

NASHVILLE AGA
WINTER SEMINAR
JANUARY 14, 2014
GASB UPDATE

Current Board Members [continued]

<u>Member</u>	<u>Term Expires June</u>
David Vaught, Chair	2020—serving 7-year term
Bill Fish	2016—first term
Michael Granof	2015—first term
David Sundstrom	2014—first term
Jan Sylvis	2017
Marcia Taylor	2015
Jim Brown	2017—first term

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Annual GASB Publications

- Original Pronouncements
 - Individual ones OK
 - Updated volumes better
- The *Codification* – OPs arranged by topic
- *Comprehensive Implementation Guide (CIG)*
 - Again, individual ones more immediate
 - Updated volume is better
 - CIG occasionally updated semi-annually (one due in 1st Quarter, 2014)

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GARS – The Other “Pub”

- Has everything found in the other sources
- Electronic – easier to carry around
- Updated semi-annually
- Searchable – that’s the big plus
- Now available on-line

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Effective Dates—ENDING AFTER 6/15

- 2013
 - 60 Service Concession Arrangements (12/15/12)
 - 61 Reporting Entity
 - 62 Codification of AICPA and FASB (12/15/12)
 - 63 Deferrals Presentation (12/15/12)
- 2014
 - 65 Items Previously Reported as Assets & Liabilities (12/15/13)
 - 66 Technical Corrections – 2012 (12/15/13)
 - 67 Reporting for Pension Plans
 - 70 Accounting & Reporting for Financial Guarantees
- 2015
 - 68 Accounting & Reporting for Pensions
 - 69 Government Combinations (12/15/14)
 - 71 Pension Transition for Contributions

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What’s Coming Down the Pike

- Pensions – Transition Provision – Final 4th Q 2013
- Conceptual Framework
 - Measurement Approaches – Final 1st Q 2014
 - Recognition – ED TBD
- GAAP Hierarchy – ED 1st Q 2014
- Economic Condition Reporting—Financial Projections (PV) – ED TBD
- Fair Value Measurement – 2nd Q 2014
- OPEB Accounting & Reporting – ED 2nd Q 2014
- Fiduciary Responsibilities – 3rd Q 2014
- Leases – 4th Q 2014
- Technical Correction—Pensions – ED 2nd Q 2013

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Other ideas that are out there

- Pre-research agenda
 - Financial Reporting Model
 - Tax Abatement Disclosures
- Monitoring activities
 - Electronic financial reporting
 - Emerging accounting issues
 - Pension implementation

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Potential Projects – 16 on the list

- 2a7 Like External Investment Pools
- Asset Retirement Obligations
- Emission Trading
- Equity Interests in CUs
- Exchange and Exchange-Like Financial Guarantees
- Exchange-Like Revenues
- Financial Performance Measurements
- Financial Transactions with Characteristics of Both Loans and Grants

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Potential Projects [continued]

- Impairments of Assets Other Than Capital Assets
- In-Kind Contributions
- Interim Financial Reporting
- Irrevocable Charitable Trusts
- Popular Reporting
- Present Value
- Preservation Method
- Reporting Unit Presentations

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Potential Reexamination Projects

- 28 items on the list
- Oldest item being considered – Risk Financing (GASBS 10)
- Most recent item being considered – Cost and Initial Rental Operations of Real Estate (GASBS 62); also some minor aspects of GASBS 65

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Review of the Governmental GAAP Hierarchy

Where do we stand today, and what does the future hold?

GAAP Hierarchy

- A. First established in 1984
- B. Updated in 1989 with jurisdictional agreement between the FASB and the GASB
- C. Usually reported in an AICPA SAS
- D. Last update was in 2009 with GASBS 55

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GAAP Hierarchy: 2009 – ?

- a. GASB Statements and Interpretations, which are periodically incorporated into the *Codification*
- b. GASB Technical Bulletins and, if specifically made applicable to SLG entities by the AICPA and cleared by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position

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Hierarchy [continued]

- c. AICPA Practice Bulletins if specifically made applicable to SLG entities and cleared by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to SLG entities.
- d. Implementation guides (Q&As) published by the GASB staff, as well as practices that are widely recognized and prevalent in SLG.

