GASB Update

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The opinions expressed in this presentation are those of Mrs. Parker. Official positions of the GASB are established only after extensive public due process and deliberation.

Where Are We Now?

Effective Dates—June 30

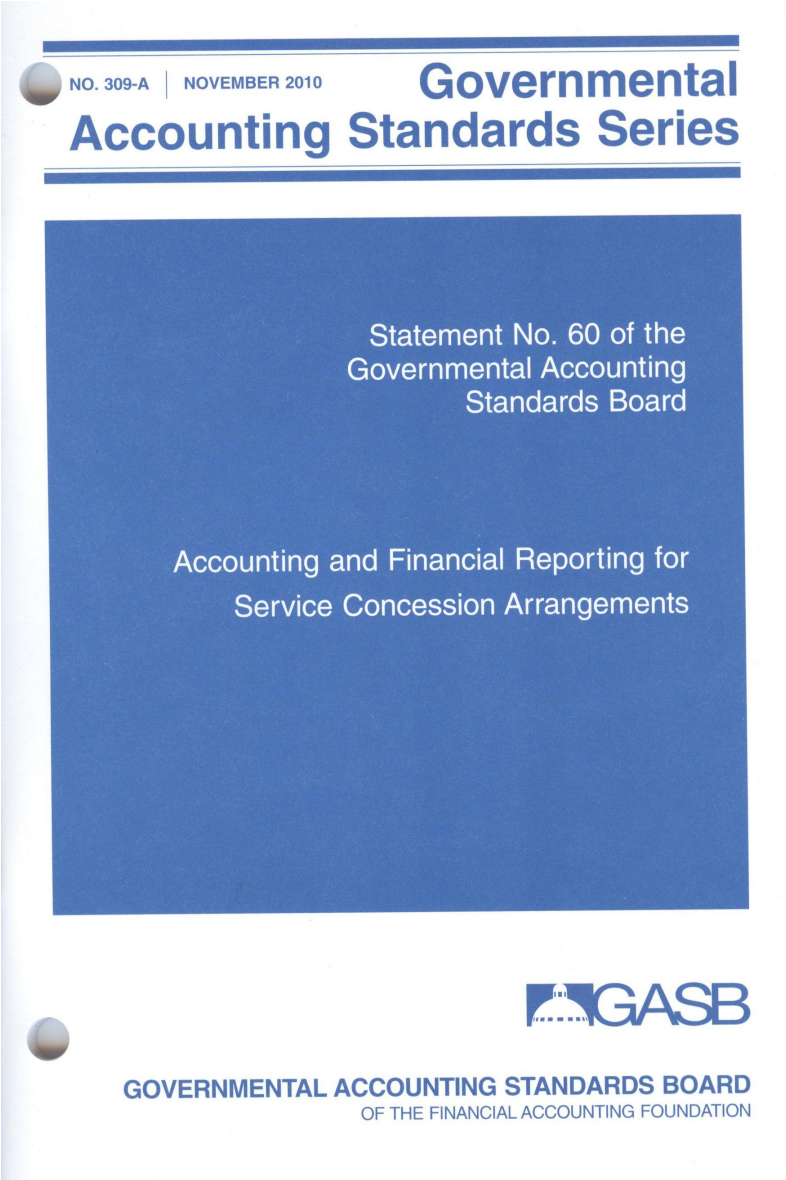
- June 30, 2013
  - Statement 60—Accounting and Financial Reporting for Service Concession Arrangements
  - Statement 61—The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)
  - Statement 62—Codification of Accounting and Financial Reporting Guidance Contained in 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
- June 30, 2015
  - Statement 68—Accounting and Financial Reporting for Pensions

GASB Statement 60

Accounting and Financial Reporting for Service Concession Arrangements

Issued
November 2010

Effective for periods beginning after December 15, 2011



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

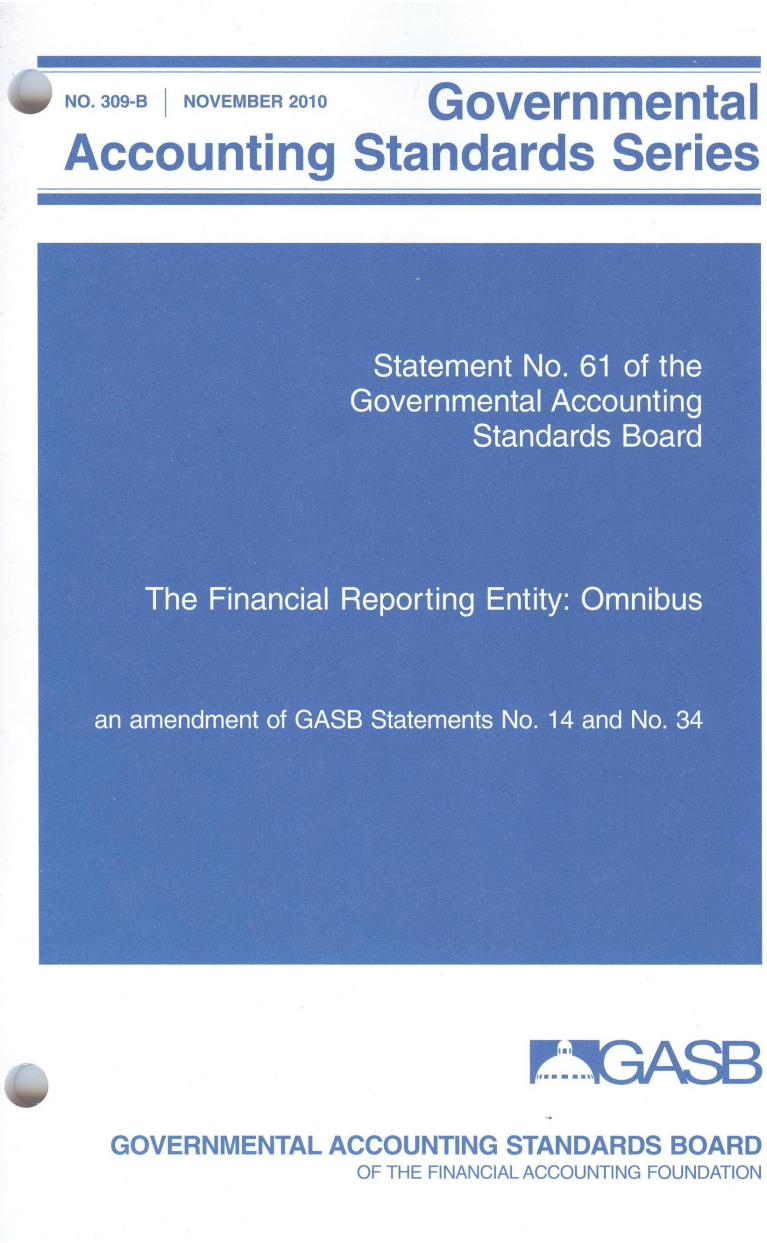
- Effective Date
  - Effective for financial statements for periods beginning after December 15, 2011
  - Earlier application is encouraged
  - The provisions generally would be required to be applied retroactively for all prior periods presented.

GASB Statement 61

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

Issued
November 2010

Effective for periods beginning after June 15, 2012


NO. 309-B | NOVEMBER 2010

Governmental Accounting Standards Series

Statement No. 61 of the Governmental Accounting Standards Board

The Financial Reporting Entity: Omnibus

an amendment of GASB Statements No. 14 and No. 34

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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 *each* 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

