

# Texas Association of County Auditors

## GASB Update

The views expressed in this presentation are those of Dr. Freeman. Official positions of the GASB are determined only after extensive due process and deliberation.

# The Year in Review—**Final** Documents

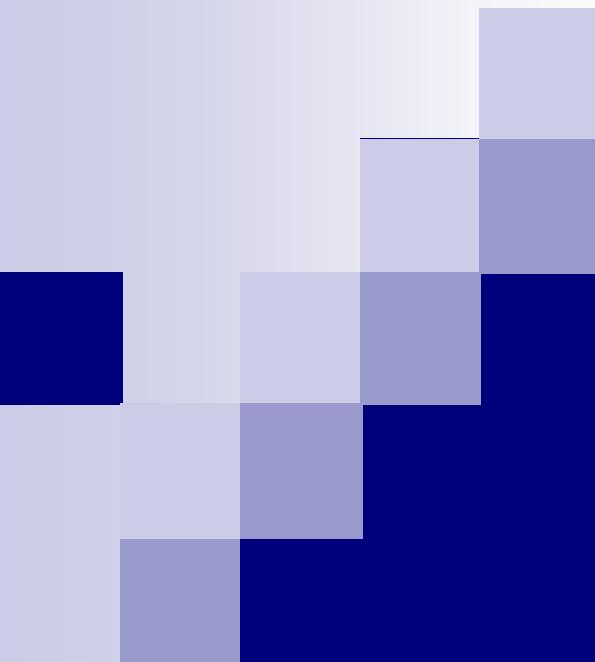
- Statement 57—OPEB Issues
- Statement 58—Bankruptcy
- Statement 59—Investment Omnibus
- Suggested Guidelines for Voluntary Reporting—Service Efforts and Accomplishments

# Year in Review— Due Process Documents

- **Exposure Drafts**
  - Statement 14 Reexamination
  - Pre-1989 FASB and AICPA Pronouncements
- **Revised Exposure Draft**
  - Service Concession Arrangements
- **Preliminary Views**
  - Pension Accounting and Financial Reporting by Employers

# Year In Review—Other Matters

- Appointment of New Board Member
  - Michael Granof
- GASB Funding
  - GAO Study—included in financial reform act (Dodd-Frank Act)

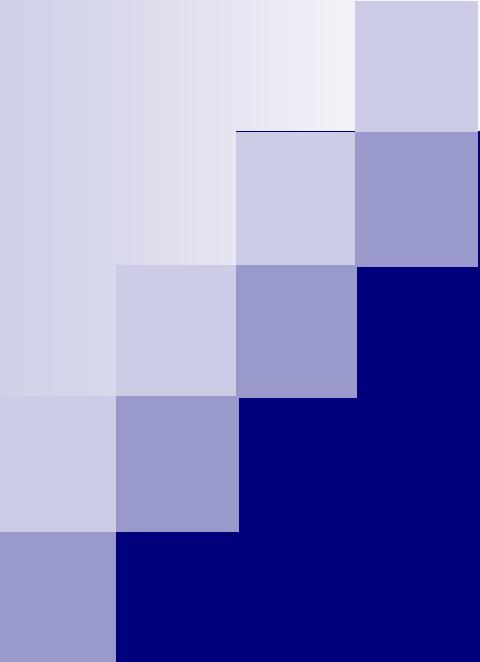


# What is Effective?

## Effective Dates

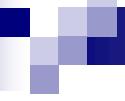
# Effective Dates

- **September 30, 2010**
  - Statement 45—Phase III
  - Statement 51—Intangible Assets
  - Statement 53—Derivative Instruments
  - Statement 57—OPEB Measurements, except paragraph 8
  - Statement 58—Chapter 9 Bankruptcies
- **September 30, 2011**
  - Statement 54—Fund Balance Reporting
  - Statement 59—Financial Instruments Omnibus
- **September 30, 2012**
  - Statement 57—OPEB Measurements, paragraph 8



# Statement 45

## Other Postemployment Benefits (OPEB)



# GASB S45

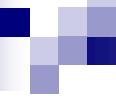
## Employer OPEB Accounting

- Effective for FYE in 2010
- Primary OPEB = Postretirement Healthcare

# GASB S45

## Defined Benefit Plans

- Funding friendly approach--but must meet parameters
- Defined benefit
  - single employer/agent plans,
  - cost sharing, and
  - defined contribution plans
- Implicit rate subsidy



# **GASB S45**

## **GOVERNMENTAL FUNDS**

- EXPENDITURE—Amount due and payable
- Net OPEB Obligation ≠ Fund Liability

# GASB S45

## Proprietary Funds

- **Expense** = OPEB Cost
- **OPEB Cost**
  - ARC (Computed under method that meets parameters)
  - Year's Interest on Net OPEB Obligation
  - Adjustment to the ARC related to double amortization

# GASB S45

## Proprietary Funds (Cont.)

- Net OPEB **Obligation** =  $\Sigma$ 
  - Annual OPEB Cost
  - Less Employer Contributions
  - Plus Beginning Balance
- Net OPEB Obligation **at Transition** = 0
  - Assuming no net OPEB Obligation previously booked
  - Normal situation

## GASB S45

## Government-wide Reporting

- Same as described for proprietary funds
- Both governmental activities and business-type activities

# **GASB S45**

## **Notes and RSI**

### ■ Notes

- Describe plan and funding policy
- Contributions made vs. annual OPEB cost
- Funded status—most recent valuation date
- Actuarial valuation process, methods, assumptions