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Current Hierarchy Has Problems

- Level “c” doesn’t exist
- References to FASB accidentally excluded

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Hierarchy Changes Coming?

- Added to Technical Agenda in April 2012
- Key issues to address:
 - Possible combination of some categories – current thoughts are for 2 levels
 1. GASB publications
 2. AICPA publications
 - Due process for *CIG*
 - Add reference to FASB *Codification* in other accounting literature

ED by 1st Quarter 2014

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Statement 63
Financial Reporting of Deferred
Outflows of Resources, Deferred Inflows
of Resources, and Net Position

Background

- Concepts Statement 4 issued June 2007
- Identifies 5 elements that make up a statement of financial position:
 - Assets
 - Liabilities
 - Deferred outflows of resources
 - Deferred inflows of resources
 - Net position

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Background

- Contrast with GASBS 34, issued June 1999
- Identifies 3 elements of the Statement of Net Assets
 - Assets
 - Liabilities
 - Net Assets
- No definitions provided except to say that “the difference between a government’s assets and its liabilities is its net assets” (para. 32)

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Important Dates

- GASBS 63 issued June 2011
- Effective for periods ending after 12/15/2012
- CAFR that must include it: FY 2013
- Too late for early application, even though it was encouraged – few governments did

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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

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Definitions [continued]

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

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Definitions [concluded]

Net Position

- The residual of all elements presented in a statement of financial position
- New formula:

$$\begin{array}{r} \text{Assets} \\ + \\ \text{Deferred} \\ \text{Outflows} \end{array} - \begin{array}{r} \text{Liabilities} \\ + \\ \text{Deferred} \\ \text{Inflows} \end{array} = \begin{array}{r} \text{Net} \\ \text{Position} \end{array}$$

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Statement of Net Position

Net Format

$$\begin{array}{r} \text{Assets} \\ + \\ \text{Deferred} \\ \text{Outflows} \end{array} - \begin{array}{r} \text{Liabilities} \\ + \\ \text{Deferred} \\ \text{Inflows} \end{array} = \begin{array}{r} \text{Net} \\ \text{Position} \end{array}$$

No Subtotals!

Well, maybe, maybe not

24

Statement of Net Position

Balance Sheet Format

Total Assets and Deferred Outflows
=
**Total Liabilities, Deferred Inflows, and
Net Position**

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Display Requirements

- 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 (NICA)
 - Restricted
 - Unrestricted
- Governmental funds continue to report fund balance

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NICA

- Calculation is largely unchanged from ICANReD
- Deferred Outflows and Deferred Inflows attributable to the acquisition, construction, or improvement of capital assets or to related debt should be included
- If there are significant unspent related debt proceeds or deferred inflows, the portion of the debt or deferred inflows attributable to the unspent amount should be excluded from the calculation

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Restricted Net Position

- Consists of restricted assets reduced by liabilities and deferred inflows related to those assets
- Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of the liability or if the liability will be liquidated with the restricted assets reported

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Unrestricted Net Position

- Net amount of assets, deferred outflows, liabilities, and deferred inflows not included in NICA and Restricted Net Position
- Otherwise known as a plug number!

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Disclosures

- Provide details of different types of deferred amounts if components of the total deferred amounts are obscured by aggregation on the face of the statements
- If the amount reported for a component of net position is significantly affected by the difference between deferred inflows or outflows and their related assets or liabilities—provide an explanation in the notes

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Deferred Outflows/Inflows

- Although GASB insists this is a “principles-based standard, the Board will tell us what may be reported as a Deferred Outflow or Deferred Inflow
- Currently, only two standards allow this reporting:
 - Statement 53—Accounting and Financial Reporting for Derivative Instruments
 - Statement 60—Service Concession Arrangements

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Transition

- Accounting changes should be applied retroactively by reclassifying Statement of Net Position and Balance Sheet information, if practical, for all prior periods presented
- In period first applied, financial statements should disclose the nature of any reclassification and its effect
- Reason for not reclassifying statements should be explained

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**STATEMENT 65
ITEMS PREVIOUSLY REPORTED AS
ASSETS AND LIABILITIES**

Important Dates

- GASBS 65 issued March 2012
- Effective for periods ending after 12/15/2013
- CAFR that must include it: FY 2014
- Early application is encouraged