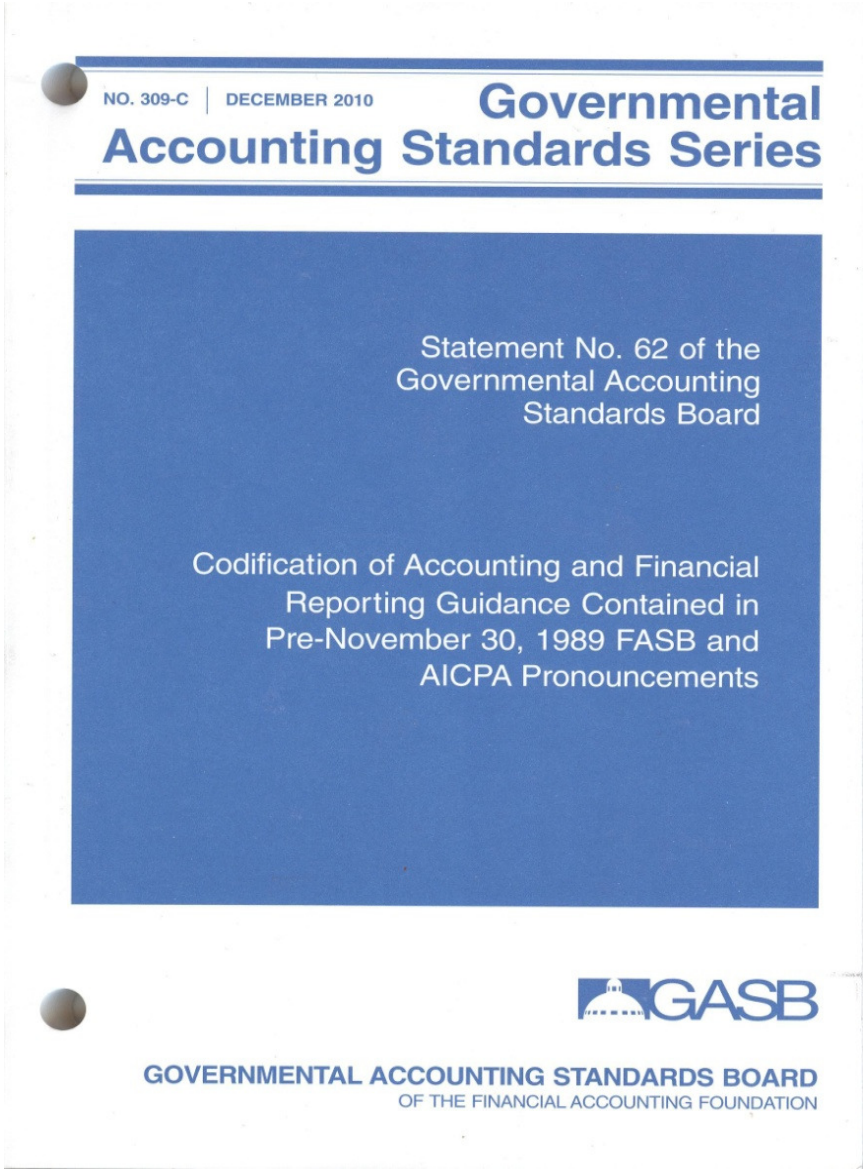
- Effective for financial statements for periods beginning after 6/15/12 (FYE 6/30/13 and 12/31/13)
- Earlier application is encouraged
- In the first period that the Statement is applied, changes made to comply should be treated as an adjustment of prior periods, and financial statements presented for 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

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

GASB

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.

Approach to Development of the Statement

- To determine what to carry forward as “Category A” GAAP, the Board divided the Pre-November 30, 1989 FASB and AICPA pronouncements into the following categories to facilitate deliberations:
  - Conflict with or contradict GASB standards
    - FASB Statement 4 –Gain or loss on debt extinguishments
    - FASB Statement 43—Compensated absences
  - Are not applicable to governments
    - FASB Statement 84—Convertible debt
    - FASB Statement 89—Changing prices
  - Rarely applicable (excluded)
    - FASB Statement 19--Oil and gas
  - Are applicable to governments
    - FASB Statement 5—Contingencies
    - FASB Statements 34 and 62–Capitalization of interest
  - Will be addressed in GASB projects (applicable, but excluded)
    - APB Opinion 16—Business combinations

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

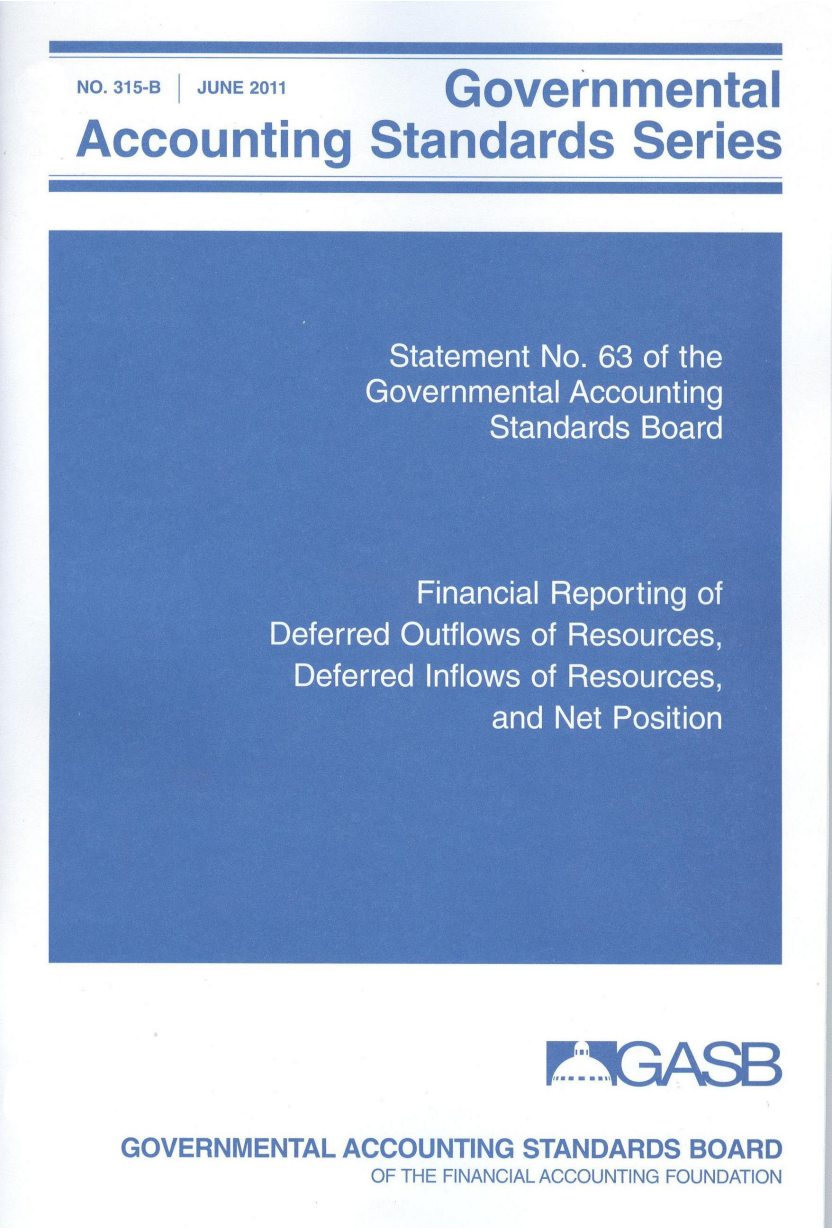
- Effective for financial statements for periods beginning after December 15, 2011
- Earlier application is encouraged
- Accounting changes adopted to conform with the provisions of the Statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented.

GASB Statement 63

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

Issued
June 2011

Effective for periods beginning after December 15, 2011



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 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 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

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

Project Approach

- Review balances to see if they meet the definition of an asset or a liability as defined in Concepts Statement 4
- If not, do they meet the definition of a deferred outflow or deferred inflow of resources
- 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

Project Approach

- 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 b a transferor government in a qualifying service concession arrangement.

- This statement amends the financial reporting elements previously classified as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

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
- **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
- **Inflow of resources**
  -An acquisition of net assets by the government that is applicable to the reporting period

Some Items That Retain the Classification as an Asset

- Prepayments
- Grants paid in advance of meeting eligibility requirements (other than timing)
- Rights to future revenues acquired from outside the reporting entity
- “Regulatory” assets (capitalized incurred costs)
- Pension asset (Plan net assets exceed total liabilities)

Some transactions in which the resulting item should be reported as a deferred outflow of resources (currently classified as assets)

- Grant paid in advance of meeting timing requirement
- Deferred amounts from the refunding of debt (debits)
- Costs to acquire rights to future revenues (intra-entity)
- Deferred loss from sale-leaseback

Some transactions in which the resulting item should be reported as an outflow of resources (currently classified as assets)

- Debt issuance costs (other than insurance)
- Initial direct costs incurred by the lessor for operating leases
- Acquisition costs for risk pools
- Loan origination costs

Some Items That Retain the Classification as a Liability

- Resources received in advance of an exchange transaction
- Derived tax revenue received in advance
- Premium revenues (risk pools)
- Grants received in advance of meeting eligibility requirements (other than timing)
- Refunds imposed by a regulator

Some transactions in which the resulting item should be reported as a deferred inflow of resources (currently classified as liabilities)

- Grants received in advance of meeting timing requirement
- Taxes received in advance
- Deferred amounts from refunding of debt (credits)
- Proceeds from sales of future revenues
- Deferred gain from sale-leaseback
- “Regulatory” credits (gains or other reductions)
- “Unavailable” revenue in governmental funds

Some transactions in which the resulting item should be recognized as an inflow of resources (currently classified as liabilities)

- Loan origination fees (excluding points)
- Commitment fees (after exercise or expiration)

Revenue Recognition in Governmental Funds

- Revenues and other governmental fund financial resources
  - -recognized in the accounting period in which they become both measurable and available
- 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

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

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

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

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

Fundamental Approach

- Balance between a point-in-time measure of the employer's obligation to employees and the measures **over time of the cost to taxpayers of providing governmental services**
- 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)

Does an Employer Remain Obligated for Unfunded Benefits?

