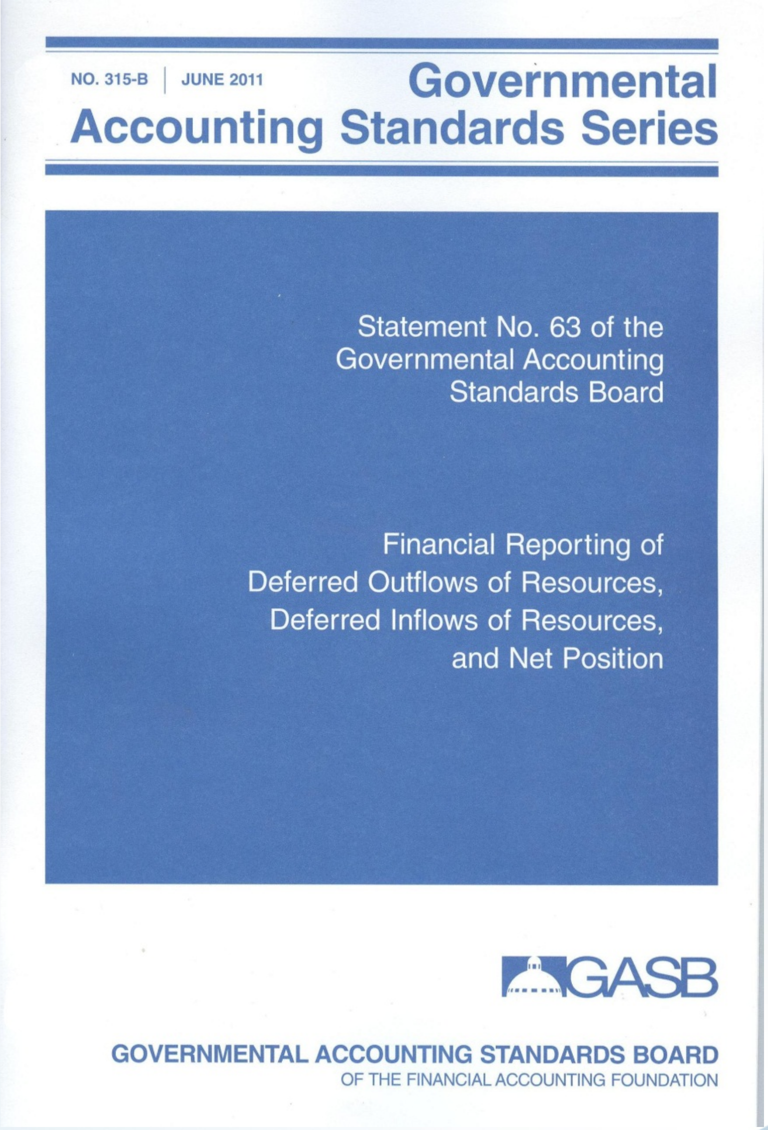
GASB Statement 63

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of resources, and Net Position

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Issued
June 2011

Effective for periods beginning after December 15, 2011


NO. 315-B | JUNE 2011

Governmental Accounting Standards Series

Statement No. 63 of the Governmental Accounting Standards Board

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

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GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Statement of Net Position

Objectives of the project:

- To operationalize the introduction of the deferred inflows of resources and deferred outflows of resources financial statement elements through display guidance
- To consider the effects of these changes on other elements presented in the existing statement of net assets
- Will determine what amendments, if any, should be made to the requirements of Statement No.34

Background

- Concepts Statement 4 identifies 5 elements that make up a statement of financial position:
  - -Assets
  - -Liabilities
  - -Deferred outflows of resources
  - -Deferred inflows of resources
  - -Net position

- This differs from the composition currently required by Statement 34, which requires the presentation of assets, liabilities, and net assets in a statement of financial position

- Statements 53 and 60 identify deferrals of resources

Definitions

- **Deferred outflows of resources**
  -A consumption of net assets by the government that is applicable to a future reporting period
  -Has a natural debit balance and, therefore, a positive effect on net position, similar to assets

- **Deferred inflows of resources**
  -An acquisition of net assets by the government that is applicable to a future reporting period
  -Has a natural credit balance, and therefore, a negative effect on net position, similar to liabilities

- **Net position**
  -The residual of all elements presented in a statement of financial position

Provisions

- Deferred outflows should be reported in a separate section following assets

- Similarly, deferred inflows should be reported in a separate section following liabilities

- Net position components resemble net asset components under Statement 34, but include the effects of deferred outflows and deferred inflows
  - -Net investment in capital assets
  - -Restricted
  - -Unrestricted

- Allowed to report subtotals for:
  - Combination of assets and deferred outflows of resources, and
  - Combination of liabilities and deferred inflows

Financial Statement Reporting Format

- Economic Resources Measurement Focus
  - Preferred reporting format is: assets + deferred outflows – liabilities – deferred inflows = net position
  - Traditional balance sheet format is permitted: assets + deferred outflows = liabilities + deferred inflows + net position

- Governmental Fund Financial Statements
  - Required reporting format is: assets + deferred outflows = liabilities + deferred inflows + fund balance

Statement of Net Position

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 11,712,829	$ 10,516,820	$ 22,229,649	$ 303,935
Investments	29,250,291	64,575	29,314,866	7,428,952
Derivative instrument--rate swap	1,040,482		1,040,482	
Receivables (net)	11,792,650	3,609,615	15,402,265	4,042,290
Internal balances	313,768	(313,768)		—
Inventories	322,149	126,674	448,823	83,697
Equity interest in joint venture	2,303,256	—	2,303,256	—
Capital assets:				
Land, improvements, and construction in progress	28,435,025	6,408,150	34,843,175	751,239
Other capital assets, net of depreciation	141,587,735	146,513,065	288,100,800	36,993,547
Total capital assets	170,022,760	152,921,215	322,943,975	37,744,786
Total assets	226,758,185	166,925,131	393,683,316	49,603,660
DEFERRED OUTFLOWS				
Accumulated decrease in fair value of hedging derivatives	—	127,520	127,520	—
LIABILITIES				
Accounts payable and accrued expenses	7,538,543	659,592	8,198,135	1,803,332
Advances from grantors	1,435,599		1,435,599	38,911
Forward contract		127,520	127,520	
Long-term liabilities:				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	101,512,520	79,695,671	181,208,191	30,375,033
DEFERRED INFLOWS				
Accumulated increase in fair value of hedging derivatives	1,040,482	—	1,040,482	—
NET POSITION				
Net investment in capital assets	103,711,386	79,088,574	182,799,960	15,906,392
Amounts Restricted for:				
Transportation and public works	10,655,737	—	10,655,737	—
Debt service	3,076,829	1,451,996	4,528,825	—
Housing and community redevelopment	6,845,629	—	6,845,629	—
Other purposes	1,483,387	—	1,483,387	492,445
Unrestricted Amounts (deficit)	(1,567,785)	6,816,410	5,248,625	2,829,790
Total net position	$ 124,205,183	$ 87,356,980	$211,562,163	$ 19,228,627

Effective Date

- Effective for financial statements for periods beginning after December 15, 2011
- Earlier application is encouraged
- Accounting changes adopted to conform to the provisions of the Statement should be applied retroactively by reclassifying the statement of net position and balance sheet information, if practical, for all prior periods presented.
- In the period this statement is first applied, the financial statements should disclose the nature of any reclassification and its effect