Smitty's opinion: implement simultaneously with GASBS 63

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Reason for this project

- Board added project to identify "deferrals" – certain assets and liabilities – that would be subject to GASBS 63
- What should be reclassified from assets to deferred outflows or from liabilities to deferred inflows?
- Also, what should be reclassified from assets to current period expenditures/expenses or from liabilities to current period revenues
- Some provisions apply to Governmental Funds

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Deferred Outflows of Resources

- Grant paid in advance of meeting timing requirement [GASBS 33]
- Deferred amounts from refunding of debt (debits) [GASBS 23 & 62]
- Cost to acquire rights to future revenues (intra-entity) [GASBS 48]
- Deferred loss from sale-leaseback [GASBS 62]

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Items that Remain Assets

- Grants paid in advance of meeting eligibility requirements (other than timing) [GASBS 33]
- Rights to future revenues acquired from outside the reporting entity [GASBS 48]
- Prepayments – pension assets (plan net assets exceed total liabilities) [GASB 27]
- “Regulatory” assets (capitalized incurred costs)

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Assets that Become Outflows of Resources

- Debt issuance costs [supersedes GASBS 62]
- Initial costs incurred by lessor in an operating lease [GASBS 62]
- Acquisition costs for risk pools [GASBS 62]
- Loan origination costs [GASBS 62]
- Costs to acquire loans [GASBS 62]

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More on Debt Issuance Costs

- Include all costs incurred to issue bonds (14)
 - Insurance costs (net of rebates from old debt, if any)
 - Financing costs (such as rating agency fees)
 - Others – printing, legal, administrative, & trustee expenses
- Prepaid insurance costs should be capitalized and amortized (15)

I don't know the difference between insurance costs and prepaid insurance costs!

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Still More

- Governmental Funds
 - Bond issuance costs have always been a period expenditure
 - Never capitalized until GASBS 34, then only in the government-wide statements
- Proprietary Funds
 - Always capitalized and amortized
 - Now will be a period cost

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Assets that Become Outflows of Resources

- Debt issuance costs [supersedes GASBS 62]
- Initial costs incurred by lessor in an operating lease [GASBS 62]
- Acquisition costs for risk pools [GASBS 62]
- Loan origination costs [GASBS 62]
- Costs to acquire loans [GASBS 62]

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Deferred Inflows of Resources

- Grants received in advance of meeting time requirement [GASBS 33]
- Taxes received in advance
- Deferred amounts from refunding of debt (credits) [GASBS 23 & 62]
- Proceeds from sales of future revenues [GASBS 48]
- Deferred gain from sale-leaseback [GASBS 62]
- “Regulatory” credits
- Points from loan origination [GASBS 62]
- “Unavailable” revenue in Governmental Funds [GASBS 33]

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Items that Remain Liabilities

- Derived tax revenue received in advance [GASBS 33]
- Premium revenues (risk pools) [GASBS 10]
- Grants received in advance of meeting eligibility requirements (other than timing) [GASBS 33]
- Commitment to originate/purchase a loan [GASBS 62]
- Resources received in advance of an exchange transaction
- Refunds imposed by a regulator

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Liabilities that Become Inflows of Resources

- Loan origination fees [GASBS 62]
- Commitment fees (after exercise or expiration) [GASBS 62]
- Fees received for sale of loans [GASBS 62]

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Other Provisions

- Governmental Fund revenue recognition rules still stand, but it is now a deferred inflow
- Use of the term “deferred” can only be used as stipulated in this standard
- Major fund criteria adjusted to include deferred outflows and deferred inflows

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Transition

- Accounting changes should be applied retroactively by restating financial statements, if practical, for all periods presented
- If restatement not practical, cumulative effect should be reported for earliest period presented
- In period first applied, disclose the nature of any restatement and its effect
- Reason for not restating prior periods should be explained

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STATEMENT 60 SERVICE CONCESSION ARRANGEMENTS

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
 - Management arrangements
 - Service Concession Arrangements.

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Scope: What is an SCA?

An arrangement between a government and an operator where all four criteria are met:

- The government conveys to an operator the right and related obligation to provide services to the public through the operation of a capital asset, in exchange for significant consideration
- The operator collects and retains fees from third parties

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Scope: What is an SCA?