Traditional pension accounting assumes that an employer's obligation for pension benefits is effectively transferred to the pension plan.

- If for some reason the pension plan did not have sufficient resources to make benefit payments, retirees of course would turn to the employer for promised benefit payments

SO, should the employer be considered to remain obligated for any difference between projected benefits payments and plan net position available for benefits??

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

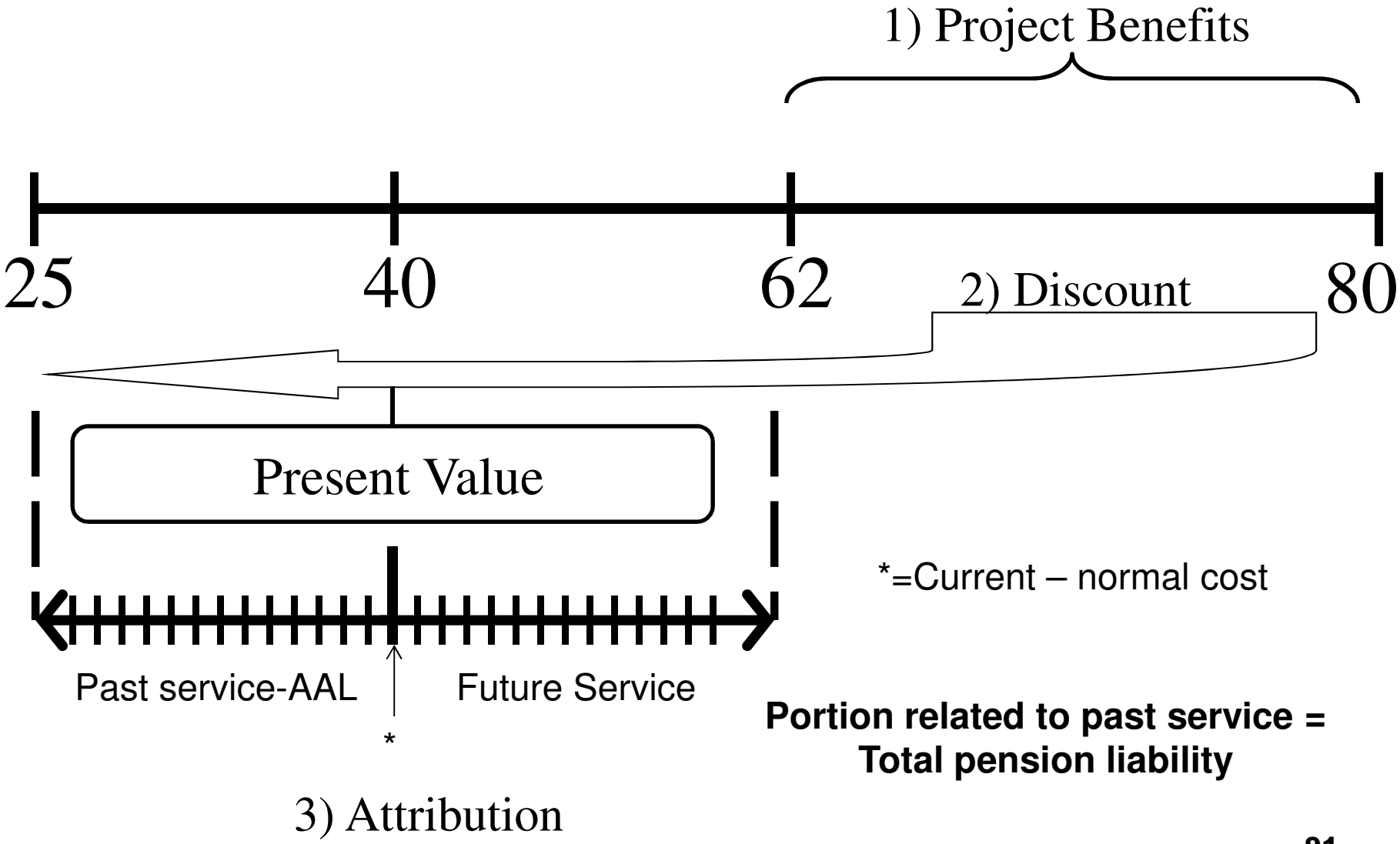
- If plan net position exceeds the employer's total pension liability, the excess should be reported as an asset.
- Unpaid contributions (due but not yet paid) pursuant to contractual or statutory provisions should be reported as a liability (as would any other accounts payable), separate from the net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



*=Current – normal cost

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

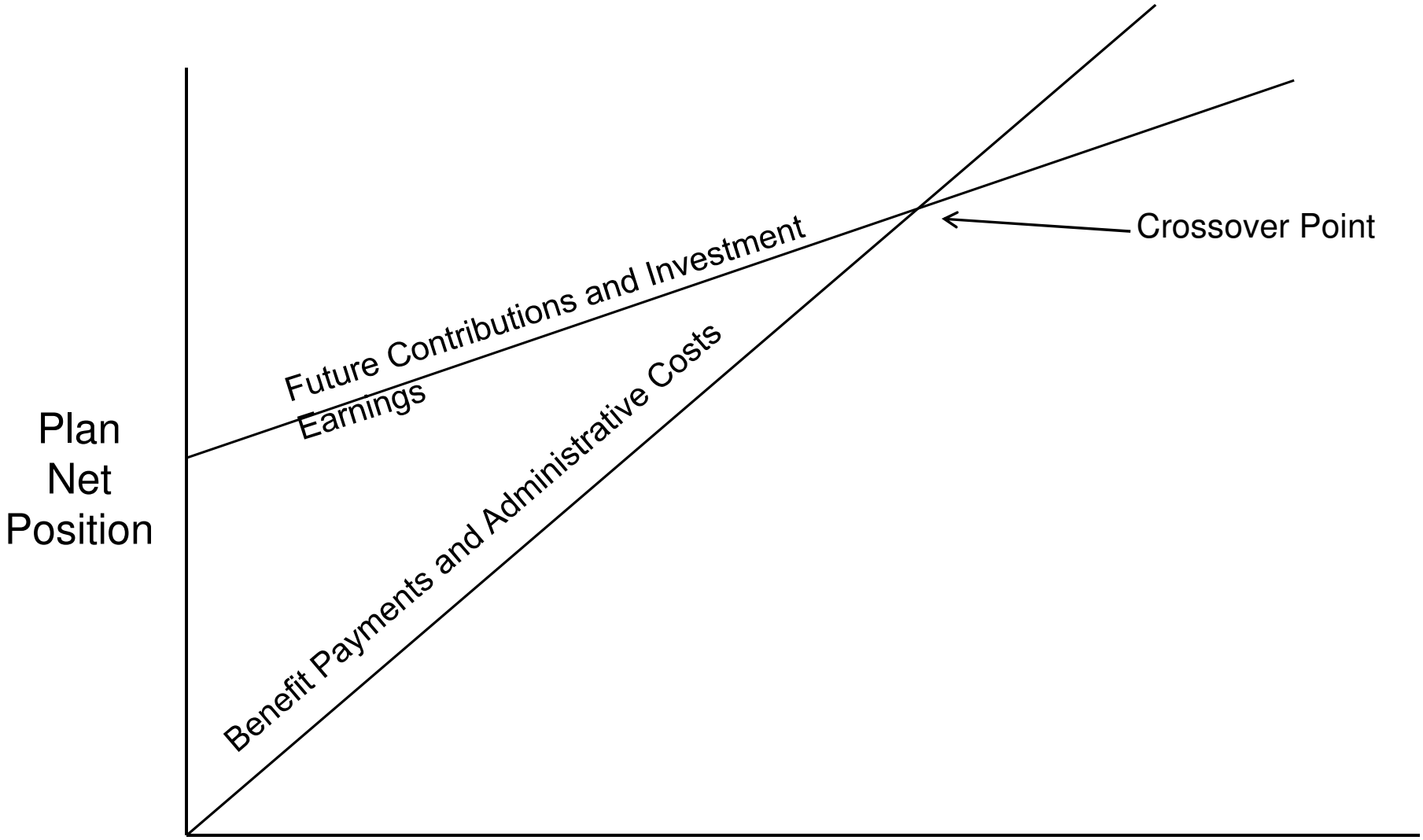
Discount Rate

- 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 to the extent that current and expected future plan net position available for pension benefits are projected to be sufficient to make benefit payments
  - 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 (ED was for 30-year, and did not allow for the yield on tax-exempt GOBs)
- 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 principles (used to be 6 methods available)
  - 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

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 actuarial 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

Measuring Pension Expense

- Pension expense in the financial statements is a product of the following:
  - Employees work and earn more benefits
  - The outstanding liability accrues interest
  - Changes in the measurement of the total pension liability due to:
    - Actual economic and demographic changes differing from what was assumed
    - Changing the assumptions about economic and demographic factors
    - Changes in the terms of pension benefits
  - Changes in the measurement of plan net position due to:
    - Expected investment earnings
    - Effects other then investment earnings, such as receipt of contributions from the employer and employees and payment of benefits
    - The difference between actual investment earnings and what was expected.