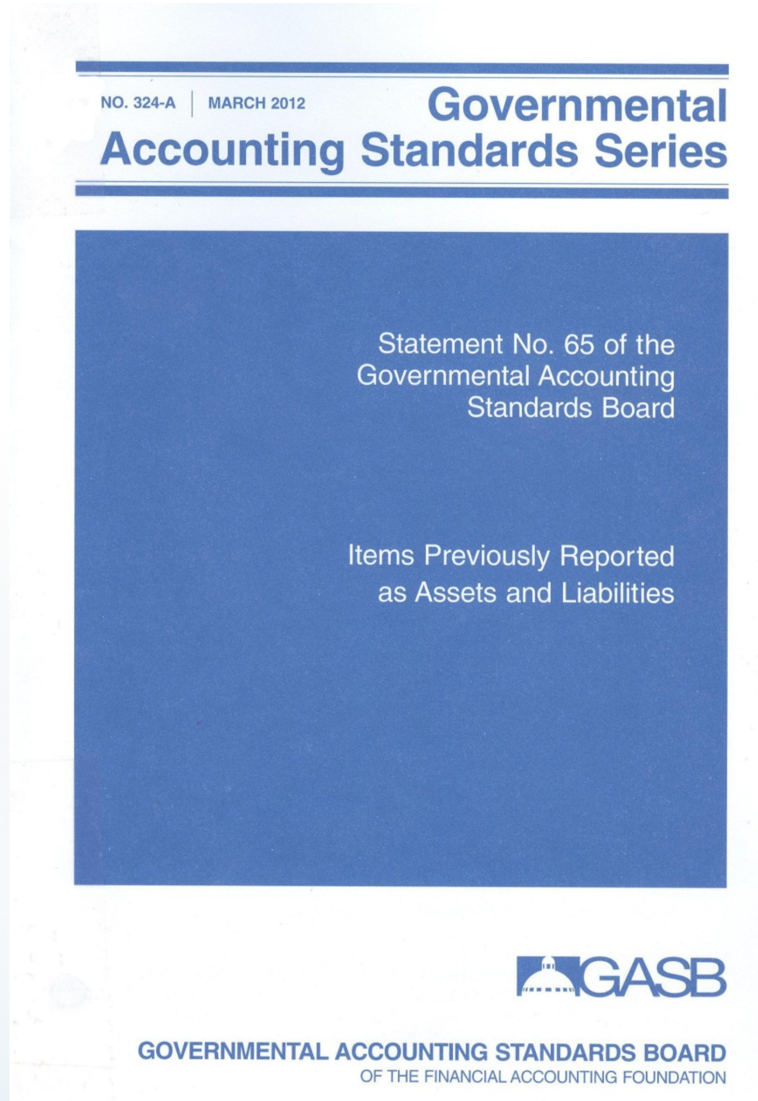
GASB Statement 65

Items Previously Recognized as Assets and Liabilities

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Issued
March 2012

Effective for periods beginning after December 15, 2012



Project Objective

- To determine whether certain balances currently reported as assets and liabilities should continue to be reported as such or instead should be reported as:
  - A deferred outflows of resources, or
  - An outflow of resources (expense/expenditure)

    OR
  - A deferred inflows of resources, or
  - An inflow of resources (revenue)

Definitions

- **Assets**
  -Resources with present service capacity that the government presently controls
- **Deferred outflow of resources**
  -A consumption of net assets by the government that is applicable to a future reporting period
  -Has a positive effect on net position, similar to assets (debit)
- **Outflow of resources**
  -A consumption of net assets by the government that is applicable to the reporting period
- **Liabilities**
  -Present obligations to sacrifice resources that the government has little or no discretion to avoid
- **Deferred inflow of resources**
  -An acquisition of net assets by the government that is applicable to a future reporting period
  -Has a negative effect on net position, similar to liabilities (credit)
- **Inflow of resources**
  -An acquisition of net assets by the government that is applicable to the reporting period

Project Approach

- Establish a hierarchy for applying the definitions of the elements in Concepts Statement 4:
  - Review items to see if they meet the definition of an asset or a liability
  - If not, do the items meet the definition of a deferred outflow or deferred inflow of resources
  - Finally, if the items did not meet the definition of an asset or a liability, or a deferred outflow of resources or a deferred inflow of resources, then the item is recognized as an outflow of resources or an inflow of resources, as applicable

Project Approach

- Concepts Statement 4 provides that recognition of a deferred inflow or outflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after due process
  - Statement 53—requires the reporting of a deferred outflow or inflow of resources for the changes in fair value of hedging derivative instruments.
  - Statement 60—requires the reporting of a deferred inflow of resources by a transferor government in a qualifying service concession arrangement.
  - Statement 68—requires the reporting of deferred outflows of resources for certain changes in the employers net pension liability (assumptions, difference between assumed and actual economic and demographic factors, difference between projected and actual earnings)
  - Statement 69—requires the measurement and reporting of deferred inflows and outflows of resources in government combinations

Project Approach

- This statement amends the financial reporting elements previously classified as assets and liabilities to be consistent with the definitions in Concepts Statement 4
  - Will require reporting of several additional deferred inflows of resources and deferred outflows of resources

Approach to Development of the Statement

- The Board identified, in the existing authoritative literature, requirements to report assets or liabilities that may appear to meet the definitions in Concepts Statement 4 of a deferred outflow of resources or a deferred inflow of resources
  - Searched the GASB Codification for terms:
    - Deferred,
    - Deferral,
    - Defer,
    - Amortize, or
    - Allocate
  - Any word that would indicate a balance should be recognized over more than one period

Refundings of Debt

- Accounting for the debit/credit resulting from the refunding of debt (GASB 23):
  - Report as a deferred outflow (loss) or deferred inflow (gain) and recognize as a component of interest expense over shorter of life of old debt or new debt.
  - Report separately from related bonds payable.

- Accounting for the debit/credit resulting from changes in the provisions of a lease due to a refunding by a lessor (GASB 62):
  - Report as a deferred outflow (loss) or deferred inflow (gain) and recognize as a component of interest expense over shorter of life of old debt or new debt.

Nonexchange Transactions

- Imposed nonexchange revenues (GASB 33):
  - Report as deferred inflows, resources received or recognized as receivables before:
    - The period for which the taxes are levied for property taxes.
    - The period when resources are required to be used or when use is first permitted for all other imposed nonexchange transactions for which time requirements are specified.

- Government-mandated and voluntary nonexchange transactions (GASB 33):
  - Resources received/provided in advance of one of the eligibility requirements being met other than time requirements:
    - Provider reports as an asset.
    - Recipient reports as a liability.
  - Resources received/provided in advance of time requirements being met (all other eligibility requirements are met):
    - Provider reports as deferred outflows.
    - Recipient reports as deferred inflows.

Sales of Future Revenues and Intra-Entity Transactions

- Sales of future revenues (GASB 48):
  - Transferor government should report proceeds from sale of future revenues as a deferred outflow of resources.
    - Exception in paragraph 14 of GASB 48 for revenue recognition in the period of sale still exist- indicates that revenue should be recognized at the time of the sale only if the revenue sold was not recognized previously because of uncertainty of realization or the inability to reliably measure the revenue

- Intra-entity transfers of future revenues (GASB 48):
  - Transferee government should report the amount paid as a deferred outflow of resources to be recognized over the duration of the sale agreement.
  - Transferor government should report the amount received as a deferred inflow of resources to be recognized over the duration of the sale agreement.

Debt Issuance Costs

- Debt issuance costs (GASB 62):
  - Debt issuance costs, other than prepaid insurance costs, should be recognized as an outflow of resources in the period incurred.
  - Prepaid insurance costs reported as an asset.

Regulated Operations

- Transactions of regulated entities (GASB 62):
  - Refunds imposed by a regulator should be recognized as liabilities.
  - Report as deferred inflows:
    - Revenues generated by current rates intended to recover costs that are expected to be incurred in the future.
    - Gains and other reductions of net allowable costs intended to reduce rates over future periods.
  - Incurred costs expected to be recovered through future rates should continue to be reported as assets.

Items Where the Classification was Not Changed

The Board affirmed the items resulting from the following transactions should be classified as an asset:

- Prepayments (paragraph 73 of NCGA Statement 1).
- Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than time requirements have not been met (paragraph 19 of Statement 33).
- The purchase of future revenues from a government outside the financial reporting entity (paragraphs 13-16 of Statement 48).

Items Where the Classification was Not Changed

The Board affirmed the items resulting from the following transactions should be classified as an asset (continued):

- Initial subscriber installation costs in relation to cable television systems (paragraph 398 of Statement 62).
- Capitalized incurred costs related to regulated activities (paragraph 480 of Statement 62).
- Circumstances in which a pension plan's net position exceeds the total pension liability (Statement 68).

Items Where the Classification was Not Changed

The Board affirmed the items resulting from the following transactions should be classified as a liability:

- Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than time requirements have not been met (paragraph 19 of Statement 33).
- Resources received in advance in relation to a derived tax revenue nonexchange transaction (paragraph 16 of Statement 33).
- Resources received in advance of an exchange transaction (paragraph 23 of Statement 62).
- Excess of initial hookup revenue over direct selling costs in relation to cable television systems (paragraph 397 of Statement 62).
- Premium revenues for insurance entities and public entity risk pools received in advance (paragraphs 19-21 of Statement 10, and paragraphs 405 and 406 of Statement 62).

Items Where the Classification was Not Changed

The Board affirmed the items resulting from the following transactions should be classified as a liability (continued):

- Commitment fees charged for entering into an agreement that obligates the government to make or acquire a loan or to satisfy an obligation of the other party under a specified condition, unless exercise is remote (paragraphs 437 and 438 of Statement 62).
- Fees that are received for guaranteeing the funding of mortgage loans (paragraph 469 of Statement 62).
- Fees received for arranging a commitment directly between a permanent investor and a borrower (paragraph 470 of Statement 62).
- Refunds imposed by a regulator (paragraph 482 of Statement 62).