An arrangement in which [continued] :

- The government determines or has the ability to modify or approve:
 - What services the operator is required to provide
 - To whom the services will be provided
 - The prices or rates that will be charged
- The government is entitled to significant residual interest in the service utility of the facility at the end of the agreement

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Important Definitions

- Operator – may be a governmental entity or nongovernmental entity
- Significant consideration – Up-front payment, installment payments, a new facility, or improvements to existing facility
- Public services – relate to the primary function of the facility (operating a zoo) rather than ancillary services operated in conjunction with the facility (souvenir stand at zoo)

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Definitions [continued]

- Capital asset – includes infrastructure, equipment, and other tangible and intangible assets
- Scope of statement excludes agency relationships, which include arrangements where the operator accepts payments from third parties and remits those payments to the government for an established fee

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SCAs include arrangements in which

- Operator will design and build a facility and obtain the right to collect fees from third parties
- Operator will provide significant consideration in exchange for the right to access an existing facility and collect fees from third parties for its usage
- Operator will design and build a facility for the government, finance construction costs, provide associated services, collect the associated fees, and convey the facility to the government at the end of the arrangement

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Important Note from Applicability of this Statement

Provisions of this statement should be applied to financial statements of SLGs that are prepared using the economic resources measurement focus.

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Reporting Facilities

If the facility is an existing facility, the government should continue to report the facility as a capital asset.

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Reporting Facilities [continued]

If the facility is a new facility purchased or constructed by the operator, or an existing facility that has been improved by the operator, then the government should report

1. New facility or the improvement as a capital asset at fair value when it is placed in operation
2. Any contractual obligations recorded as liabilities
3. Difference in 1 & 2 reported as **deferred inflow of resources**

Note: Improvements increase the capacity or efficiency of the facility rather than preserve its useful life.

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Government-reported Liabilities

- Certain obligations to sacrifice financial resources
- Recorded at PV if amount is significant and it meets one of these criteria:
 - Relates directly to the facility (obligations for capital improvements, insurance, or maintenance)
 - Relates to a commitment to maintain a minimum or specific level of service in connection with operation of the facility (emergency service or maintenance to areas surrounding facility)

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General Rules

- Capital asset is subject to existing requirements for depreciation, impairment, and disclosures
- Capital asset should not be depreciated if arrangement requires operator to return facility in its original or enhanced condition
- Deferred inflow should be recognized in systematic and rational manner over the term of the arrangement, starting when facility is placed into operation

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General Rules [continued]

- If liability is recorded, it should be reduced as government's obligations are satisfied.
- Improvements to facility by operator should be capitalized as they are made and are subject to requirements for depreciation, impairment, and disclosures.

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Reporting Upfront or Installment Payments

- Up-front payment or present value of installment payments as an asset
- Any contractual obligations recorded as liabilities
- Related deferred inflow of resources.
- Revenue should be recognized in a systematic and rational manner as the deferred inflow of resources is reduced.

60

What if a government is the operator?

Government Operator

- Report intangible asset for the right to access and use the property
 - Measured by the amount of up-front payment or contributed asset
 - Amortized over life of arrangement
- Improvements made to facility increase intangible asset if improvements increase capacity or efficiency of facility
- Report liability to restore facility to a specified condition if required by agreement

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Other Issues: Revenue-Sharing Arrangements

- Report all revenues earned and expenses incurred – government should recognize only its portion of the shared revenues
- Unconditional payments treated like installments
- Government recognizes conditional amounts when earned according to the agreement

63

Other Issues: Disclosures

- Description of the arrangement
 - Why management entered into arrangement
 - If applicable, status of project during construction period
- Nature and extent of rights retained or transferred
- Nature and amounts of recognized assets, liabilities, and deferred inflows
- Any guarantees and commitments, including identification, duration, & contract terms

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STATEMENT 61 THE FINANCIAL REPORTING ENTITY—OMNIBUS

Background

- Original standard issued in June 1991
- One of only 3 standards issued with 3-2 vote

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Reporting Entity

- Prior to 1991:
 - PG + Others
 - If in doubt, leave it out
- After 1991
 - PG + Others
 - If in doubt, include it