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

Expense Recognition

- Immediate recognition as expense for all persons covered by the plan:
  - Employees work and earn more benefits
  - The outstanding liability accrues interest
  - Changes in the measurement of the total pension liability due to:
    - Changes in the terms of pension benefits
  - Changes in the measurement of plan net position due to:
    - Expected investment earnings
    - Effects other then investment earnings, such as receipt of contributions from the employer and employees and payment of benefits
- More accelerated basis than what is currently required

Deferred Expense Recognition

- The effects of the following would be reported as a deferred pension inflow or outflow of resources and then introduce part of that amount into expense over a period equal to the remaining service periods of plan members (which would be 0 for retirees)
  - Differences between expected and actual changes in economic and demographic factors
  - Changes in the assumptions about economic and demographic factors

Deferred Expense Recognition

- Differences between actual and projected earnings on plan investments would be deferred and recognized as pension expense over a five-year, closed period

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

Disclosures – All governments participating in a defined benefit pension plan

- Description of the plan and benefits provided
- Significant assumptions used in the measurement if the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and the impact on the total liability of a 1 percent change in the discount rate
- Net pension liability and deferred outflows of resources and deferred inflows of resources

Disclosures – Single and Agent Governments

- For the current period – beginning and ending balances of the total pension liability, assets held for pension benefits, and the net pension liability, and their components (such as the effects of service cost, benefit changes, and projected investment earnings)

RSI – 10 Year Schedules Of:

Single and Agent Governments

- The beginning and ending balances of the total pension liability, the plan trust's net position, and the net pension liability, and their components
- (1) Total pension liability, (2) the plan trust's net position, (3) the net pension liability, (4) a ratio of 2 divided by 1, (5) covered-employee payroll, and (6) a ratio of 3 divided by 5

RSI

- If single or agent governments have an actuarially determined annual pension contribution (or, if not actuarially determined, then statutorily or contractually determined), the following 10 year schedules are also required:
  1. The actuarially, statutorily, or contractually determined annual pension contribution
  2. The amount of the employer contribution actually made
  3. The difference between 1 and 2
  4. The payroll of employees covered by the plan
  5. A ratio of 2 divided by 4

RSI

- Governments are now required to present notes to the RSI schedules regarding factors that significantly affect the trends in the schedules
- For single and agent employers – significant assumptions should also be disclosed

Cost-Sharing Employers

Current Requirements

- Reflect the pooling of risks and assets
- 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
- USERS want to know if a government in a cost-sharing plan, like other government employers, incurred an obligation to provide pensions to employees as they have worked.

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

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

Disclosures

- Employer notes and RSI—would separately show the other government's involvement in financing the pension benefits
- Other government notes and RSI—
  - If more than a substantial proportionate share:
    - Similar to requirements for cost-sharing employers
  - If less than a substantial proportionate share:
    - Limited disclosures and RSI

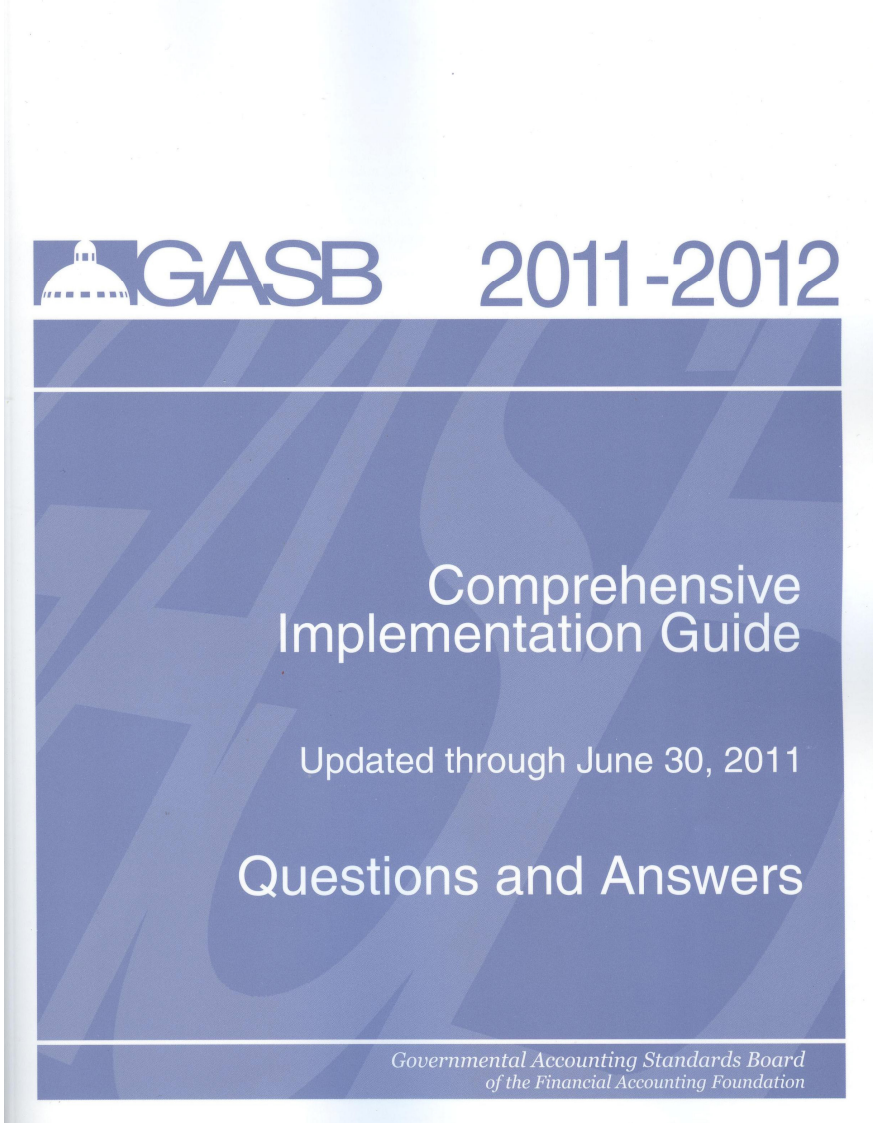
Defined Contribution Plans

- 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.

GASB's Comprehensive Implementation Guide 2011-2012 Edition

- Released in October 2011

- New guide to be issued soon!