### ■ RSI

- Schedule of Funding Progress
- Notes

# GASB S45

## Cost Sharing and Defined Contributions

- Expenditure/Expense = Contractually Required Contribution for Cost Sharing Plans Plus
  - How rate determined
  - RSI schedules if not in audited, publicly available OPEB plan reports
- Expenditure/Expense = Required Contribution for Defined Contribution Plans



# Statement 47

**Voluntary vs. Involuntary  
Termination Benefits**

# GASB S47

## Termination Benefits

### ■ Voluntary

- Cash payments
- Benefit enhancements
- Healthcare not in plans

### ■ Involuntary

- Severance payments
- Continued access to coverage in insurance plans
- Career counseling
- Outplacement
- Other such as COBRA

# GASB S47

## Timing of Recognition

### Voluntary

Employee acceptance

### Involuntary

- Approved by officials
- Communicated to employees

# **GASB S47**

## **Recognition in Statements**

- Government-wide and proprietary fund financial statements
- Governmental fund financial statements



# Statement 51

Accounting and Financial  
Reporting for **Intangible**  
**Assets**

# **GASB S51**

## **Intangible Assets**

- Lack physical substance
- Nonfinancial in nature
- Initial useful life > year
- Not for direct income or profit (Investments)
- Not capital lease as lessee
- Not goodwill (or others through combination with another entity)

# GASB S 51

## Identifiable

- Recognize in proprietary funds and government-wide financial statements if “identifiable”
- **Identifiable** when either:
  - Separable or
  - Arise from contractual or other legal rights

# **GASB S 51**

## **Internally Generated**

- Created or produced by
  - Reporting government directly, or
  - Entity government contracts with

# GASB S 51

## Internally Generated

- Capitalize costs incurred after 4 conditions met

- Objective to create specific asset
  - Nature of expected service capacity determined
  - Technological feasibility demonstrated
  - Current intent, ability, and effort to continue/complete development demonstrated

# GASB S 51

## Internally Generated

- Capitalize from time conditions met until completion
- Expense all costs prior to meeting conditions
- Subsequent to project completion
  - Capitalize only if increase functionality or efficiency or extends life
  - Expense all other subsequent costs

# GASB S51

## Internally Generated Software

- Developed in-house
- Commercially available software
  - Owned or licensed to SLG
  - Modified using *more than minimal incremental effort*

# GASB S51

## Internally Generated Software

- Preliminary product stage—expense
- Application development stage—capitalize
- Post-implementation/operating stage—expense
- Data conversion—application development **only** if needed to make operational

# GASB S51

## Transition Provisions

- Retroactive application permitted for all governments and all intangible assets
- Retroactive application required for Phase I and II governments except
  - Internally generated
  - Indefinite useful life at transition
- Estimated cost/fair value

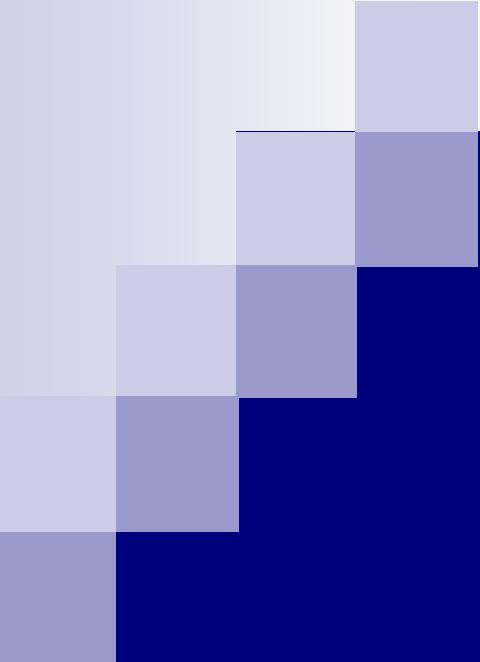


# Statement 52

## Investments in Land and Real Estate Held by Endowments

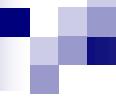
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- Land and real estate held as investments by term and permanent endowments
  - Including in Permanent Funds
  - Reported at fair value in both fund and GW financial statements
- Changes in fair value recognized in income
- Disclose methods and significant assumptions for fair value estimate (if not based on market values)