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Foundation of Reporting Entity: The Primary Government

- All States, Counties and Cities are primary governments (PGs)
- Other governmental entities may be PGs if
 - It has a separately elected governing body; **and**
 - It has separate legal standing; **and**
 - It is fiscally independent

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Fiscal Independence

An entity is “fiscally independent” if it does not need another government’s approval to:

- Establish its budget; **or**
- Levy taxes or set other rates and charges; **or**
- Issue bonded debt

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Component Unit

- Legally separate
 - non-primary government, or
 - nonprofit organization, or
 - for-profit organization
- For which the primary government is financially accountable

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Old Rules (GASBS 14)

- Include if fiscally dependent
- Include if
 - Appoint a voting majority of the governing board
 - PLUS
 - Able to impose will
 - OR
 - Financial benefit/burden relationship exists

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Able to Impose Will

- Ability to remove appointed members of governing board at will
- Ability to modify or approve budget
- Ability to modify or approve rate or fee charges affecting revenues
- Ability to veto, overrule, or modify decisions of organization's governing body
- Ability to appoint, hire, reassign, or dismiss those persons responsible for day-to-day operations

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Financial Benefit/Burden

- PG is legally entitled to or can otherwise access the organization's resources
- PG is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to the organization
- PG is obligated in some manner [GASBS 6, para. 16] for the debt of the organization

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A Reexamination

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

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Overview

The most significant effects of the amendments are to:

- Increase 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
 - Joint ventures
 - Component units
 - Investments

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Inclusion Criteria

- Statement 14 requires inclusion if Potential Component Unit is fiscally dependant. That is, Primary Government has authority over:
 - Budget, or
 - Setting taxes and charges, or
 - Issuing debt
- Statement 61 adds a requirement for a financial benefit or burden before inclusion is required.

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Inclusion Criteria

- Statement 14 requires inclusion of a Potential Component Unit if exclusion would make reporting entity's statements "misleading or incomplete"
- Statement 61 eliminates "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

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Misleading to Exclude

Retained in Statement 14

Clarifications:

- Determination should be based on the nature and significance of relationship with the PG – matter of professional judgment
- Disclosure on an accountability relationship by any stand-alone government when a voting majority of its governing board is appointed by a PG

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Blending Requirements

- Statement 14 requires blending if Primary Government and Component Unit have “substantively the same” governing body
- Statement 61 expands that requirement to also include:
 - A financial benefit/burden relationship, or
 - Primary Government has “operational responsibility” for CU – PG’s personnel manage activities of CU like a fund, program, or department of the primary government

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Benefit/Burden Relationship

- Benefit: PG has the ability to access other organization’s financial resources (other than at dissolution)
- Burden
 - PG is legally or otherwise obligated to finance the deficits of, or to provide financial assistance to, the other organization
 - PG is “obligated in some manner” for the debt of other organization as determined in GASBS 6

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Blending Requirements

The blending criteria retained from GASBS 14 – CU provides services to, or benefits only, the primary government (meaning the government itself, not its constituency).

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Blending Requirements (continued)

The blending criteria are broadened to include component units whose total debt outstanding is expected to be repaid entirely or almost entirely by revenues of the primary government.

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Blending Requirements (continued)

Clarifies that the funds of a blended CU have the same characteristics, reporting alternatives, and limitations as those of the PG

- Major fund reporting
- Could be combined with other funds for display

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Blending Requirements (continued)

- 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 Primary Government
- For a single column BTA
 - Consolidate Component Unit data into the single column – present combining information in the notes
 - Additional column(s), with Primary Government total column

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Reporting Discretely Presented CUs

- Found only on Government-Wide Financial Statements
 - Statement of Net Position (Assets when standard was issued)
 - Statement of Activities
- Four options for reporting CUs

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Options for Reporting CUs

1. Single column (option most often used)
2. Separate columns for Governmental CUs and Proprietary CUs (rarely used in practice – more common prior to GASBS 34))
3. Separate column for each major CU with aggregate column for other CUs
4. Separate column for each CU

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Options for Reporting CUs

[continued]

- When options 1 and 2 used, must present additional information about CUs later in report
- Methods available
 - Combining statements following major fund statements – must have separate column for each major CU and aggregate column for others
 - Condensed financial statements in notes to financial statements
 - Nonmajor funds may be reported as supplementary information