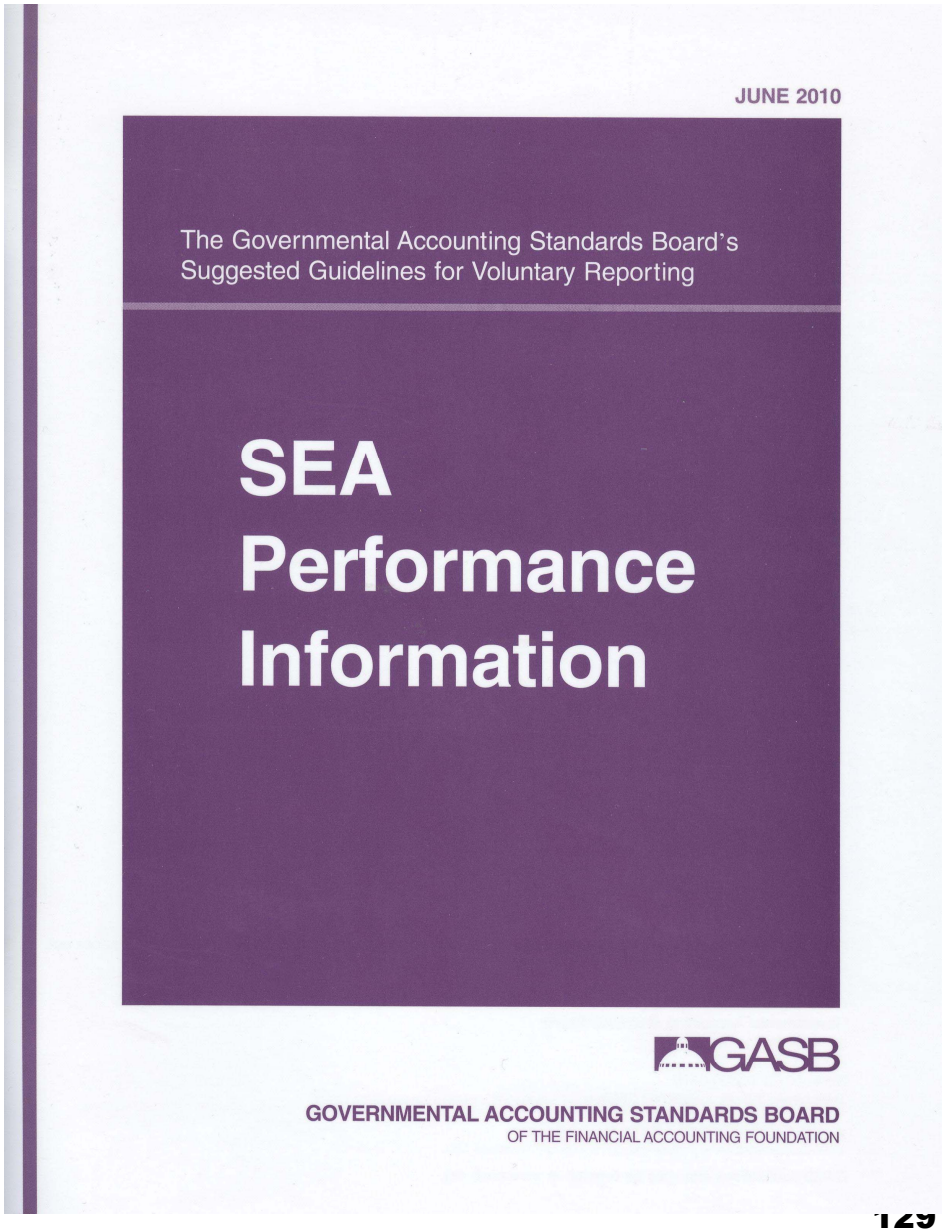


GASB's Suggested Guidelines for Voluntary Reporting

SEA Performance Information

Suggested Guidelines for Voluntary Reporting

Issued in June 2010



Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

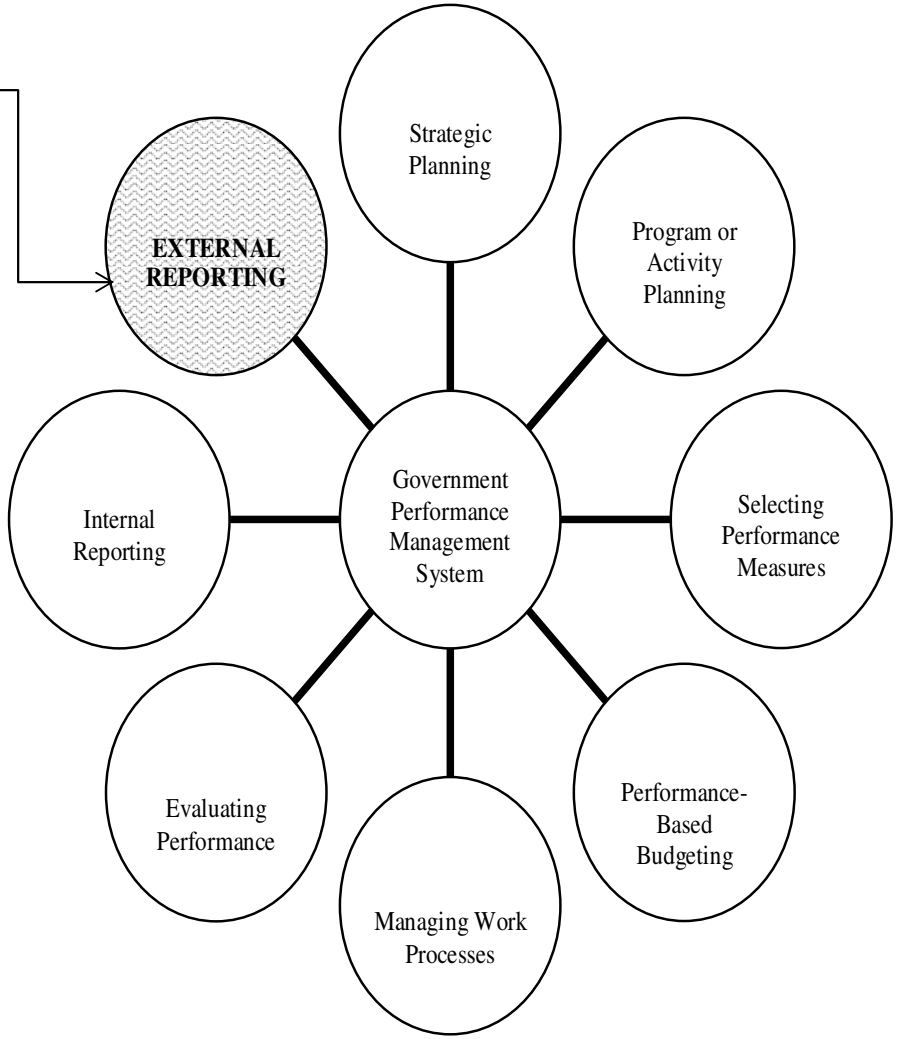
- Conceptually based suggested guidelines for voluntary reporting of Service Efforts and Accomplishments (SEA) Performance Information

  - What the project is:
    - Focus on voluntary reporting
    - Focus on suggested guidelines
    - Focus on clarifying GASB's role

  - What the project is not:
    - Establishing performance measures
    - Establishing performance benchmarks
    - Establishing reporting standards
    - Requiring SEA reporting

Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

Sole Focus
Of GASB
Efforts



Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

- Suggested Guidelines for Voluntary Reporting, *SEA Performance Information* composed of three parts:
  - Four **essential components** of an effective SEA **report**
  - Six **qualitative characteristics** that are appropriate for reporting SEA **performance information**
  - A discussion of how to **effectively communicate** SEA performance information

Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

FOUR ESSENTIAL COMPONENTS

Provide guidance to assist preparers of SEA reports in effectively communicating SEA performance information to users

- ✓ Purpose and Scope
- ✓ Major Goals and Objectives
- ✓ Key Measures of SEA Performance
- ✓ Discussion and Analysis of Results and Challenges

Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

SIX QUALITATIVE CHARACTERISTICS

Provide further guidance in the application of the essential components—assist users in comprehending and assessing government programs and services

- ✓ **T**imeliness
- ✓ **U**nderstandability
- ✓ **C**omparability
- ✓ **C**onsistency
- ✓ **R**elevance
- ✓ **R**eliability

Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

EFFECTIVE COMUNICATION

Provide further guidance on the effective communication of SEA performance information

- ✓ Intended Audiences
- ✓ Forms of Communication
- ✓ Multiple Levels of Reporting

Other Current Projects

Other Current Projects

- Economic Condition Reporting: Financial Projections
- Conceptual Framework
  - Recognition and Measurement Attributes
- Government Combinations
- Financial Guarantees
- Fair Value Measurement and Reporting
- GAAP Hierarchy
- User Guide Series

GASB's Economic Condition Reporting: Financial Projections Project

Preliminary Views Document issued in December 2011
Comment Period ended March 16,2012
2 Public Hearings held on March 29, 2012 and April 17, 2012
2 User Discussions held on April 19, 2012 and May 1, 2012
Field Test Conducted

What Are the Conceptual Underpinnings?

- NCGA Concepts Statement 1, *Objectives of Accounting and Financial Reporting (1982)*
- GASB Concepts Statement No.1, *Objectives of Financial Reporting* (1987)
- GASB Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements* (2005)

NCGA Concepts Statement 1

- Information concerning financial condition of the governmental unit.
  - To provide financial information useful for determining and *forecasting* the financial condition of the governmental unit and changes therein

GASB Concepts Statement 1

- Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.

  a. Financial reporting should provide information about the *financial* position and *condition* of a governmental entity.

GASB Concepts Statement 3

- During the deliberations, working definitions were developed for:
  - Economic Condition
    - Financial Position
    - Fiscal Capacity
    - Service Capacity

Concepts Statement No. 3—Working Definitions

- Economic Condition—Economic condition is a composite of a government's financial position and its ability and willingness to meet its financial obligations and service commitments on an ongoing basis. Economic condition includes three components: financial position, fiscal capacity, and service capacity.

  Financial Position—Financial position is the status of a government's assets, liabilities, and net assets, as displayed in the basic financial statements.