# Statement 53

## Derivatives



# **GASB S53**

## **Derivatives**

**GOVERNMENTAL FUND FINANCIAL STATEMENTS—At Cost**

**ALL OTHER FINANCIAL STATEMENTS - FAIR VALUE OF DERIVATIVE REPORTED AS ASSET OR LIABILITY**

# GASB S53

## Change in Fair Value

### HEDGE ACCOUNTING

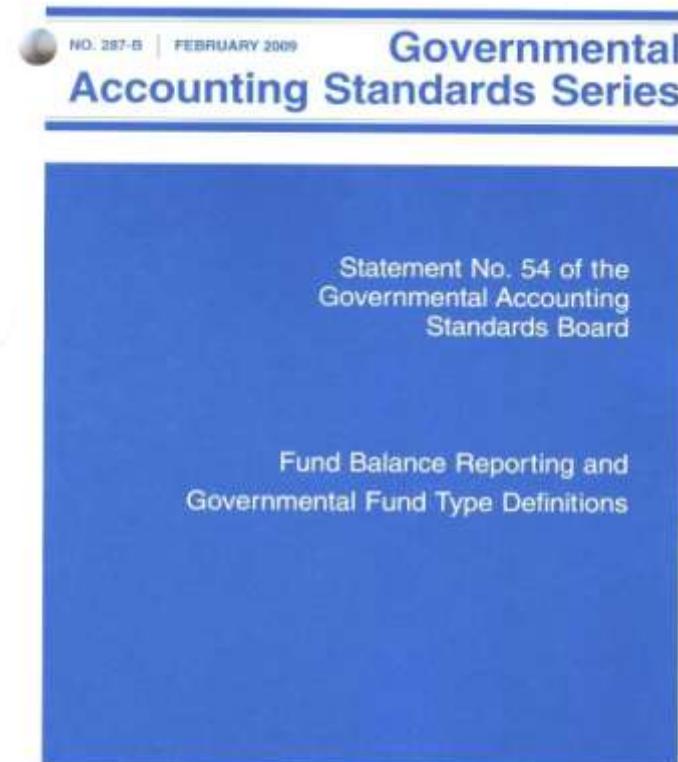
- Cumulative Change in Fair Value = Deferred Inflow or Deferred Outflow (Approximately Offsetting the Asset/Liability)—Until Hedge Accounting Terminated
- Usually Recognized in Investment Income in Year Hedge Accounting Terminated

### DERIVATIVE ≠ HEDGE, ≠ EFFECTIVE HEDGE OR = HEDGE OF ITEM REPORTED USING FAIR VALUE

- Increase/Decrease in Fair Value is Investment Income
- No Deferred Inflow/Outflow

# Statement 54

- Issued March 2009
- Effective for periods beginning after June 15, 2010



GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
OF THE FINANCIAL ACCOUNTING FOUNDATION

# Fund Balance Hierarchy

- New fund balance presentation hierarchy is based primarily on the degree of spending constraints placed upon use of resources **for specific purposes** versus availability for appropriation
- The **five** new presentation classifications go from non-spendable down through three levels of less binding spending constraints to an unassigned level, which is available for any spending of the government.

# **New Fund Balance Presentation Classifications**

- **Non-spendable**—Inventory, long-term receivables
- **Restricted**—Statement 34/46 definition
- **Committed**—Formal action of governing body
- **Assigned**—Similar to designations - expressing intent
- **Unassigned**—Available for any purpose

# New Fund Balance Classifications

**Essentially  
what is now  
*reserved***

- Nonspendable
- Restricted
- Committed

**Essentially  
what is now  
*unreserved***

- Assigned
- Unassigned

**Essentially  
what is now  
*designated***

# Nonspendable Fund Balance

**“Not in Spendable Form”**

- Inventory and prepaid items—All Governmental Funds
- Long-term loans and property acquired for resale—General Fund only
- *Legally/Contractually Required to Maintain Intact* (Typically in Permanent Funds)

# Restricted Fund Balance

- Externally imposed by:
  - Creditors
  - Grantors
  - Other governments' laws/regulations
- Imposed by law through constitutional provisions or enabling legislation
  - Creditors
  - Grantors
  - Other governments' laws/regulations
- **No change in “restricted” definition**

# Committed Fund Balance

- Constraint on use is imposed by the government itself, using its highest level of decision-making authority
- Amounts classified as “committed” are not subject to legal enforceability like restricted resources; however, spending constraint can be removed or changed only by taking the same highest level action
- Action to constrain resources should occur prior to end of fiscal year-though the exact amount may be determined subsequently

# Committed Fund Balance

- Commitment of certain amounts **or**
- Commitment of revenue source
- Encumbrances of unassigned fund balance by commitment action
- Expected to be used to satisfy contractual obligations
- Use of committed resources for other purposes?

# Assigned Fund Balance

- Amounts *intended* to be used for specific purposes
- Intent is expressed by
  - The governing body itself, or
  - A body (budget or finance committee), or
  - An official authorized by the governing body to assign resources for specific purposes
- Residual amounts in governmental funds other than the General Fund are assigned

# Assigned Fund Balance

- Encumbrances of otherwise unassigned fund balance
- Appropriation of existing fund balance to eliminate deficit in next year's budget
- GF assignments must be narrower in purpose than general purposes of the SLG
- Assignments must be zero for unassigned fund balance to be negative

# Unassigned Fund Balance

- Appropriable for any legitimate governmental purpose
- Positive or negative balances may be reported in the General Fund
- Negative balances in other governmental funds are reported as unassigned

# Timing of Constraints

- Commitments—By year end but amount can be determined after year end
- Assignments—Before financial statements issued
- Restrictions—Exist at year end
- Nonspendable—Exist at year end

# Stabilization Arrangements

- Qualifies as specific purpose *if* conditions for use are both
  - Specific
  - Nonroutine
- To be used for emergencies or for revenue shortfalls not sufficient
- Can not be reported in assigned fund balance

# Fund Balance Display

- Detail on balance sheet or in notes
- Nonspendable
  - Not in spendable form
  - Legally required to be maintained intact
- Restricted purposes
- Major commitments
- Major assignments

# Other Fund Balance Disclosures

## ■ Committed Fund Balance

- Identify highest level decision making body
- Identify the formal action required for commitment

## ■ Assigned Fund Balance

- Body/official authorized to make assignments
- Governing body's policy giving assignment authority