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Major Component Units

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

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Other Relationships

- Related organization – appointment criteria met but not the “plus”
- Jointly governed organization – has not met appointment requirement or “plus” requirements
- Joint venture – has not met appointment requirement and has either ongoing financial interest or ongoing financial responsibility

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Note Disclosures

- Clarifies that *current* disclosures require:
 - 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 for disclosure)
- No new disclosures

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**STATEMENT 62
CODIFICATION OF PRE-NOVEMBER 30, 1989,
FASB AND AICPA PRONOUNCEMENTS**

The Standard

- Exposure draft
 - Was over 600 pages long
 - Came in two parts just in case you didn't want all the details
- Final standard has 282 pages, with 502 paragraphs in "the standard"
 - GASBS 34 – 166
 - GASBS 11 – 100
 - GASBS 3 – 84
 - GASBS 10 – 83
 - GASBS 14 – 82

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Implementing GASBS 62

- Earlier application is encouraged – too late!
- Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements for all periods presented (unless not practical – then use cumulative effect in earliest period restated).
- In period first applied, disclose the nature of any restatement and its effect, including reason for not restating prior periods

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Approaches 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
- Are not applicable to governments
- Rarely applicable (excluded)
- Are applicable to governments – more detail later
- Will be addressed in GASB projects (applicable, but excluded)
– ABPO, *Business Combinations*

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General Provisions

Scope and Applicability – applies to accounting and financial reporting for governmental activities, business-type activities, and proprietary funds, except as identified in the Statement.

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GASBS 20 is superseded

- All applicable pre-November 30, 1989 FASB and AICPA pronouncements are contained in the GASB's codification
- All potentially applicable post-11/30/89 non-GASB standards would be "other accounting literature"
 - Can be adopted as long as not considered conflicting with GASB Statements
 - Except that is not what current hierarchy says

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Scope exclusions:

- Interest capitalization applies only to business-type activities and enterprise funds
- Revenue recognition with right of return applies only to business-type activities and proprietary funds
- Regulated operations can apply to certain business-type activities that meet certain criteria
- Inventory applies only to business-type activities and enterprise funds

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Standards that also apply to governmental funds

- Related parties
- Contingencies
- Leases
- Extraordinary items and special items

Subject to accounting and financial reporting distinctions of those funds

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What About Governmental Funds?

- Path not quite as clear
- Specific pronouncements identified in GASB literature apply. For example:
 - APB Opinion 22—Disclosures
 - APB Opinion 30—Extraordinary Items
 - APB Opinion 20—Accounting changes
- Result on conceptual framework project on recognition and measurement attributes is key

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Topics in order of presentation

- Capitalization of interest cost
- Revenue recognition for exchange transactions
- Revenue recognition when right of return exists
- Statement of Net Asset classification
- Etc, etc, etc

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Not Everything Is Cut & Dried

Early retirement of debt

- No refunding debt issued
- Is difference extraordinary?
- What FASB rule was in effect in 1989?
- See paragraph 126

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**STATEMENT 66
TECHNICAL CORRECTIONS—2012**

Conflicts

- Statement 62 with
 - Statement 13—Leases
 - Statement 48
 - Purchase of a loan or group of loans
 - Servicing fees related to mortgage loans
- Statement 54 with
 - Statement 10—Risk financing pools

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Risk Financing Activities

- GASBS 10 requires accounting for risk financing activities in either GF or ISF, when a single fund is used
- GASBS 66 removes this paragraph entirely (except for footnote 12, which clarifies who can participate in the ISF)

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Operating Leases

- GASBS 62, paragraphs 222 and 227b, include guidance for accounting for operating leases that vary from straight-line basis
- Provisions are deleted to remove apparent conflict with GASBS 13, paragraph 6b (using [effective] interest method for implicit financing)

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Purchase of Loan or Group of Loans

- GASBS 62, paragraph 442 includes guidance on accounting for difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans
- Last 3 sentences deleted with the following added: the initial investment in a purchased loan or group of loans should include the amount paid the seller +plus any fees paid or less any fees received