  Fiscal Capacity—Fiscal capacity is the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis.

  Service Capacity—Service capacity is the government's ability and willingness to meet its commitments to provide services on an ongoing basis.

What is the Origins of the Economic Condition Reporting Project?

- 1984—Part of the original technical agenda
- 1988—Dr. Robert Berne study, *The Relationships between Financial Reporting and the Measurement of Financial Condition* (completed and published in 1992)
- Economic condition reporting project added to the long-term technical agenda in 1993
  - Reporting model development until 1999

Project History—Economic Condition Reporting

- User Needs Study—Dr. Gilbert Crain (completed in 2000)
- Phase 1—Background research, including literature review (completed in 2002 and updated in 2006)
- Phase 2—Statististical Section (Statement No. 44, *Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1*) issued in 2004)
  - User panels—2002
  - Surveys—2002 (users, preparers, auditors)

GASB Statement 44

- Formally introduced the term economic condition to
  - Avoid confusion associated with the other terms (financial position, financial condition)
  - Embody a comprehensive notion of the assessments of financial health

Project History—Financial Projections

- *Results of Research on Economic Condition Reporting: Fiscal Sustainability* (report issued 2009)
  - User roundtable discussions
  - Telephone interviews
- Added to the current technical agenda in December 2009
- February 2010—Task force established
- August 2010—Board deliberations formally began

Why Now?
Current Environment

- Many governments are under financial stress
- Financial statement users are looking for the pressure points
  - Weakness in revenue sources
  - Calls on resources
- Users need financial projections to assess a government's fiscal sustainability

Why Now?
Other Standard Setters

- Not a “me too” reaction; however, other standards setters have addressed or are deliberating the fiscal sustainability issue
  - FASAB Statement 36, *Comprehensive Long-Term Projections for the U.S. Government* (2009)
  - IPSASB Exposure Draft, *Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances* (2011)—soon to be issued—Proposed Recommended Practice Guideline

Project Objectives

- Identify the information that users of governmental financial information need to assess a governmental entity's fiscal sustainability
- Compare those needs with the information that users receive under the current accounting and financial reporting standards
- Consideration of the information users identified as necessary to assess the risks associated with intergovernmental financial dependencies

Project Objectives

- Consider whether additional guidance or guidelines should be provided based on the information needed by users
- Determine the preferable methods of communicating any additional information, if applicable
- Develop a definition for fiscal sustainability

- **Basic Facts about GASB's Project can be found at http://www.gasb.org/facts/Economic_Condition_Reporting_Fact_Sheet.pdf**

Project Name Change

- In August 2011—Project name changed to Economic Condition Reporting: *Financial Projections*
  - The government is providing financial projections
  - The user is making an assessment of the government's fiscal sustainability

What is *economic condition*?

- Economic Condition—Economic condition is a composite of a government's financial position, fiscal capacity, and service capacity. (**Redundancies removed**)

  Financial Position—Financial position is the status of a government's assets, **deferred outflows**, liabilities, **deferred inflows**, and **net position**, as displayed in the basic financial statements.

  Fiscal Capacity—Fiscal capacity is the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis.

  Service Capacity—Service capacity is the government's ability and willingness to meet its commitments to provide services on an ongoing basis.

What is Fiscal Sustainability?

- A number of formal or working definitions of fiscal sustainability or related terms have been developed by standard setters, national governments, and other organizations (FASAB, IPSASB, Australian commonwealth, UK national government, and CICA)
- Common themes include the ability to:
  - Continue public services or existing programs
  - Meet financial commitments both now and in the future

GASB's Tentative Definition of Fiscal Sustainability

- A government's ability and willingness to:
  - Generate inflows of resources necessary to honor current service commitments and
  - Meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits.

Is There a Link Between Economic Condition and Fiscal Sustainability?

- Elements of economic condition include information as of a specific point in time that provides the ability for users to make assessments about the future
- Fiscal sustainability is the forward looking aspect of economic condition (fiscal and service capacity)
  - Based on Projection—estimate of future possibilities based on a current trend
  - Not a Forecast—prediction of future event or condition

Specific Components of Fiscal Sustainability Information

- Projections of the major individual inflows of resources by source
  - In dollars and as a percentage of total inflows of resources
  - Explanations of the known causes of resource fluctuations (including nonrecurring resources)
- Projections of the major individual outflows of resources by program or function (alternatively by object)
  - In dollars and as a percentage of total outflows of resources
  - Explanations of the known causes of resource fluctuations
  - Beginning and ending cash and cash equivalents balances
- Projections of major individual financial obligations and total financial obligations including bonds, pensions, OPEB, and long-term contracts
- Projections of annual debt service requirements (principal and interest) – deleted as within projections of cash outflows
- Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies

Determining What is Considered Major

- Individual inflow, outflow, and financial obligation
  - 10% of total inflows, outflows, and financial obligations for all activities of that type (total governmental or total business-type) in any of the projection periods reported
  - All cash outflows for capital outlays and capital-related cash inflows
  - All cash outflows related to debt service payments
  - Any others that government officials believe are important to users

Determining What is Considered Major

- Intergovernmental service interdependencies
  - Matter of professional judgment

- Working definition:
  - An intergovernmental service interdependency exists when one governmental entity provides a service on behalf of another governmental entity or together with one or more governmental entities.

Basis and Methodology for Making Projections

- Basis—Foundation for applying the methodology and assumptions
  - Current policy with known changes that are effective in future periods
- Methodology—Process used when making projections
  - Informed by historical information and known events or conditions that affect the future

Assumptions for Projections

- Principles-based approach for providing guidance on how to identify and develop assumptions which would not specifically identify the assumptions necessary for projecting the components of fiscal sustainability information
- Principles provide that assumptions should be based on relevant historical information as well as events and conditions that have occurred and affect the future, that are:
  - Consistent with each other and the information used as the basis for the assumptions
  - Comprehensive by considering significant trends, events, and conditions
- Assumptions used by the government should be disclosed

Assumptions for Projections

- Assumptions used in the projections of cash outflows related to debt service payments should include the minimum debt service requirements disclosed in the notes to the financial statements, plus the debt service on debt obligations that have been authorized, not yet issued, but are expected to be issued within the projection period and that this assumption should be disclosed.
- The government should disclose the basis of the assumptions used. For example, policy, historical trend, or a known event or condition.

Period for Projections

- Federal government—75 years
- GASB—Five individual years beyond the reporting period (PV was for a minimum of five years)

Reporting Entity

- All governmental entities should be required to report financial projections and related narrative discussions
- Primary government, including both
  - Governmental activities
    - General Fund
    - Other Governmental Activities
  - Business-type activities
    - Net subtotals (inflows less outflows) for each type and for the entire primary government
  - Note disclosures in instances when one or more activities are determined to significantly affect (positively or negatively) the fiscal sustainability of the primary government
- Discretely presented component units should not be included

Basis of Accounting

- Cash basis
  - Projections of inflows and outflows
- Accrual basis
  - Projections of financial obligations
- Disclosure of the basis being used
- Notes to explain those instances when the reported inflows and outflows do not reflect the full extent of the impacts on a governmental entity's fiscal sustainability

Where Should this Information Be Reported?

- Alternatives (Concepts Statement 3)
  - Essential for displaying the inflows or outflows from transactions or other events during a period of time or essential for displaying financial position of the reporting entity at a moment in time— basic financial statement
  - Essential to a user's understanding of inflows and outflows or financial position but, unsuitable for recognition in financial statements—notes to the basic financial statements
  - **Essential for placing basic financial statements and notes to basic financial statements in an appropriate operational or economic context—required supplementary information**
  - Useful for placing basic financial statements and notes to basic financial statements in an appropriate operational or economic context—supplementary information

Required Cautionary Notice

- Cautionary Notice should be provided preceding the financial projections and related narrative discussions
- Caution readers that actual results may differ from those reported in the financial projections

GASB's Conceptual Framework Project

Preliminary Views Issued in June 2011
Comments through September 30, 2011

Recognition and Measurement Attributes Concepts Statement

Primary project objectives (Recognition):

- Develop recognition criteria for *whether* information should be reported in state and local government financial statements
- and *when* that information should be reported

Secondary objective (Measurement Approach):

- Focuses on *how* an asset or liability presented in a financial statement should be reported. At an amount that reflects the value when:
  - The asset was acquired or the liability incurred (initial amount)
  - Remeasured to reflect the value at the date of the financial statements (remeasured amount)