# **“Spend Down” Policies**

- Order of spending when both restricted and unrestricted resources available
- Order of spending of unrestricted resources when committed, assigned, and unassigned available

# Encumbrances

- Not displayed separately on balance sheet
- Significant encumbrances disclosed by
  - Major funds and
  - Nonmajor funds in aggregate

In disclosure with other major commitments
- Encumbrances of unrestricted resources
  - Reported as committed or as assigned unless
  - Reporting as assigned causes negative unassigned

# **Stabilization Arrangement**

## **Disclosures**

Even if reported in unassigned fund balance, disclose:

- Authority to establish arrangement
- Requirements for additions to amount
- Conditions under which spending permitted
- Stabilization amount (if not clear in balance sheet)

# **Governmental Fund Types**

- General
- Special Revenue
- Capital Projects
- Debt Service
- Permanent

# Special Revenue Funds

- **Restricted or committed *revenue source***
  - Revenue must be recorded in SRF
  - SRF use required *if* legally/contractually required
  - Terminate when restricted/committed revenue no longer expected to be substantial portion of inflows
- Restricted/Committed revenues recorded in another fund and transferred to SRF not acceptable to justify use of SRF
- **Committing a sum of resources ≠ committing revenue source**

# Special Revenue Fund NOTES

- Purpose of each major SRF
- Restricted/Committed revenue source(s) and other resources reported in each SRF

# Capital Projects Fund

- Definition revised to coincide with current practice – Deleted “major” capital project requirement
- Use of CPF still required for capital outlays financed through general obligation bond proceeds

# Debt Service Funds

- No change - Not intended to change current practice
- DSF still required if
  - Legally/contractually mandated
  - Accumulating resources currently for principal and interest payments maturing in future years

# Permanent Funds

No change - Not intended to change current practice

# Bases for Fund Establishment

- **Not changed by GASB S54**
- .106 An important function of governmental accounting systems is to enable administrators to . . . report on compliance with finance-related legal provisions. This means that the . . . **fund structure . . . must take cognizance of and be adapted to satisfy finance-related legal requirements.** For example, if a state constitution requires that proceeds of a state gasoline tax be accounted for in a state highway construction fund and used exclusively for . . . **the accounting system must enable the governmental unit to demonstrate compliance with the constitutional mandate.**

# Bases for Fund Establishment

- .107 Various types of legal provisions require establishment of funds.
- Constitutional provisions
- Statutes enacted by state legislative body
- Local charters and ordinances
- Local governing body orders
- To achieve sound and expeditious financial administration and reporting
- To comply with grant/contract financial reporting requirements

# **GASB S54**

## **ADVANCE PREPARATION REQUIRED**

- SRFs—Will we lose any and can we do anything about it?
- Plan timing of non-committed, non-restricted revenue inflows to SRFs
- Stabilization amounts—How reported is currently authorized/determined?
- Stabilization amounts—Changes Needed/Desired/Possible?

## GASB S54

# **ADVANCE PREPARATION REQUIRED (Continued)**

- Restate last year's fund balance presentation
- Educate governing body and others
- Write policies and understand their impact



# Statement 57

**OPEB Alternative  
Measurement Method**

# GASB S57

## OPEB Alternative Measurement Method

### ■ Effective dates

- For provisions on use and reporting of AMM—Immediately
- For provisions on frequency and timing of measurements—Typically for actuarial valuations used to report funded status in plan financial statements for CY 2012 and FY 2011-12

# GASB S57

- AMM use permitted for agent EMPLOYER with < 100 total plan members
- Total plan members in the agent multiple-employer OPEB has no effect
- Aggregated individual employer OPEB plan (actuarial studies and AMM) will meet agent multiple-employer plan requirements for RSI schedules and notes

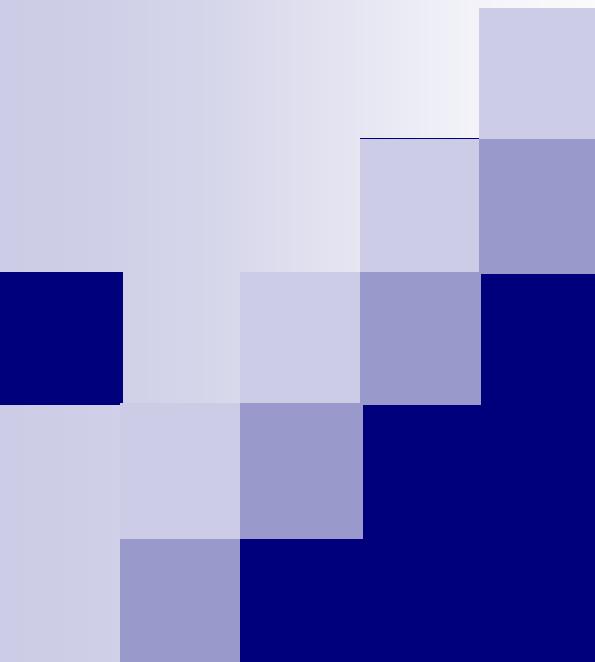
## GASB S57

### Measurement Frequency and Timing

Agent Multiple-Employer Plan reports aggregated individual-employer OPEB plan information

Agent employer to obtain actuarial or actuarial-like information at least as often as required for the plan.