Revenue Recognition in Governmental Funds

➢Revenues and other governmental fund financial resources should be recognized in the accounting period in which they become **both measurable and available** (NCGA Statement 1, paragraph 62)

➢When an asset is recorded in governmental fund financial statements but the revenue is **not available**,

- Government should report a deferred inflow of resources until such time as the revenue becomes available

Other Areas Addressed

- Use of the term *deferred* should be limited to deferred inflows and deferred outflows of resources
- Major fund calculation guidance will be amended:
  - Use aggregate of assets/deferred outflows and liabilities/deferred inflows in the calculation

Effective Date

- Effective for financial statements for periods beginning after December 15, 2012
- Earlier application is encouraged
- Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented

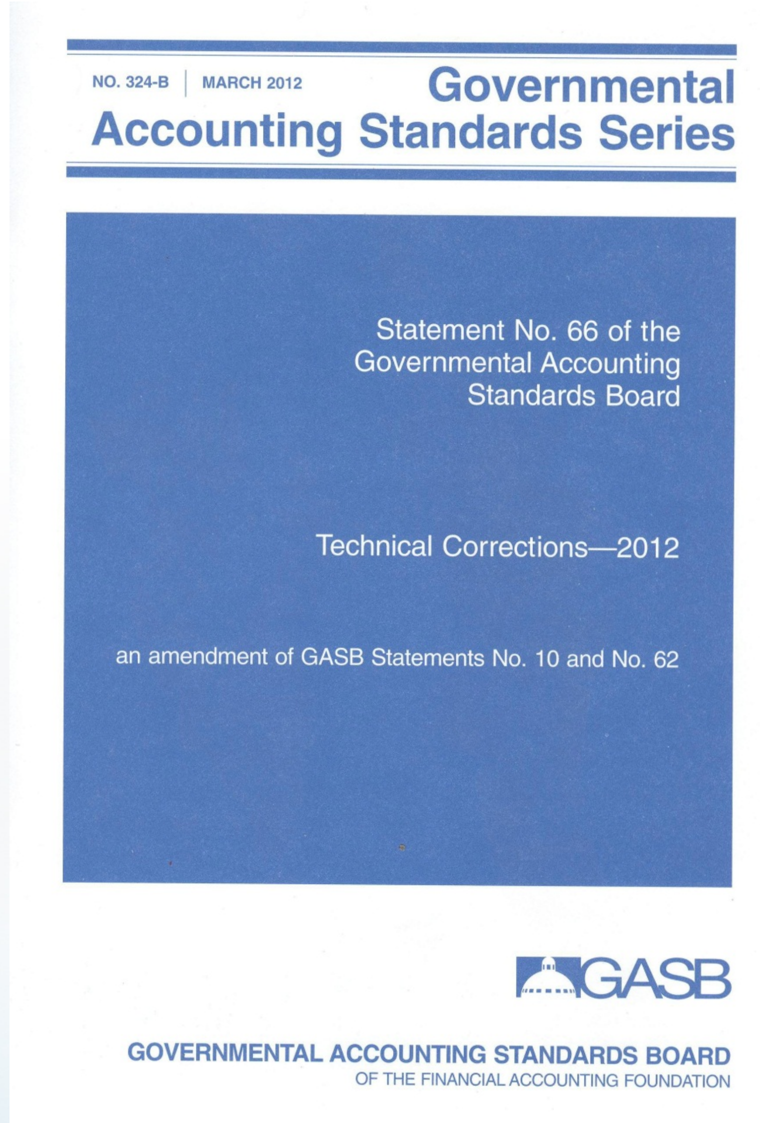
GASB Statement 66

Technical Corrections—2012, and amendment of GASB Statements No. 10 and No. 62

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Issued
March 2012

Effective for periods beginning after December 15, 2012


NO. 324-B | MARCH 2012

Governmental Accounting Standards Series

Statement No. 66 of the Governmental Accounting Standards Board

Technical Corrections—2012

an amendment of GASB Statements No. 10 and No. 62

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Objective

- Resolve conflicting guidance that resulted from the issuance of two recent pronouncements
  - Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
  - Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

Conflicting Guidance

- Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*—required that if a single fund is used to account for risk financing activities that fund should either be the general fund or an internal service fund
- Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*—would allow for certain risk financing activities to be reported in a special revenue fund
  - EX: some state statutes that authorize their local governments to assess a dedicated tax levy for tort liabilities, which would constitute a restricted revenue that could serve as the foundation for a special revenue fund
- Guidance in Statement 10 that created the implied prohibition against using a special revenue fund was superseded

Conflicting Guidance

- Statement 13, *Accounting for Operating Leases with Scheduled Rent Increases*—allows a lessor government that enters into an operating leases with scheduled rent increases to recognize operating lease payments on a straight-line basis over the lease term or based on the estimated fair value of the rental
- Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA* Pronouncements—includes provisions (paragraphs 222 and 227(b) that could be perceived as a potential prohibition against the use of the fair value method that is permitted in Statement 13
- Guidance in Statement 62 that created the implied prohibition against using the fair value method was superseded

Conflicting Guidance

- Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*—requires that when there is an exchange in an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments, a transferee government recognizes those receivables acquired at the purchase price
- Statement 62—allows for the difference between the initial investment and the related loan's principal amount to be recognized as an adjustment of yield over the life of the loan
- Guidance in Statement 62 was amended to remove the conflicting guidance

Conflicting Guidance

- Statement 48—requires that when there is an exchange in an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments, a transferor government recognize a gain or loss on the difference between the proceeds and the carrying value of receivables sold
- Statement 62—requires that when a transferor government retains the servicing rights to mortgage loans that have been sold, the gain or loss on that sale should be adjusted to recognize the difference between a "normal servicing fee" and the fee that is stipulated in the sale agreement
- Guidance in Statement 62 was amended to remove the conflicting guidance

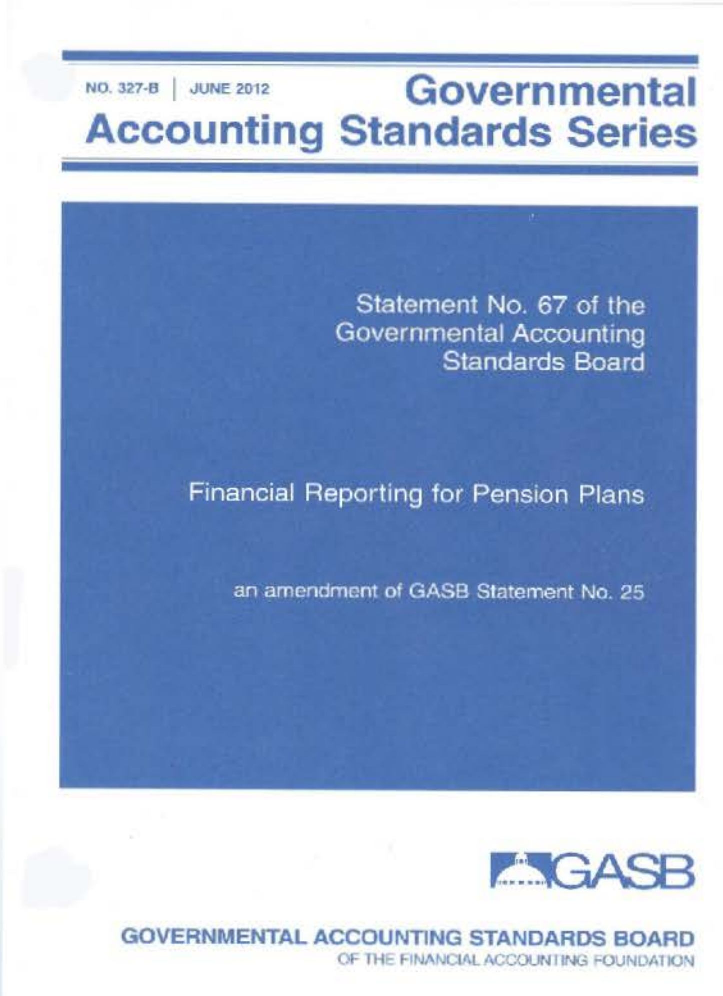
Effective Date

- Effective for financial statements for periods beginning after December 15, 2012
- Earlier application is encouraged
- In the first period that the Statement is applied, changes made to comply should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated

GASB Statements 67 and 68

Pensions

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD


NO. 327-B | JUNE 2012

Governmental Accounting Standards Series

Statement No. 67 of the Governmental Accounting Standards Board

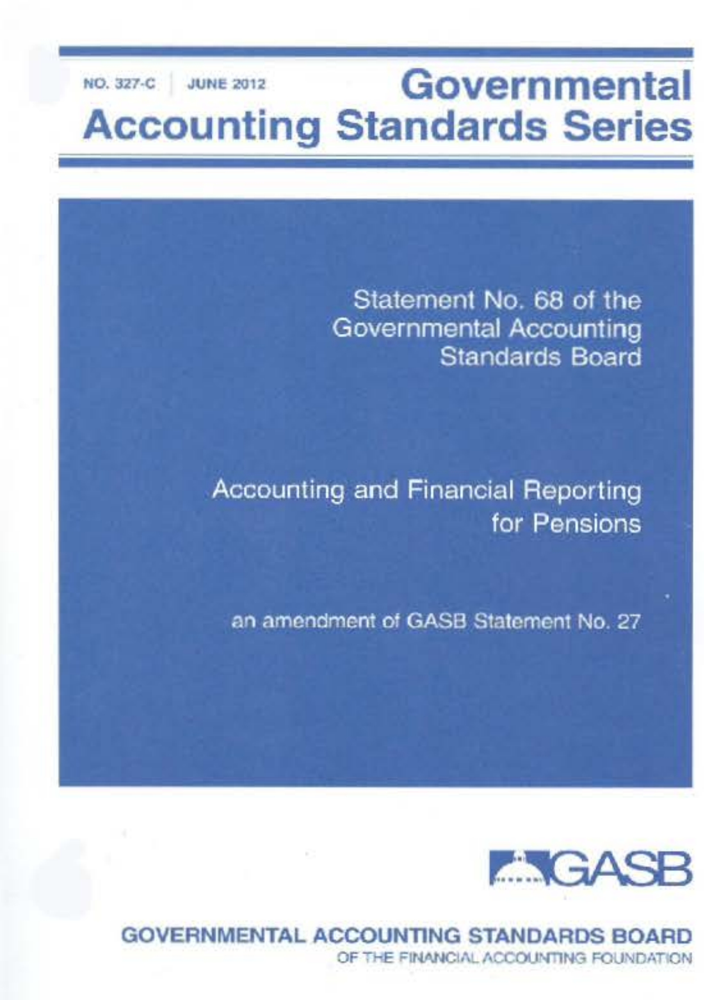
Financial Reporting for Pension Plans

an amendment of GASB Statement No. 25

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Effective for fiscal years beginning after June 15, 2013


NO. 327-C | JUNE 2012

Governmental Accounting Standards Series

Statement No. 68 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Pensions

an amendment of GASB Statement No. 27

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Effective for fiscal years beginning after June 15, 2014

Where Have We Been?

- Staff research completed in 2008
- Invitation to Comment issue in March 2009
- Preliminary Views issued in June 2010
- 3 Public Hearings held in October 2010
- Exposure Drafts (employers, pension plans) issued in June 2011
- 3 Public Hearings held in October 2011
- Statements 67 and 68 issued in June 2012

What Was the Starting Point?

- Current standards were issued in 1994
  - Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*
  - Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*
- GASB's strategic plan calls for the periodic reexamination of major standards

Why is the GASB looking at this topic?

- What has changed since the issuance of current standards?
  - Relevant conceptual points—not available when Statements 25 and 27 were developed
    - Concepts Statement No. 4, *Elements of Financial Statements*—Issued in June, 2007
      - » Included the definition of a *liability*
    - Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Statements That Contain Basic Financial Statements* —Issued in April, 2005
      - » Provided definitions of communications methods—including recognition/display in basic financial statements, notes to basic financial statements, and required supplementary information

Types of Plans

- Single-employer plans—involve only one government
- Multiple-employer plans—include more than one government
  - Agent multiple-employer plans—separate accounts are maintained to ensure that each employer's contributions are used to provide benefits only for the employees of that government
    - Individual employers are responsible for benefits associated with their own employees only, and separate actuarial calculations are made for each participating government in the plan.
    - Collection of single-employer plans
    - Costs of administering the plan is shared by participating governments and the plan assets are pooled for investment purposes

Types of Plans

- Multiple-employer plans—include more than one government
  - Cost-sharing multiple-employer plans—governments pool (share) the costs of providing benefits and administering the plan and the assets accumulated to pay benefits
    - A single actuarial valuation is conducted for all of the employees of the participating governments combined

Scope

- Defined Benefit and defined contribution pensions provided through pension plans that are administered through trusts, or equivalent arrangements, in which:
  - Employer contributions to the plan, including contributions made on behalf of employers by a noncontributing entity, and earnings on those contributions are irrevocable.
  - Plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
  - Plan assets are legally protected from creditors of the employers, nonemployer contributing entities, plan administrators, and, for defined benefit plans, the creditors of the plan members.

Scope

- Governments providing pensions that are not provided through trusts will still apply Statement 27 (plans will still apply Statement 25)
  - Pensions not provided through trusts will be examined as part of the OPEB project
- Requirements also apply to nonemployer contributing entities (special funding situations)

Statement 67

- Statement 25 required pension plans to recognize a **receivable** if there was a formal commitment for the employer to pay
  - Under Statement 67 this is no longer the case because that formal commitment to pay doesn't meet the definition of an asset for the pension plan
    - **Assets** - Resources with present service capacity that the government presently controls

Basics

- Pension benefits originate from exchanges between the employer and employees of salaries and benefits for employee services and are part of the total compensation for employee services
- Obligations for pensions meet the definition of a liability in Concepts Statement 4
  - Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid
- Compensation expense should be recognized in the period employee services are provided

Basics

- Statement 68 changes accounting and financial reporting for employers in single-employer and agent plans with regard to:
  - The amount reported as a liability by the employer
  - The amount reported as pension expense by the employer
  - The discount rate used to calculate the present value of the employer's obligation
  - The method used by the actuary to allocate costs
  - The technique used by the actuary to compensate for changes in assumptions and for differences between assumptions and actual results
- Cost-sharing defined benefit plans and special funding changes as well

Fundamental Approach

- Employment-exchange transactions create an obligation of employer to employees to provide pension benefits in retirement
  - Annual exchanges, viewed by Board within context of a **career-long employment relationship**
- **Accounting-based** versus funding-based proposals (currently we compare the ARC with the actual payment made)

Employer Obligation to Employee

- Defined pension benefits originate from exchanges between the employer and employees of salaries and benefits for employee services and are part of the total compensation for employee services.
  - Costs and obligations associated with pensions should be **recorded as they are earned**
  - NOT when **contributions are made** by the government
    - To a pension plan or
    - To retirees - Benefit payments
- Obligation exists NOW to provide pension benefits at a future date – compensation expense should be recognized in the period employee services are provided

Liability Recognition

- The net pension liability of a sole or agent employer meets the Concepts Statement 4 definition of a liability of the employer:
  - A present obligation—created by past exchanges
  - Requires sacrifice of employer's resources
  - Little or no discretion to avoid the sacrifice of resources—generally a legally enforceable liability, but if not, in most cases, is a constructive liability (actions or conduct from exchange transactions)

Recognizing a Net Pension Liability

- One of the most significant changes is the requirement for governments to recognize a net pension liability (difference between the total pension liability and the value of pension plan assets available to pay pension benefits) in their financial statements
- Currently:
  - Governments **disclose** their total pension obligation (the AAL), the actuarial value of assets (AVA) in the pension plan's trust, and the UAAL, which equals the difference between the AAL and AVA – these amounts are not recognized in the financial statements
  - If an employer's actual contributions have fallen short of the ARC, the accumulated shortfall is recognized in the financial statements as a net pension obligation (NPO)

Liability Recognition

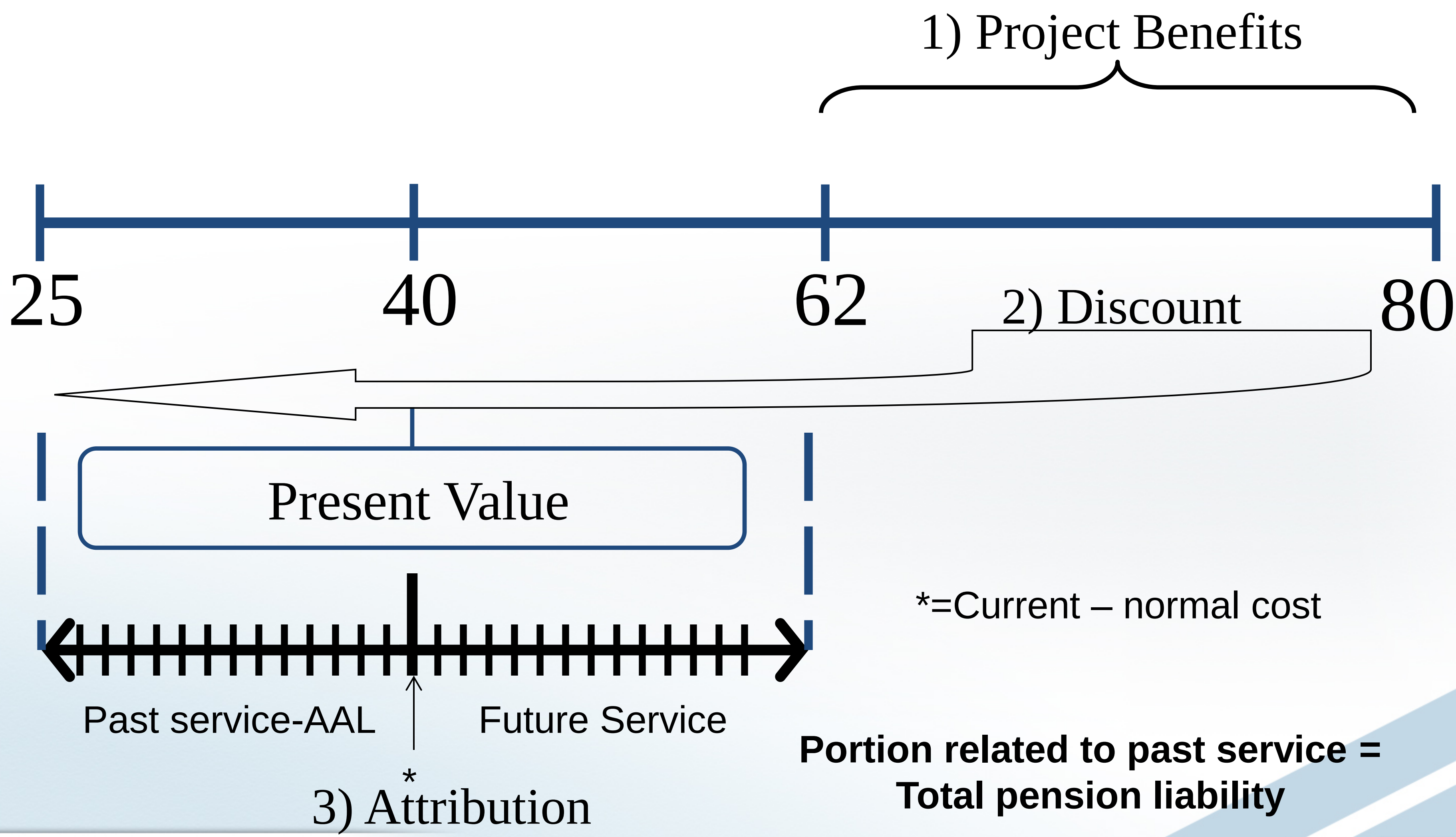
- If plan net position exceeds the employer's total pension liability, the excess should be reported as an asset.
- Unpaid contributions (due but not yet paid) pursuant to contractual or statutory provisions should be reported as a liability (as would any other accounts payable), separate from the net pension liability