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Servicing Fees

- GASBS 62, paragraph 460, includes guidance on recognition by the government for servicing fees related to mortgage loans sold when stated service fee rate difference significantly from normal servicing fee rate
- GASB 66 deletes this paragraph entirely – conflicts with GASBS 48, paragraph 13, that requires gain or loss be recognized without adjustment to sales price

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GASBS 69

Government Combinations and Disposals
of Government Operations

Timeline

- ED issued March 2012
- Standard approved January 2013
- Effective for FY ending after 12/15/2014 (FY 2015 for most governments)
- Early implementation encouraged

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Scope

- Government combinations include
 - Mergers
 - Acquisitions
 - Transfer of operations from another government
- Disposal of government operations
 - Transfer of operations to another government
 - Sale of operations

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Common Terminology

- Merger – combination of legally separate governments or governmental operations without exchange of significant consideration
- Acquisition – government acquires another government or its operations in exchange for significant consideration
- Disposal – removal of specific activities of that government

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Specific Guidance

- Determining the type of a government combination
- Using carrying values to measure balance sheet items
- Measuring acquired balance sheet items based on acquisition values
- Reporting disposal of operations

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Service Continuation

- To be considered a combination, arrangement should result in continuation of a substantial portion of services provided by previous separate entities
- Generally, terms establish whether service continuation was intended
- PJ may be necessary to determine if combination has occurred

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Government Mergers

May result in

- New government
- Continuing governments

114

New Government

- Merger date is date combination becomes effective
- Initial reporting of new government begins on that date
- Combined elements should be recognized and measured in Statement of Net Position as of the beginning of the initial reporting period

115

New Government: Recognition

- Assets, deferred outflows, liabilities, or deferred inflows recognized as of the merger date
- New government should not recognize additional elements – like intangible asset that was not required to be reported
- If certain elements not recognized IAW GAAP, then must make adjustments before the merger

116

New Government: Measurement

- Measure elements at carrying value as reported on separate financial statements as of merger date
- New government may choose to adjust some carrying values to align accounting principles
- May make adjustments to reflect consistent method of accounting
- Adjustments must be explained in the notes
- Changes in estimates should be recognized in flows statement of new government

117

New Government:
Impairment

- If new government will not use capital assets identified for disposal, those assets should be evaluated for impairment to determine if carrying value should be adjusted
- If some capital assets are to have change in manner or duration of use , should evaluate for impairment

118

Continuing Governments

- Merger date is the beginning of the reporting period in which combination occurs regardless of actual date of merger
- Elements should be measured as of the beginning of the year, as if merger had occurred at beginning of the year

119

Continuing Governments:
Recognition

- Continuing government should recognize elements as of merger date
- If no statement as of that date, use the most recently completed period
- Continuing government should not recognize additional elements

120

**Continuing Governments:
Measurement**

- Measure elements at carrying value as of merger date
- If no statements as of merger date, elements should be measured based on applicable principles in most recent financial statements
- Continuing government may make some adjustments to align accounting principles
- May adjust measurements as of beginning of year to reflect consistent method of accounting

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**Continuing Governments:
Impairment**

- If merging entities decide before merger date to dispose of assets, but continuing government will use in meantime – report at carrying value
- If continuing government decides to dispose of assets it will not use, evaluate for impairment to adjust carrying value
- For capital assets that will see change in manner or duration of use, evaluate for impairment

122

**Continuing Governments:
Eliminations**

- Transactions between merging entities that occur before combination should be eliminated in the combination process
- Receivables and payables should also be eliminated

123

Impact of Merger on Governmental Funds

Elements that will be reported should be recognized in accordance with reporting requirements for governmental funds

124

Government Acquisitions

- Date on which acquiring government gains control of assets and becomes obligated on liabilities is the acquisition date
- Generally occurs on date that acquiring government provides consideration – closing date
- Parties may designate another date

125

Government Acquisitions [continued]

- Acquiring government should recognize elements IAW authoritative guidance
- Acquiring government may be required to recognize elements that the acquired organization was not required to recognize

126

Government Acquisitions [continued]

- Acquired organization may have recognized deferred outflow (goodwill) as a result of an earlier acquisition
- Acquiring government should not recognize such deferred outflows

127

Government Acquisitions [continued]