Recognition of Elements of Financial Statements

Board's Preliminary Views

- July-tentatively agreed on definition:
  - The economic resources measurement focus incorporates all outflows of resources and inflows of resources and all assets, liabilities, deferred outflows of resources, and deferred inflows of resources.
- Financial statements prepared using the economic resources measurement focus (government-wide), an item should be recognized, and therefore reported as an element when it meets BOTH of the following criteria:
  - Item meets the definition of an element (as defined in Concepts Statement 4)
  - Item is measurable with a sufficient degree of reliability (in July changed to sufficiently reflect all the qualitative characteristics- not tp place undue emphasis on one)

Recognition of Elements of Financial Statements

Board's Preliminary Views

- July-tentatively agreed to explicitly identify a three-step hierarchy for recognition concepts for financial statements prepared using the economic resource measurement focus (consistent with approach used in Statement 65):
  - Item is evaluated as to whether it meets the definition of an asset or a liability
  - If no, the item is evaluated as to whether it meets the definition of a deferred outflows of resources or deferred inflow of resources
  - If no, the item is evaluated as to whether it meets the definition of an outflows of resources or inflow of resources

Recognition of Elements of Financial Statements

Board's Preliminary Views:

- Financial statements prepared using the current financial resources measurement focus (fund statements) should be replaced with the near-term financial resources measurement focus, which recognizes balances from a near-term perspective and flows of financial resources for the reporting period.
- The period to which near-term refers should be considered in standards rather than a concept statement

Current Financial Resources

- Recognizes the net effect of transactions on current financial resources by recording accruals for those revenue and expenditure transactions which have occurred by year-end that are normally expected to result in a cash receipt or disbursement within a specified period after year-end (confusion – is it 60 days like deferred property taxes or 1 year.)

Current Financial Resources

- Defer the recognition of revenue received in advance until it is earned
- Do not defer and amortize the cost of assets consumed in more than one period, such as supplies and prepaid items, but report the use of the financial resources when the assets are acquired
- Fixed assets are not capitalized and depreciated but are shown as expenditures when purchased

Near-term

- Refers to the period subsequent to the financial report date- more clearly describes the concept than “current”
- Financial resources at period-end can be converted to cash to satisfy obligations for spending or the reporting period
- Provides information to assess near-term liquidity
- The assets recognized are financial resources that were available for spending during the reporting period- normally receivable at period-end and due to convert to cash within the near term
- The liabilities recognized are those normally payable at period-end and due within the near term

Near-term

- Outflows of resources are recognized as spending occurs for the period- payments made during the reporting period and shortly after period end
- Inflows of resources are recognized for newly acquired financial resources that were available for spending for that reporting period- received in cash during the reporting period and shortly after period end
- Provides information about the spending of the period, the resources acquired during the period, and the remaining net resources that were available for spending during the period and that remain unspent at period end
- Net position would not present a complete portrayal of financial position because it excludes items of a long-term nature (capital assets, pension obligations, long-term debt)

Deferred Outflows and Inflows of Resources

Board's Preliminary Views:

- Deferred outflows and inflows of resources recognized in financial statements prepared using the economic resources measurement focus would include:
  - Outflows of resources that do not meet the definition of an asset and are inherently related to services that the government will provide in future periods
  - Inflows of resources that do not meet the definition of a liability and can only be used in the future
  - Inflows of resources related to items that were not previously recognized as assets in the financial statements (future resources)
  - Outflows and inflows of resources related to changes in the fair value of recognized assets and liabilities when the item is related to an inflow or outflow of resources that will occur in the future

Deferred Outflows and Inflows of Resources

Board's Preliminary Views:

- Deferred outflows and inflows of resources recognized in financial statements prepared using the near-term financial resources measurement focus would include:
  - Outflows of resources that do not meet the definition of an asset and are inherently related to future spending
  - Inflows of resources that do not meet the definition of a liability and can only be used for spending in the future

Measurement Approaches

- Initial-Transaction-Date-Based Measurement (Initial Amount)
  - The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount, such as through amortization or depreciation
- Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)
  - The amount assigned when an asset or liability is remeasured as of the financial statement date, including fair value; current acquisition, sales, and settlement price; replacement cost; and value-in-use

Measurement Approaches

Board's Preliminary Views:

- Neither measurement approach is best for all objectives
- Initial amounts are more appropriate for:
  - Assets that are used directly in providing services
- Remeasured amounts are more appropriate for:
  - Assets that will be converted to cash
  - Variable-payment liabilities, such as compensated absences or pollution remediation obligations

Next Steps

- June 2013 – Exposure Draft issued
- July-September 2013 – Comment period
- May 2014 – Final Concepts Statement issued

Government Combinations

Exposure Draft approved on 3/7/12
Comment Period through 6/15/12
Expected issuance of final standard 1/2013

Project Objectives

- Consider the financial reporting requirements for government combinations that are accomplished through mergers and acquisitions
- 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.
- Because this separate project was on the Board's agenda, did not incorporate into Statement 62

Project Objectives

- Sometimes separate legal entities (of which one or more may be nongovernmental) combine to form a completely new legal entity (A+B=C)
  - All of the combining entities lose their separate legal identity
- Sometimes one or more separate legal entities (of which one or more may be nongovernmental)combine, with one of the combining entities retaining its legal identity, but others losing theirs (A+B=B+)
- In some cases, an exchange of significant consideration takes place, in others it does not

Overall Approach

- The ED distinguishes between government combinations that involve significant (or lack) of financial consideration - **government acquisitions**

And

- Other government combination arrangements, without the presence of financial consideration - **government mergers**

- These 2 types of combinations involve entire legal entities – also could be only specific operations of a separate legal entity that are affected ("Spin off" of a library to for a legally separate library district) – **transfer of operations**

Tentative Decisions

- Distinguishing principle between a combination (acquisition, merger, or transfer of operations) and a contribution of assets and liabilities is **whether there is service continuation - government continues to provide services formerly provided by the formerly legally separate entities**

Government Mergers

- May result in an entirely new government (A+B=C)
  - Merger date is the date the combination becomes effective
  - The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities would be measured at their “carrying value” as of the merger date

Government Mergers

- May result in a single continuing government (A+B=B+)
  - 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)
  - The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities would be measured at their “carrying value” as of the merger date

Government Acquisitions

- No distinction between those involving the creation of a new government and those involving a continuing government
  - 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
  - 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.

Transfers of Operations

- Transfer date is the date the transferee government obtains control of the acquired operation's assets or becomes obligated for its liabilities.
  - If a new government is formed (library department – library district), the transfer date would be the start of the new government's initial reporting period
  - If operations are assumed by a continuing government, the continuing government would report the transfer as a transaction as of the transfer date

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 transfer date

Disposals of Government Operations

- Governments that transfer their operations would report a special item for any gain or loss on the disposal

Disclosures

- ED proposes the following disclosures 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
    - Government acquisitions

Financial Guarantees

Exposure Draft issued – 6/18/12
Comment period through – 9/28/12

Project Objective

- To establish additional guidance regarding the recognition and disclosure of financial guarantees made and received by state and local governments

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 of equal value 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
- Does not apply to guarantees related to special assessment debt within the scope of Statement 6

Financial Guarantees-Example

- A state government that guarantees the debt issued for construction of capital assets for qualifying school districts within the state

What is a Guarantee

A financial guarantee extended that is a nonexchange transaction is a guarantee of an obligation of a legally separate entity that requires that guarantor to indemnify a third-party entity, the obligation holder, under specified conditions

Liability Measurement – Economic Resources Measurement

- **A government should recognize a liability and expense** - when qualitative factors indicate that it is more likely than not that the government will make a payment on the guarantee
  - Initiation of the process of entering into bankruptcy or a financial reorganization
  - Breach of a debt contract in relation to the guaranteed obligation, such as a failure to meet rate covenants or coverage ratios
  - Indicators of significant financial difficulty

  OR
- For governments extending similar nonexchange guarantees to more than one individual or entity and historical data indicates that it is more likely than not that the government will make a payment of the guarantee
  - For example, a government that has historical data on the default frequency of a group of guarantees

Liability Measurement – Economic Resources Measurement

- The amount recognized should be:
  - The best estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee, or
  - If there is no best estimate but a range of estimated future outflows can be established in which no amount within the range appears to be a better estimate than any other amount- the minimum amount in the range should be recognized

Liability Measurement – Current Financial Resources Measurement

- **A government should recognize a fund liability and 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 make a payment on the guarantee

Governments Receiving a Financial Guarantee

- When a government is required to repay a guarantor for payments made on the government's obligations, the government should reclassify that portion of its liability for the guaranteed obligation as a liability to the guarantor.
- The government that issued the guaranteed obligation should continue to report the obligation as a liability until all or a portion of the liability is legally released.
- When a government is legally released as an obligor from its own obligations and from any liability to the guarantor, the government should recognize a revenue to the extent of the reduction of guaranteed liabilities