Total Pension Liability Measurement

Total Pension Liability vs Net Pension Liability

- Total pension liability
  - Actuary is going to calculate—overall obligation for pensions
  - Similar to the actuarial accrued liability (AAL) currently reported in RSI
- Net pension liability
  - Total pension liability reduced by the net position held in trust (Currently the net assets held in trust)
  - Similar to the unfunded actuarial liability (UAL) currently reported in RSI

Measurement Approach Illustrated



Portion related to past service = Total pension liability

Actuarial Assumptions

- Actuarial process is complex!
- Selection of all actuarial assumptions should be made in accordance with Actuarial Standards of Practice (unless specific guidance is provided by the GASB).

Projection of Future Benefit Payments

- The projection of pension benefit payments should include the effects of projected future salary increases and future service credits, if part of the benefits formula, as well as automatic COLAs
- Ad hoc COLAs would be incorporated into projections of pension benefit payments **only** if an employer's practice indicates that the COLAs are substantively automatic (past practice and future expectations)—this is new!!
- For some employers, projected benefit payments would be greater, present value of future benefits would be greater, and the net pension liability would be greater
- More accurate reflection of the total obligation

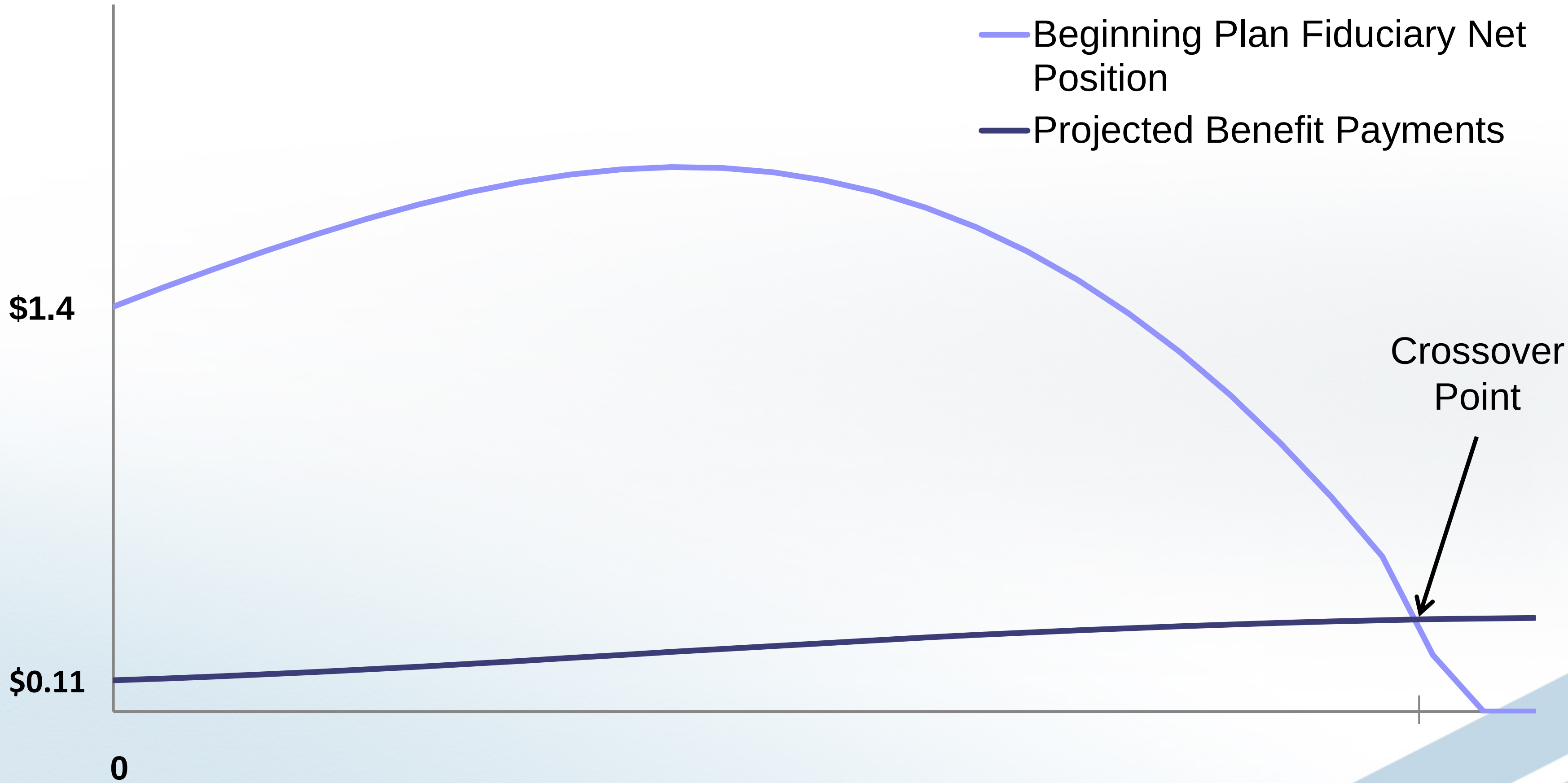
Discount Rate

- Projected benefit payments must be discounted to their present value, which requires the selection of a discount rate. (for payments received in the future, a lower discount rate (rate of return) would require you to invest a larger amount today)
- Currently, the discount rate used for this purpose is the long term expected rate of return on plan investments, since its is those investments that ultimately will be used to make projected benefit payments
  - In some cases, the assets held by a pension plan over time may be projected to not fully cover projected benefit payments

Discount Rate

- Under the new Standards, the discount rate should be a single rate that reflects:
  - The long-term expected rate of return on plan investments that are expected to be used to finance the payment of benefits to the extent that
    - Plan net position is projected to be sufficient to make projected benefit payments, and
    - Assets are expected to be invested using a strategy to achieve that return
  - A high-quality 20-year municipal bond index rate or yield on tax-exempt general obligation bonds (AA rated or higher or an equivalent rating) beyond the point at which plan net assets available for pension benefits are projected to no longer be available for long-term investment
- Better reflection of the level of additional resources that are expected to be sacrificed by the employers to meet the promised benefit payments

Crossover Point



Attribution Method

- Attribution of the present value of projected benefit payments to periods (for accounting purposes and not funding purposes) –
  - Single allocation method: Based on entry age normal principles (used to be 6 methods available-entry age, frozen entry age, attained age, frozen attained age, projected unit credit, or aggregate)
  - Attribution method: Level percentage of payroll—calculates payments so that they equal a constant percentage of projected payroll over time (used to also allow for level dollar—divides the liability into equal dollar amounts over the selected number of years)
  - Attribution period: over periods beginning in the first period in which the employee’s services lead to benefits under the plan (without regard to conditional service-related provisions such as vesting) and ending in the last period of the employee’s service

Attribution Method

- Under the new method:
  - projected benefits are discounted to their present value when employees first began to earn benefits and attributed to employees' expected periods of employment until they leave the government
  - Better reflect the ongoing annual exchange of service for benefits over the course of an employee's period of employment in amounts that keep pace with he employees projected salary over that period