Agent plan and each participating employer use valuations as of the same valuation date



# Statement 58

## Bankruptcies

## **GASB S58**

# **Chapter 9 Bankruptcies**

- Effective FYE 6/30/10 and later
- Retroactive application for all periods presented during which SLG was in bankruptcy
- Applicable when petition for or granted relief under Chapter 9 of the U.S. Bankruptcy Code
- Not applicable to troubled debt restructurings outside of bankruptcies

# Chapter 9 Bankruptcies

- Protection and negotiation from creditors while developing and negotiating plan of adjustment
- Automatic stay on filing
- Court can not change organizational leadership or structure, set rates, or make spending plans

# Chapter 9 Bankruptcy

## Restructuring Debt

- Typically extending maturities, reducing principal/interest, or refinancing the debt
- Revenue-backed debt generally not affected
- Power to renegotiate/reject unexpired leases and executory contracts—including COLLECTIVE BARGAINING AGREEMENTS with employees
- Retiree benefit obligations (OPEB) subject to amendment/rejection

# Chapter 9 Bankruptcies

## Qualifications

- Municipality (political subdivisions or public agency or instrumentality of state)
- States do not qualify
- Specifically authorized by state law
- Insolvent
- Other

# Chapter 9 Provisions (Continued)

- Committee of creditors
- Plan of Adjustment Confirmed
  - Discharged from previous debts covered by the plan
  - Bound to new debt and payment terms

# GASB S58 Provisions

- Adjust assets and liabilities in accordance with the plan
- Recognize gains and losses from adjustments to those liabilities
- At confirmation date or later date when resolve all significant conditions existing prior to plan being binding

# GASB S58 Provisions (Continued)

- Apply NCGA S4 criteria to determine if contingent payments require liability recognition
- Accounts payable, notes, and debt obligations
- Capital leases
- Pension and OPEB liabilities
- Other liabilities

# GASB S58 Provisions (Continued)

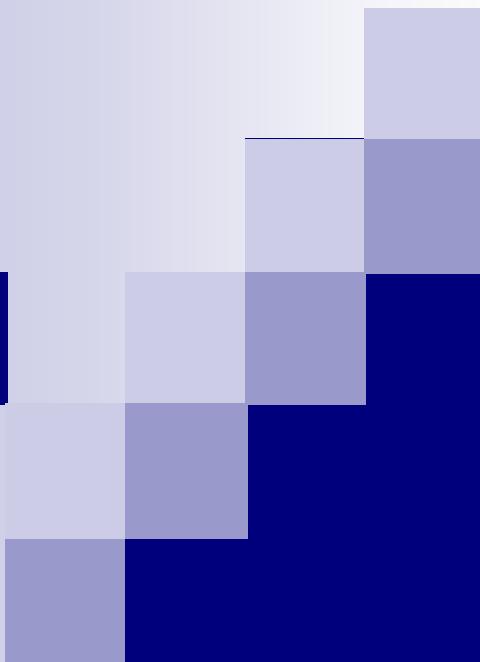
- Re-measuring assets *if* government *not* expected to emerge as going concern
- Gains and losses from re-measurement of assets and liabilities reported as extraordinary items
- Professional fees and similar costs directly related to bankruptcy proceedings = expense/expenditure as incurred

# GASB S58 Provisions (Continued)

## ■ **Governmental Funds**

- Adjust fund asset and liability amounts affected by new payment terms
- Report as extraordinary item

## ■ **Disclosures**

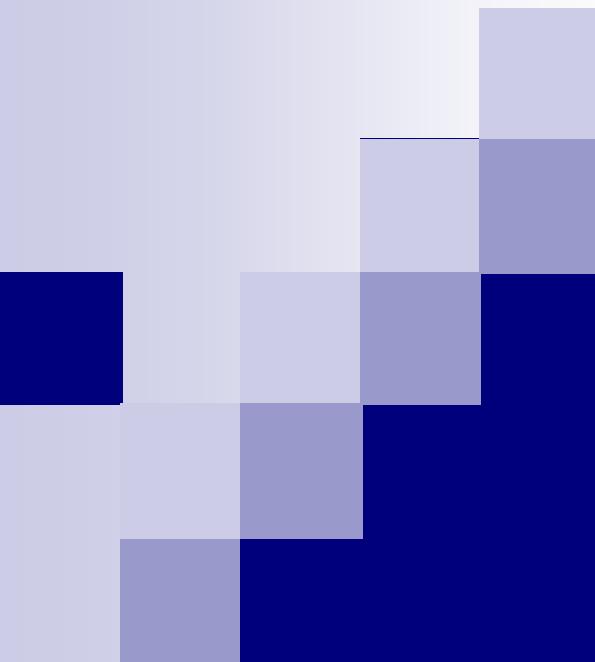


# Statement 59

## Financial Instruments Omnibus

Effective date

- Key provisions



# Pension [and OPEB] Accounting and Financial Reporting

## Preliminary Views

# **Scope** of the “Postemployment Benefits” Project

- Basic approach for pension benefits
  - Who should report the liability
- How the liability should be measured
  - Salary projections, service credits, discount rate, etc.
- Cost sharing plan reporting for employers
- Pension plan reporting
- Other postemployment benefits (OPEB)

# Pension Accounting and Financial Reporting

- **Preliminary Views—scope**
  - Employer measurement and recognition issues
- **Items currently being discussed**
  - Pension plan reporting
  - Pension-related note disclosures and supporting information