Disclosures

- Nature of the guarantees extended:
  - Description of the obligations that are guaranteed for each type of financial guarantee extended
    - Legal authority and limits for providing financial guarantees
    - Relationship between the guarantor and the entity or entities issuing the obligations that are guaranteed
    - Description of arrangements for recovering payments from the issuers of the obligations that are guaranteed
    - Length of time of the guarantees

Disclosures

- For guarantees extended that have been recognized as liabilities in the financial statements:
  - 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
  - Amount of guarantees that are outstanding
  - For outstanding guarantees in which indemnification payments have been made:
    - Cumulative amounts paid toward guarantees outstanding
    - Amounts expected to be recovered

Disclosures

- Governments that has outstanding obligations that have been guaranteed by another entity 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 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 amount required to repay the entity providing the guarantee

Effective Date

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

Next Steps

- Comment period ends — 9/28/12
- Issuance of final standard — March 2013

Fair Value Measurement and Application

Objectives of the project

- Review and consider alternatives for:
  - Further development of the definition of fair value
  - Methods used to measure fair value
  - Potential disclosures about fair value measurements
- Address issues of fair value measurement of alternative investments:
  - Private placements and hedge funds
  - Real estate investment trusts
  - State land trusts
  - Partnership interests

Project Parts

- Part 1 – Addresses the definition of fair value and potential measurement techniques
- Part 2 – Addresses specific issues involving the application of fair value measurement to specific assets and liabilities, including donated capital assets and fair value measurement in governmental funds
  - Will not begin until Part 1 is completed

Major Tentative Decisions-Part 1

- Consistent with the Board's Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches,* a fair value definition has the potential to apply to assets and liabilities and should not be limited solely to financial instruments, including investments.
- In relation to markets, fair value should be a market-based measurement rather than an entity-specific measurement.
- Fair values should be based on a government's principal market or, when there is not a principal market, on the government's most advantageous market.
- Using the FASB and IASB definition of fair value as a basis for the development of a comprehensive fair value definition, a revised definition of fair value should no longer refer to willing parties. Instead, a fair value definition should refer to market participants.

Major Tentative Decisions-Part 1

- In relation to orderly transactions, a revised definition of fair value should refer to orderly transactions as defined by the FASB and IASB.
- A fair value measurement for financial and nonfinancial assets should represent an exit price.
- An exit price for an asset should be the price that would be received in a sale. An exit price for a liability should be the price paid to transfer a liability.
- A fair value standard for governments should not contain a practicability exception that would be applied when considering whether a transaction price is a fair value.
- The measurement of the fair value of a government's liability should take into consideration the credit standing of that government.

Major Tentative Decisions-Part 1

- A fair value measurement of a nonfinancial asset should represent the value of the asset at its highest and best use as determined by market participants.
- A nonfinancial asset's highest and best use should be measured according to a valuation premise. That premise should consider whether a nonfinancial asset should be evaluated in combination with other assets and liabilities or evaluated on a stand-alone basis.
- Governments should apply the market and income valuation techniques to measure fair value.
- Multiple valuation techniques may be used to measure fair value, but the technique selected should be the technique that professional judgment indicates best represents fair value in the circumstances.

Major Tentative Decisions-Part 1

- Measurement inputs should be ordered into a hierarchy of Levels 1, 2, and 3 inputs.
- Adjustments to inputs for a blockage factor should be prohibited, regardless of such an input's categorization within the fair value hierarchy.
- Level 1 inputs should be utilized when available and not adjusted for premiums or discounts. Level 2 and 3 inputs may incorporate discounts and premiums only to the extent that these characteristics would be considered by market participants when pricing an asset or liability.
- A fair value standard should include a cost technique as substantively presented in FASB Accounting Standards Codification, paragraphs 820-10-55-3D and 55-3E, but without reference to replacement cost.

Major Tentative Decisions-Part 1

- Present value topics should be included only to the extent that they are used in a fair value measurement.
- The present value material presented in FASB Topic 820 should be addressed in the fair value measurement project by inclusion of the substance of the “general principles” of paragraphs 820-10-55-5 and 55-6 as part of the standard. The remaining portions of Topic 820 will be considered for inclusion of an Implementation Guide.

Major Tentative Decisions-Part 2

- The definition of an investment asset should be amended as follows: "A security or other asset that a government holds primarily for the purpose of income or profit and its present service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry."
- A capital asset held for sale should be reclassified as an investment asset when the asset's service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry. A capital asset held for sale that nevertheless continues to be used to provide services should continue to be classified as a capital asset.
- Split-use property should be divided between investment and capital asset classifications in proportion to its usage.
- Securitized mortgages should continue to be classified as investments.

Major Tentative Decisions-Part 2

- As a general proposition, investments should be reported using fair value measurements, subject to the following inclusions and exclusions:

Inclusions. The following investment types would be measured at fair value:

- Investments that are already measured at fair value
- Alternative investments that are reported by endowments. Equity securities (including unit investment trusts and closed-end mutual funds), stock warrants, and stock rights that do not have readily determinable fair values
- Intangible assets that meet the proposed definition of investments
- Land and land rights that are classified as investments, including oil and gas properties that are classified as investments
- Co-mingled investment pools that are not government sponsored
- Invested securities lending collateral
- Real estate that meets the definition of an investment asset.

Major Tentative Decisions-Part 2

Exclusions. Exceptions to fair value measurements:

- Investments that do not participate in fair value changes
- Money market investments and investments that mature in 90 days or less reported by external investment pools. When measured on a amortized cost basis, their reporting values are subject to impairment considerations.
- Investments in 2a7-like external investment pools. Measurements applicable to 2a7-like external investment pools will be deliberated later in this project, once SEC proposals that would affect money market funds are determined.

Exclusions. For investments in debt instruments:

- An amortized cost measurement based on a hold-to-maturity notion should not be established.
- An amortized cost measurement based on a government's business model and an investment's cash flows should not be established.

Major Tentative Decisions-Part 2

- When a capital asset is held for sale and its present service capacity is based solely on the asset's ability to generate cash, to be sold to generate cash, or to procure services for the citizenry, that asset should be measured at the lower of its carrying amount or its fair value.
- An investment asset that is subsequently reclassified as a capital asset should be measured at the lower of (a) its carrying amount before the asset was initially reclassified as an investment, adjusted for any depreciation (amortization) expense that would have been recognized had the asset been continuously classified as a capital asset, or (b) its fair value at the date of the subsequent decision not to sell.
- A fair value option should not be introduced into the GASB literature.

Next Steps

- March 2013 — issuance of Exposure Draft
- April – June 2013 — comment period
- July 2013 — public hearings
- March 2014 — issuance of final standard

GAAP Hierarchy

Project Objectives

- Will consider possible modifications to the GAAP hierarchy, as set forth in Statement No. 55
- Will reexamine the hierarchy levels to assess whether the standards-setting process and the governmental financial reporting environment have sufficiently evolved since the establishment of the original hierarchy by the AICPA in 1992 to warrant reconsideration or reconfiguration of certain aspects of the structure
- Will consider modifying the reference to “the pronouncements referred to in categories (a)-(d)” in paragraph 6 of Statement 55 and adding a specific reference in that paragraph to the FASB Codification as “other accounting literature”

Recent Developments

- Project staff research on the current hierarchy
  - Evolution of the hierarchy
  - Hierarchy of other standard-setting bodies
  - Impact to accounting and financial reporting and to due process of the many potential alternatives to revise the hierarchy

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

Next Steps

- January 2013 — issuance of Exposure Draft
- February – April 2013 — Comment period
- September 2013 — issuance of final standard

GASB’s User Guide Series

User Guide Series

Project Objective

- To update the user guides to incorporate GASB standards issued during the past decade and revising them to address issues raised by readers
- To issue a new series of four user guides to replace the original series—
  - What you should know about your local government's finances: A guide to financial statements (released January 2012)
  - What you should know about your school district's finances: A guide to financial statements (released February 2012)
  - What you should know about the finances of your governmental business-type activity: A guide to financial statements (coming!)
  - An analysts guide to state and local government financial statements, note disclosures, and supporting information (released July 2012)

GASB's Research Agenda

Research Agenda

- Electronic Financial Reporting—GASB to monitor and encourage use
- Fiduciary Responsibilities—assess whether additional guidance should be developed regarding the application of the fiduciary responsibilities criterion in deciding whether and how governments should report fiduciary activities in their financial statements
- Leases —reexamine issues associated with lease accounting, considering improvements to existing guidance, including consideration of whether operating leases meet the definitions of assets or liabilities
- 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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