Timing and Frequency of Measurement

- Recognize a new pension liability that is measured as of a date (the measurement date) no earlier than the *end of its prior fiscal year*, consistently applied from period to period
- Total pension liability component of the net pension liability at the measurement date is determined either by
  - An actuarial valuation as of that date or
  - The use of update procedures to roll forward amounts to the measurement date from an actuarial valuation as of a date no more than 30 months (plus 1 day) prior to the fiscal year-end
- For financial reporting purposes, actuarial valuations at least biennially
  - More frequent valuations are encouraged

Plan Net Position Measurement

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Measurement of Plan Assets

- In calculating the employer’s net pension liability, plan net position should be measured in the same way as measured in the plan’s statement of net position, including measurement of investments at fair value
- Different from current funding based method which measures based on the actual value of plan net assets with smoothing
- Measurement date would be the same as the measurement date for the total pension liability

Pension Expense Measurement

Immediate Expense Recognition

- Expense recognition would be immediate for:
  - Pension benefits earned during the reporting period (service cost or normal cost)
  - Interest cost on the total pension liability
  - Changes in benefit terms that affect the total pension liability
  - Long-term expected rate of return on pension plan investments

Deferred Expense Recognition

- Expense would be deferred and recognized over a period equal to the average remaining service periods of active and inactive (including retirees) employees for:
  - Differences between expected and actual changes in economic and demographic factors
  - Changes in assumptions about economic and demographic factors
- Differences between actual and projected earnings on plan investments would be deferred and recognized as pension expense over a five-year closed period.

Measuring Pension Expense

- Currently only (essentially equal to the ARC):
  - Employees work and earn more benefits, and
  - The outstanding liability accrues interest (interest on the UAAL)

  are immediately incorporated into the pension expense. All others are introduced into expense over a period of up to 30 years (closed or open period)

    open period – amortization restarts each year, which suggests that a govt. would never catch up with its UAAL

Implications of the New Pension Statements

- Changes in the employer's net liability are likely to be recognized in pension expense more quickly.

<table>
<tr><th></th><th colspan="2">Current Standards</th><th colspan="2">New Standards</th></tr>
<tr><th>Source of Change in the Net Pension Liability</th><th>Expense</th><th>Deferral</th><th>Expense</th><th>Deferral</th></tr>
<tr><td>Service Cost</td><td>Immediate</td><td>None</td><td>Immediate</td><td>None</td></tr>
<tr><td>Interest on the TPL</td><td>Immediate</td><td>None</td><td>Immediate</td><td>None</td></tr>
<tr><td>Projected Investment Earnings</td><td>Immediate</td><td>None</td><td>Immediate</td><td>None</td></tr>
<tr><td>Changes in Benefit Terms</td><td rowspan="5">Initial period amount</td><td rowspan="5">Amortization over a period up to 30 years (closed or open)</td><td>Immediate</td><td>None</td></tr>
<tr><td>Changes in Assumptions</td><td rowspan="3">Initial period amount</td><td rowspan="2">Expense over average remaining service period of actives and inactives</td></tr>
<tr><td>Differences between Assumed and Actual Economic and Demographic Factors</td></tr>
<tr><td>Differences between Projected and Actual Earnings</td><td>Expense over 5-year closed period</td></tr>
<tr><td>Other Changes in the NPL</td><td>Immediate</td><td>None</td></tr>
</table>

Governmental Funds Recognition

Modified Accrual

- Net pension liabilities are normally expected to be liquidated with expendable available resources to the extent that pension benefits have matured – that is, pension benefit payments are due and plan net position is not sufficient for payments of benefits.
- Liabilities to defined benefit pension plans, as well as liabilities for defined contribution pensions, are normally expected to be liquidated with expendable available resources when amounts due are pursuant to contractual arrangements or legal requirements

Cost Sharing Employers

Current Requirements

- Employers only report a liability if they fail to make the full amount of their contractually required contribution to the plan
- Employers recognize pension expense based on their contractually required contribution to the plan
- Do not require actuarial information to be presented for individual employers
  - The information is required to be presented in the cost-sharing pension plan's own financial statements

Recognition

- A government participating in a cost-sharing pension plan would report:
  - A net pension liability based on its proportion of the collective net pension liability of all of the governments participating
  - The proportion should be consistent with the method used to assess contributions (Percentage of payroll).
    - The use of the government's long-term expected contribution effort to the plan divided by those of all government in the plan, is encouraged

Measurement

- The Board adopt the same approach to measurement of the collective unfunded liability, deferred outflows, deferred inflows, and pension expense for cost-sharing employers as it tentatively has done for sole and agent employers.

RSI – Cost Sharing

- 10 year schedules of beginning and ending balances – similar to Single or Agent employers except:
  - Only reporting their proportionate share
  - Schedule of actuarially determined annual pension contributions (but will be required if statutory or contractual)

Special Funding Situations

Nonemployer Reporting

Special Funding

- When an entity other than the employer government (usually another government) is legally responsible for contributing to the **plan** – contribution can not be paid to the employer.
- And either:
  - the amount of the contributions is **not** dependent upon one or more events unrelated to the pension plan (EX: requirement to contribute a certain percentage of the employer government's covered payroll) OR
  - The contributing entity is the ONLY entity with a legal obligation to contribute
- EX: state government that is legally bound to make contributions to the teacher pension plans of school districts

Special Funding – Contributing Government

- The other government legally responsible for contributing has essentially taken a portion of the pension obligation of the recipient government as its own
- Other government—would report its proportionate share of the employer's net pension liability, pension deferrals, and pension expense

Special Funding – Employer Government

- Single/Agent Employer – would recognize only its proportionate share of the net pension liability and the ENTIRE pension deferrals, pension expense, and revenue equal to its portion of the other government's pension expense
- Cost-sharing Employer – would recognize its proportionate share of the net pension liability, pension deferrals, pension expense, and revenue equal to its portion of the other government's pension expense

Note Disclosures

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Assumptions Used In Measurement

- Assumptions in respect of:
  - Salary
  - Inflation
  - Postemployment benefit increases
  - Discount rate
- Different rates, if contemplated for different periods
- Date(s) of experience studies and tables on which significant assumptions are based

Discount Rate—Expected Rate of Return

- Expected rate of return on plan investments
- Description of how the expected rate of return on plan investments was determined, including
  - Assumed asset allocation of the portfolio
  - Best estimate of the long-term expected real rate of return for each major asset class

Discount Rate—Sensitivity Analysis

- The effects on the current-period net pension liability of a 1-percentage-point increase and a 1-percentage-point decrease in the discount rate

Employer's RSI
10-Year Schedules

- Changes in the net pension liability
- Net pension liability
  - Total pension liability, plan net position, net pension liability, and
    - Plan net position as a percentage of the total pension liability
    - Net pension liability as a percentage of covered-employee payroll
- Actuarially calculated employer contributions needed, actual contributions made, the difference between them, and contributions made as a percentage of covered-employee payroll

Defined Contribution Plans

- Carry forward of existing requirements.
- Governments would report an expense equal to the amount they are required to contribute for employee service each year and a liability equal to the difference, if any, between the required contribution and what the government actually contributes.
- Descriptive disclosures about the plan and its terms, and the method by which contributions to the plan are determined.

What's Next - 2013 and Beyond

- Educational & Outreach Efforts
- Two Implementation Guides
  - Initial guidance for pension plans issued
  - Employer and nonemployer contributing entity guidance will follow in January 2014
- Phase 2 of Postemployment Benefits project
  - OPEB and pensions not within scope of Statements 67/68

Closing Thoughts to Remember

- Financial statement recognition and disclosures don't create pension obligations; instead, they simply make existing obligations more transparent.
- Collectively the changes in Statements 67 and 68 represent major improvements in public pension reporting, and will make pensions more understandable and comparable.