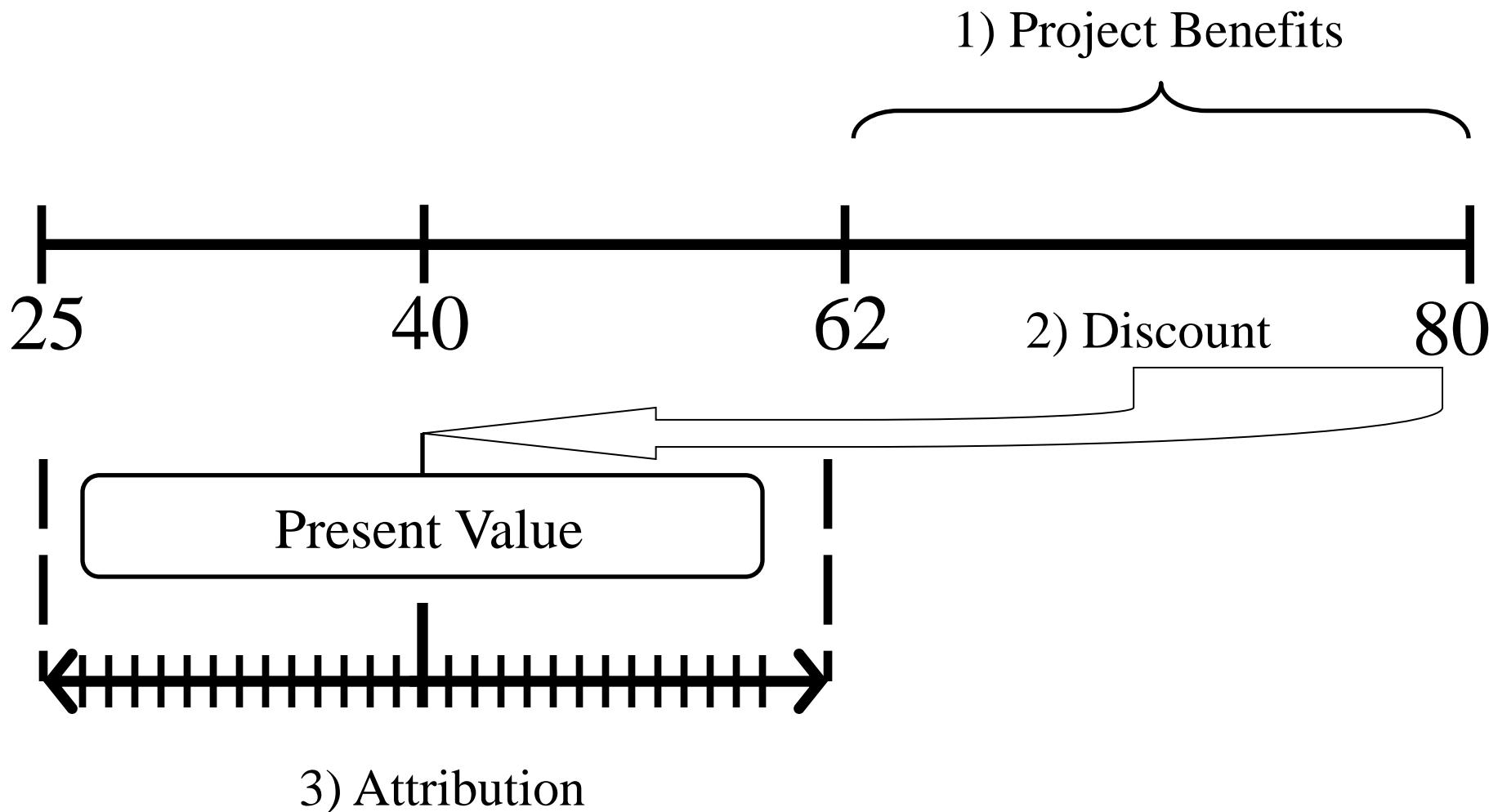
# Primary and Secondary Obligor

- The pension plan becomes the primary obligor, and the employer becomes the secondary obligor (for the pension obligation) --to the extent that plan assets have been accumulated to provide for the payment of benefits to employees or their beneficiaries when due.
- The employer remains the primary obligor for the pension obligation to the extent that it is underfunded.

# Net Pension Liability

- The “unfunded accrued benefit obligation” meets the definition of a liability
  - It is a present obligation, and
  - The employer has little or no discretion to avoid a sacrifice of its resources to satisfy the obligation
- Obligation is measurable with sufficient reliability to be recognized as a liability in basic financial statements of a sole or agent employer.

# Measurement Approach Illustrated



# Projection of Future Benefit Payments

- The effects of the following **projected** future changes **should be included** in the **projection** of benefits for the purpose of measurement of the pension liability:
  - **Automatic cost-of-living adjustments (COLAs)**
  - **Projected future ad hoc COLAs**, referring in this context to COLAs that are dependent upon a decision to grant by a responsible authority, when those adjustments are substantially the same as automatic COLAs
  - **Projected future salary increases** in circumstances in which the pension benefit formula is based on future compensation levels
  - **Projected future service credits**, both in determining an employee's probable eligibility for benefits and in the projection of benefits in circumstances in which the pension benefit formula is based on years of service.

# 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 assets available for pension benefits are projected to be sufficient to make benefit payments
  - A high-quality municipal bond index rate--beyond the point at which plan net assets available for pension benefits are projected to be fully depleted.