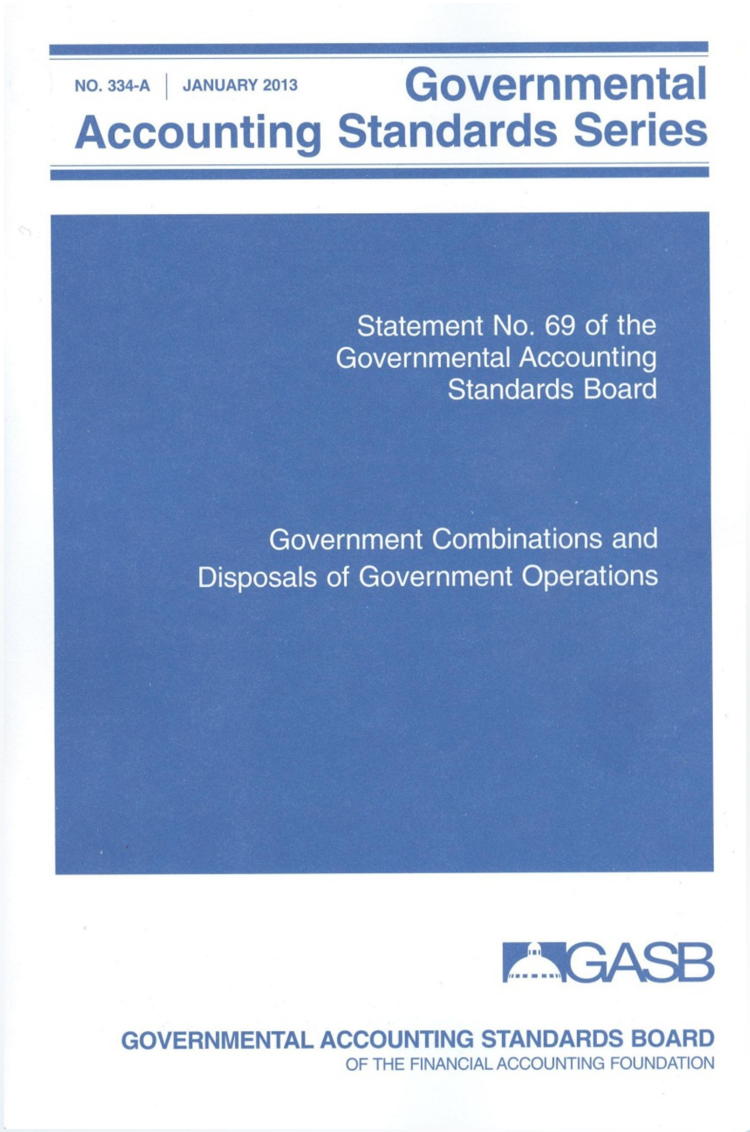
GASB Statement 69

Government Combinations and Disposals of Government Operations

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Issued
January 2013

Effective for periods beginning after December 15, 2013


NO. 334-A | JANUARY 2013

Governmental Accounting Standards Series

Statement No. 69 of the Governmental Accounting Standards Board

Government Combinations and Disposals of Government Operations

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Project Objectives

- Consider the financial reporting requirements for government combinations that are accomplished through mergers, acquisitions, and transfers of operations
  - Addresses government's unique conditions and circumstances
- Analysis of government combinations that have taken place in both the general government area (ex. city/county consolidations), and the business type activities area (ex. healthcare organizations)
- Address certain spin-off issues (ex. A library district that was formerly a department in a primary government) – a transfer of operations

Existing Guidance

- Accounting Principles Board (APB) Opinion No. 16, *Business Combinations*
  - This guidance was never intended for the public sector and its application to the public sector has proven to often be problematic.
  - Addresses conditions and circumstances that are not normally encountered in government combinations
- Because this separate project was on the Board's agenda, did not incorporate into Statement 62

Scope

Scope includes:

- Combinations in which NO consideration is provided
  - Government mergers
  - Transfers of operations
- Combinations in which consideration is provided
  - Government acquisitions
- Disposals of government operations

Government Combinations

- To be considered a government combination, the arrangement should result in the **continuation of a substantial portion of the services provided** by the previously separate entities or their operations after the transaction has occurred.
  - Terms of arrangement usually establish whether service continuation was intended
  - If not, professional judgment should be used
- This distinguishes a combination from a contribution or purchase of assets and related liabilities

Overall Approach

- The requirements distinguish between government combinations that involve significant (or lack) of financial consideration
  - **Government merger—**combinations of legally separate entities *without* the exchange of significant consideration
  - **Government acquisitions**—transactions in which a government acquires another entity, or its operations, in exchange for the payment of significant consideration
- Combinations not involving entire legally separate entities and in which no significant consideration is exchanged (shared service arrangements, reorganizations, redistricting, annexations, arrangements where an operation is transferred to a new government created to provide those services) – **transfer of operations**

Government Mergers

- Often guided by statute
- Some states have passed or considered legislation to cause or encourage streamlining (too many layers)
- Few successes for general purpose governments
  - Shared service alternative

Government Mergers

- Government combination of legally separate entities in which insignificant or no financial consideration is exchanged and which includes one of the following:
- An entirely new government is formed (A+B=C) OR
  - 2 or more governments (or one or more governments and one or more nongovernmental entities) cease to exist as legally separate entities and are combined to form one or more new governments
    - Merger date is the date the combination becomes effective
    - Initial reporting period of the new government begins on the merger date
    - The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities would be recognized and measured in the statement of net position at their “carrying value” as of the merger date

Government Mergers

- If the merging entities decide before the merger date to dispose of capital assets and the new government will use those capital assets until the disposal occurs
  - Capital assets should be measured and reported at their carrying values by the new government
- If the new government will not use the capital assets that have been identified for disposal or if the merging entities decide before the merger date that the manner or duration of use of capital assets will change
  - Capital assets should be evaluated for impairment in accordance with provisions of Statement 42, as amended to determine if the carrying values should be adjusted

Government Mergers

- A single continuing government remains (A+B=B+)
  - 1 or more legally separate governments or nongovernmental entities cease to exist and their operations are absorbed into, and provided by, one or more continuing governments
    - Merger date is the beginning of the reporting period in which the combination occurs, (as though the entities were already combined as of that date) regardless of the actual date of the merger
    - The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities would be measured in the statement of net position at their “carrying value” as of the merger date

Government Mergers

- If the merging entities decide before the actual date of the merger to dispose of capital assets of the dissolving government but the continuing government will use those capital assets until the disposal occurs
  - Capital assets should be measured and reported at their carrying values by the continuing government
- If the continuing government plans to dispose of the capital assets that it will not use or if decisions are made before the actual date of the merger that the manner or duration of use of specific capital assets of the dissolving government will change
  - Capital assets should be evaluated for impairment in accordance with provisions of Statement 42, as amended

Government Acquisitions

- Acquisition date is the date the acquiring government obtains control of the acquired entity's assets or becomes obligated for its liabilities or its operations (typically when consideration is paid)
- Assets and liabilities normally would be recorded at their acquisition value as of the acquisition date – price that would be paid for acquiring similar assets, having similar service capacity, or discharging the liabilities assumed as of the acquisition date
- Deferred outflows of resources and deferred inflows of resources should be brought forward at their carrying values

Government Acquisitions

- Consideration Given:
  - If exceeds the net position acquired, the difference would be treated as a deferred outflow of resources
    - Attributed to future periods in a systematic and rational manner, based on professional judgment
  - If net position exceeds the consideration given
    - Considered a contribution – if the seller accepted the lower amount for the purpose of providing an economic benefit to the acquiring government
      - If not – the difference would be eliminated by reducing the acquisition values assigned to noncurrent assets (other than investments reported at fair value).
      - If the difference exceeded the acquisition value of all noncurrent assets (other than investments reported at fair value), the remainder would be treated as a special item in the flows statement.

Transfers of Operation

- Government combination involving the operations of a government or nongovernmental entity, rather than a combination of legally separate entities, and in which no significant consideration is exchanged.
  - Operation-an integrated set of activities with associated assets and liabilities that is conducted and managed for the purpose of providing identifiable services.

Transfers of Operations

- Entered into for similar reasons as government mergers
- Transfer date is the date the transferee government obtains control of the acquired operation's assets or becomes obligated for its liabilities.
  - If the transfer of operations results in the formation of a new government – the new government's initial reporting period begins at the effective transfer date
  - If the transfer of operations results in a continuing government – the continuing government should report the transfer as a transaction in the financial statements for the reporting period in which it occurs

Transfers of Operations

- Assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the transferred operation would be incorporated at their carrying value as of the effective transfer date

Disposals of Government Operations

- The disposing government would report a special item for any gain or loss on the disposal of operations in the period in which the disposal occurs, based on either
  - Effective transfer date of the transfer of operations, or
  - The date of sale for operations that are sold

Disclosures

- The following disclosures are required for all government combinations:
  - Brief description of the combination that
    - Identifies the entities involved and the primary reasons for the combination
    - Mentions whether the entities combined were part of the same financial reporting entity
    - Discloses the date of the combination
- Additional disclosures for
    - Mergers and transfers of operations
    - Acquisitions
    - Disposals of Operations

Effective Date and Transition

- Effective for financial statements for periods beginning after December 15, 2013
- Applied prospectively
- Earlier application is encouraged

GASB Statement 70

Accounting and Financial Reporting for Nonexchange Financial Guarantees

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Issued
April 2013

Effective for periods beginning after December 15, 2013

NO. 337-B | APRIL 2013

Governmental Accounting Standards Series

Statement No. 70 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Nonexchange Financial Guarantees

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Project Objective

- To improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions.

Scope of the Project

- LIMITED TO NONEXCHANGE TRANSACTIONS
  - Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving consideration in exchange (a nonexchange transaction).
  - As part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirement.
  - Some governments issue obligations that are guaranteed by other entities in a nonexchange transaction.

Scope Exclusions

- Does not apply to
  - guarantees related to special assessment debt within the scope of Statement 6
  - Exchange transactions
  - Exchange-like transactions

Financial Guarantees-Example

- A school district that *receives* a financial guarantee from the state government for the district's debt service payments on construction bonds it has issued.