# Attribution Method

- Entry age normal
  - Level percent of payroll
- Benefits should be attributed to periods--beginning in the first period in which the employee's services lead to benefits under the plan (whether or not the benefits are conditional on further service, as is the case, for example, with vesting provisions) and ending in the last period of the employee's service

# Pension Expense—Deferrals

- **Differences** that result from the following events should be recognized as components of pension expense over periods representative of the expected remaining service lives, if any, of individual employees--considering separately (a) the aggregate effect on the liabilities of active employees to which the change applies and (b) the aggregate effect on the liabilities of inactive employees
  - Assumed and actual experience with regard to demographic and economic factors affecting the measurement of the employer's pension liability,
  - Effects of changes in the demographic and economic assumptions used in the measurement of the employer's pension liability, and
  - Effects of benefit changes that are applied retroactively to past periods of service of plan members.
- An effect is that such changes related to past periods of service of inactive (including retired) plan members at the time of the event would be recognized immediately.

# Investment Earnings—Corridor

- **Recognition** of pension investment earnings above or below the expected long-term rate of return should be deferred--so long as the net cumulative amount of deferred outflow or deferred inflow remains within a **corridor 15%** above and below the fair value of pension investments.
- However, if the net cumulative deferred balance at the end of a financial reporting period falls outside the corridor, the amount outside the corridor should be recognized as a component of pension expense **immediately**.

# Multiple-Employer Cost-Sharing Plans

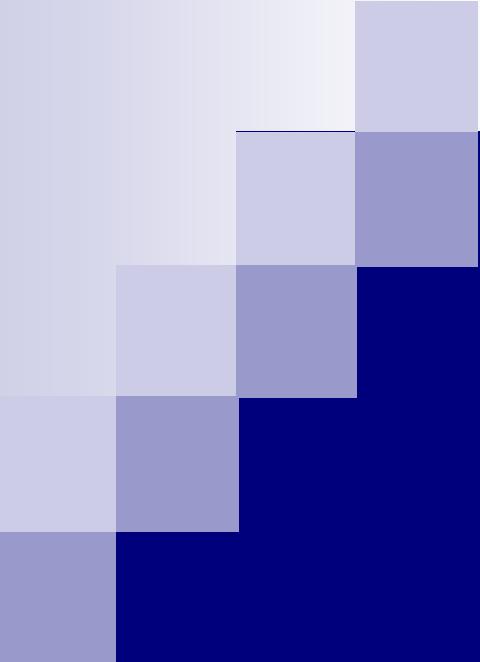
- The Plan's Unfunded Pension Liability (calculated in accordance with the preliminary views just discussed) and related deferrals, if any, would be allocated to the participating employers.
- The allocation method is open for comment; however, it could be based on the employer's share of the total annual contractually required contributions to the plan.

# Timetable

- Preliminary Views—was released on June 16
- Comment deadline—September 17
- **Public hearings**—will be held in October 2010
  - **October 13—Dallas**
  - October 14—San Francisco
  - October 27—New York City

# Other Current Projects

- Pre-1989 FASB and AICPA Pronouncements
- Recognition and Measurement Attributes—Conceptual Framework Project
- Service Concession Arrangements
- Statement of Net Position
- Statement 14 Reexamination
- Economic Condition Reporting: Fiscal Sustainability



# Pre-1989 FASB and AICPA Pronouncements

## Exposure Draft

# Reason for the Project

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

# Project Objective

- **[1] Identify** provisions in FASB Statements and Interpretations, APB Opinions, ARBs, and AICPA Accounting Interpretations **issued before 11/30/89** that are applicable to state and local government entities and **[2] incorporate** those provisions into the GASB literature
- This proposal will make it easier for practitioners to identify applicable GAAP guidance from a single authoritative source

# Tentative Decisions

- GASB **Statement 20** would be **superseded**
  - **All applicable pre-11/30/89** standards would be contained in the **GASB codification**
  - **All potentially applicable post-11/30/89** non-GASB standards would be “**other** accounting literature”

# Tentative Decisions (cont.)

- GASB has identified provisions to **exclude** pronouncements that **conflict with** or contradict GASB pronouncements **or** are otherwise not applicable
- Guidance on **29 topics** would be brought **into** the **GASB literature**, including:
  - Capitalization of interest costs (FAS 34)
  - Statement of net assets classification (ARB 43, APB Opinion 12 & FASB Statement 6)

# Tentative Decisions (cont.)

- Special and extraordinary items (APB 30)
- Comparative financial statements (ARB 43)
- Related parties (FAS 57)
- Prior-period adjustments (FAS 16 & APB 9)
- Accounting changes and error corrections (APB 20 and FIN 20)
- Contingencies (FAS 5 & FIN 14)
- Extinguishments of debt (APB 26 & FAS 76)
- Troubled debt restructuring (FAS 15)
- Inventory (ARB 43)

# Tentative Decisions (cont.)

- Leases (FAS 13, 22 & 98 & FIN 23, 26 & 27)
- Sales of real estate (FAS 66)
- Real estate projects (FAS 67)
- Research and development arrangements (FAS 68)
- Broadcasters (FAS 63)
- Cable television systems (FAS 51)
- Insurance enterprises (FAS 60)
- Lending activities (FAS 91)
- Mortgage banking activities (FAS 65)
- Regulated operations (FAS 71, 90 & 101)