What is a Nonexchange Financial Guarantee

A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity, including a blended or discretely presented component unit, which requires that guarantor to indemnify a third-party obligation holder, under specified conditions.

-Pledges of future revenues are not financial guarantees as they are contingent upon the collection of future revenues.

Liability Measurement – Economic Resources Measurement

- **A government should recognize a liability and expense** - when qualitative factors or historical data indicate that it is more likely than not that the government will be required to make a payment related to the nonexchange financial guarantees it extended for liabilities of other entities or individuals.
  - Initiation of the process of entering into bankruptcy or financial reorganization
  - Breach of a debt contract in relation to the guaranteed obligation, such as failure to meet rate covenants or coverage ratios, or default or delinquency in interest or principal payments
  - Indicators of significant financial difficulty, such as failure to transfer deposits from debt service funds to paying agents or trustees on a timely basis or drawing on a debt service reserve fund to make debt service payments.
  - A government that has historical data on the default frequency of a group of guarantees

Liability Measurement – Economic Resources Measurement

- The amount of the liability recognized should be:
  - The best estimate of the discounted future outflows related to the guarantee expected to be incurred, or
  - If there is no best estimate but a range of estimated future outflows can be established—
    - Discounted present value of the minimum amount within the range.
- Expenses related to nonexchange financial guarantees should be classified in the same manner as grants or financial assistance payments to other entities or individuals.

Liability Measurement –
Current Financial Resources Measurement

- **A government should recognize a fund liability and an expenditure to the extent the liability is normally expected to be liquidated with expendable available resources (when payments are due and payable on the guaranteed obligation)** - when qualitative factors or historical data indicates that it is more likely than not that the government will be required to make a payment as a result of nonexchange financial guarantees it extended on liabilities of other entities or individuals
- Expenses related to nonexchange financial guarantees should be classified in the same manner as grants or financial assistance payments to other entities or individuals.

Governments Issuing a Guaranteed Obligation

- Under both the economic resources measurement focus and the current financial resources measurement focus
  - If a government is required to repay a guarantor for nonexchange financial guarantee payments made on the government's obligations, the government should reclassify that portion of its previously recognized liability for the guaranteed obligation as a liability to the guarantor.
  - The government that issued the guaranteed obligation should continue to report its liability until that portion of the liability is legally released, such as when a plan of adjustment is confirmed by the court.
    - When a government is legally released as an obligor from the obligation and from any liability to the guarantor, the government should recognize a revenue to the extent of the reduction of its guaranteed liabilities.

Disclosures

- Any government that extends nonexchange financial guarantees should disclosure the following by type of guarantee:
  - Description of the nonexchange financial guarantee:
    - Legal authority and limits for extending the guarantees and types of obligations guaranteed.
    - The relationship to the entity or entities issuing the obligations that are guaranteed
    - Arrangements for recovering payments from the issuers of the obligations that are guaranteed
    - Length of time of the guarantees
  - The total amount of all guarantees extended that are outstanding

Disclosures

- A government that recognizes a nonexchange financial guarantee liability or has made payments during the reporting period on the guarantees extended:
  - Brief description of the timing of recognition and measurement of the liabilities and a table presenting the changes in recognized guarantee liabilities including:
    - Beginning of year balances
    - Increases, including initial recognition and adjustments increasing estimates
    - Guarantee payments made and adjustments decreasing estimates
    - End of year balances
  - Cumulative amounts of indemnification payments that have been made on guarantees extended that are outstanding
  - Amounts expected to be recovered from indemnification payments that have been made

Disclosures

- Governments that have outstanding obligations that have been guaranteed by another entity as part of a nonexchange transaction should disclose the following information about the guarantees by type of guarantee:
  - Name of the entity providing the guarantee
  - The amount of the guarantee
  - Length of time of the guarantee
  - Amount paid, if any, by the entity extending the guarantee on obligations of the government during the current reporting period
  - The cumulative amount paid by the entity extending the guarantee on outstanding obligations of the government
  - Description of requirements to repay the entity extending the guarantee
  - The outstanding amounts, if any, required to repay the entity providing the guarantee

Effective Date

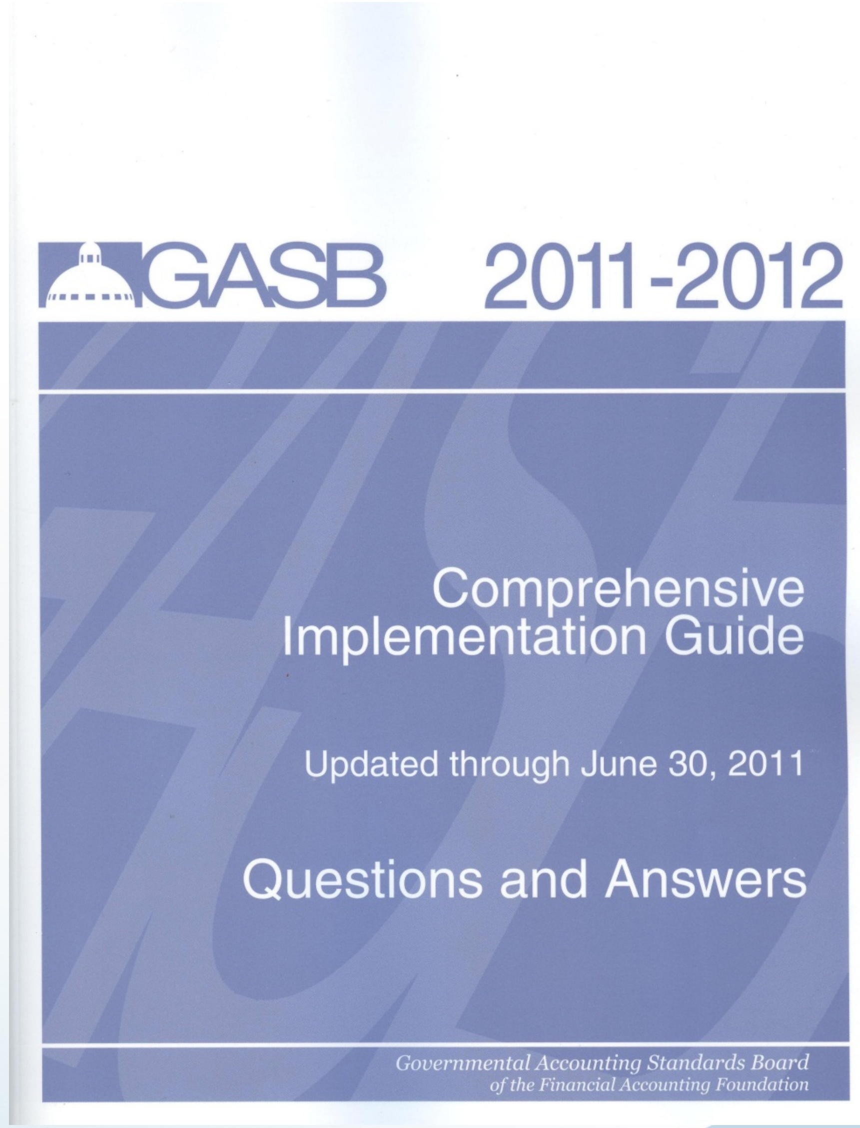
- Effective for periods beginning after June 15, 2013
- Earlier application would be encouraged

GASB's Comprehensive Implementation Guide

2013-2014 Edition

GOVERNMENTAL
ACCOUNTING
STANDARDS BOARD

- New guide to be issued soon!



Other Current Projects

Other Current Projects

- Economic Condition Reporting: Financial Projections (PV in November 2011) – on hold until scope issue resolved
- Conceptual Framework
  - Recognition and Measurement Attributes (PV in June 2011, ED on Measurement Concepts in June 2013)
- Fair Value Measurement and Reporting (PV issued instead of an ED in June 2013)
- Leases
- GAAP Hierarchy
- Other Postemployment Benefits
- Pensions—Technical Correction (ED issued in June 2013)
- Fiduciary Responsibility

GASB's Pre-Agenda Research

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Pre-Agenda Research

- Reexamination of the Financial Reporting Model—reexamination of Statements 34, 35, 37, 41, and 46, and Interpretation 6.
  - Management's discussion and analysis
  - Government-wide financial statements
  - Fund financial statements
  - Capital asset reporting
  - Budgetary comparisons
  - Special purpose government reporting
  - Related notes to financial statements
- Tax Abatement Disclosures —consider providing disclosure guidance for governments that have granted stand alone property tax abatement programs (SAPTAPs) or other abatements/subsides that share the same characteristics
  - Provide for decreased tax liability for select parcels
  - Serve a specific purpose beyond tax relief (spurring growth) – taxpayer receiving the abatement promises some performance
  - Are in effect for a limited time
  - Can stand alone without other incentives

Calling All Issues

- Agenda is full; however, emerging issues still need to be addressed
  - GASB is not fishing for issues
- If you have identified an issue that you believe warrants the GASB's attention, please submit that issue via email to director@gasb.org
- Agenda reviewed three times a year by the GASB

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