# Clarifying Guidance

- **Capitalization of interest**—scope modified to include assets granted to other governments
- **Current assets and liabilities**—operating cycle (something other than 12 months) not allowed
- **Related parties**—definition expanded to recognize related organizations, joint ventures, and jointly governed organizations
- **Change in accounting principle**—omits change in depreciation method
- **Interest rate costs—imputation**—scope excludes low interest loans that make the market

# Due Process

- Exposure Draft issued January 29, 2010
- Comment period of six months to July 31
- Exposure Draft includes:
  - **Crosswalk** from original standards to paragraphs in the Exposure Draft
  - **Listings** of FASB and AICPA original pronouncements (numerically and topically) and their **applicability**
  - **Mark-up** of the applicable FASB and AICPA original pronouncements



# Service Concession Arrangements

**Revised** Exposure Draft

# Scope

- The transferor conveys to the operator the right and related obligation to provide public services through the operation of a capital asset
- The operator collects and is compensated from fees from third parties
- The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement
- 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, and the prices or rates that can be charged for the services.

# Facilities

- **If** the facility associated with an SCA is a new facility purchased or constructed by the operator, or an existing facility that has been improved by the operator, then the transferor should report
  - the new facility or the improvement as a capital asset at fair value when it is placed in operation, with
  - a corresponding deferred inflow of resources--reduced by any contractual obligations recorded as liabilities.

# Upfront or Installment Payments

- **Transferor** should report the up-front payment or present value of installment payments as an asset and related deferred inflow of resources, reduced by any contractual obligations recorded as liabilities.
- **Revenue** should be recognized as the deferred inflow of resources is reduced--in a systematic and rational manner over the term of the arrangement beginning when the facility is placed into operation.

# Recognition of Liabilities

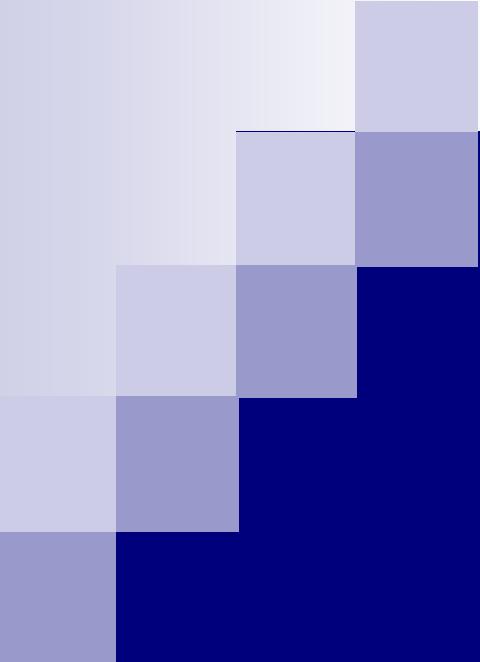
- Liabilities associated with the SCA should be recorded at their present value if a contractual obligation is [1] significant and [2] meets either of the following criteria:
  - The contractual obligation directly relates to the facility (for example, obligations for capital improvements, insurance, or maintenance on the facility). This obligation could relate to ownership of the facility or could arise from the transferor's responsibility to assure that the facility remains fit for the particular purpose of the arrangement.
  - The contractual obligation relates 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 providing a minimum level of maintenance to areas surrounding the facility).

# Revenue Sharing Arrangements

- A governmental **operator** that shares revenues with a transferor should report **all** revenue earned and expenses incurred—including the amount of revenues shared with the transferor—that are associated with the operation of the facility.
- The **transferor** should recognize **only its portion** of the shared revenue when earned in accordance with the terms of the arrangement.

# SCA—Additional Due Process

- Revised Exposure Draft issued June 17<sup>th</sup>
- Comment deadline—August 17<sup>th</sup>
- Final Statement **expected** to be issued **by** year end



# Statement 14 Reexamination

The Financial Reporting Entity

# 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**

# Reporting Entity Framework

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

# Proposals

- The most significant effects of the proposal would be 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** potential CU is **fiscally dependent**. That is, PG has authority over:
  - Budget, or
  - Setting taxes and charges, or
  - Issuing debt
- **The ED** would **add** a requirement for a **financial benefit or burden** before inclusion is required.

# Blending Requirements

- The ED would expand the blending criteria to include component units whose total debt outstanding is expected to be repaid entirely or almost entirely by revenues of the primary government

# Blending Requirements

- The ED clarifies how to blend component units in a Business-Type Activity (BTA) reporting model:
  - For a multiple column BTA
    - Additional column(s), as if funds of the PG
  - For a single column BTA
    - Consolidate CU data into the single column & Present combining info in the notes
    - Additional column(s), with PG total column

# Major Component Units

- The ED **clarifies** the types of relationships that should generally affect the **major** CU determination:
  - Primarily **financial relationships**
    - Significant transactions with the PG
    - Significant financial benefit/burden relationship
  - Could be based on the **nature of services** provided by CU
- **Eliminates** consideration of each CU's significance relative to other CUs

# Reporting Equity Interests

- An asset should be recognized for equity interest in:
  - A joint venture, a partnership, or an investment
  - A component unit
    - If the component unit is blended, the equity interest is eliminated in the blending process
    - 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

# Project Timeline

- Final Statement scheduled for December 2010
- Effective for periods beginning after June 15, 2012 (FYE 6/30/13)—typically 2013 CY or 2012-2013 FY

# Research Agenda

- Electronic Financial Reporting
- Fair Value Measurement
- Fiduciary Responsibilities
- Financial Guarantees
- Government Combinations

# Questions?



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