- Acquiring government should recognize acquired elements at acquisition value
- Acquisition value = market-based entry price
- Entry price assumed to be based on orderly transaction entered into at acquisition date

128

Exceptions to Use of Acquisition Value

Use appropriate standards to value following items:

- Employee benefit arrangements (compensated absences, pension, & OPEB)
- Landfill obligations
- Investments
- Deferred outflows and deferred inflows

129

Consideration

- Valued at acquisition date as sum of values of assets remitted or liabilities incurred
- May include financial and nonfinancial assets
- Liability may represent an obligation to provide consideration to former owners of acquired entity
- Negative net position acquired is not consideration

130

Consideration [continued]

- Potential transfer to assets contingent on a future event may be part of consideration
- If amount paid exceeds value of elements acquired
 - Deferred outflow is recorded
 - Amortized in systematic and rational manner
- If amount paid is less than value of elements acquired
 - Eliminate by reducing value of noncurrent, nonfinancial assets acquired
 - If still not eliminated, report as special item in flows statement

131

Amortization Term Factors

- Estimated service lives of assets acquired
- Estimated service life of landfill acquired
- Expected length of contracts acquired
- Estimated remaining service life of technology acquired

132

Acquisition Costs

- Costs incurred to make acquisition take place
- Include fees for legal, accounting, valuation, professional, or consulting services
- Recognize expenditure/expense in periods in which costs are incurred and services received

133

Intra-Reporting Entity Acquisition

- Acquiring government recognizes elements at carrying value of selling entity
- Difference in price paid and carrying value reported as special item in acquiring government's separately issued financial statements
- Reclassified as transfer or subsidy in reporting entity financial statements

134

Provisional Acquisition

- If measurement of certain elements is not finalized by end of reporting period, acquiring government should recognize estimated amounts for items not yet finalized
- Prospectively update estimated amounts if new information becomes available about conditions existing at acquisition date

135

Impact of Acquisition on Governmental Funds

- Elements recognized IAW financial reporting requirements of governmental funds
- Net fund balance acquired reported as a special item

136

Transfers of Operations

- Effective transfer date is date the transferee government obtains control of assets and becomes obligated on liabilities of operation transferred
- Continuing government should report transfer in reporting period in which it occurs
- If transfer creates a new government, new government's initial reporting period starts on date of transfer

137

Transfer Recognition

- Recognize carrying values of elements as of transfer date
- Elements should be adjusted if not recognized IAW SLG authoritative guidance
- No additional elements should be recognized
- Net position received or assumed should be reported as a special item

138

Transfer Measurement

- Entities involved may have used different but acceptable ways of measuring elements
- Transferee government may adjust elements to make measurement more consistent
- Explanation of adjustments must be provided in the notes
- Elements in transferor government's records based on elements should not be adjusted
- Changes in estimates reported on transferee's flows statement

139

Transfer Impairments

- If decision made before transfer date to dispose of certain capital assets and transferee will use assets until disposal, assets should be reported at carrying value
- If transferee does not use assets, they should be evaluated for impairment – transferee must explain impairment in notes
- If decision made before effective date to change duration or manner of use, assets should be evaluated for impairment

140

Impact of Transfers on Governmental Funds

- Elements recognized IAW financial reporting requirements of governmental funds
- Net fund balance transferred reported as a special item

141

Disposals of Government Operations

- Disposing government should recognize a gain or loss, as appropriate
- Recognize as a special item – only include costs directly associated with the disposal (not normal operating activities)
- Typical costs: involuntary terminations, contract termination costs, and fees for professional services

142

Notes on All Combinations

- Brief description of combination, including entities involved, and whether entities are part of the same reporting entity
- Date of the combination
- Brief description of reasons for the combination

143

Mergers & Transfers of Operations: New or Continuing Government

- Amounts of all elements reported on merger date or effective transfer date
- Brief description of nature and amount of significant adjustments made to bring into conformity the individual accounting policies or to adjust for impairments
- Initial amounts recognized by new government from values above that arise from above adjustments

144

Government Acquisitions

- Brief description of consideration provided
- Total amount of net position acquired
- Brief description of contingent consideration arrangements, including basis for determining amounts of payments that are contingent

145

Disposals of Operations

- Identify the operations disposed
- Brief description of policy that lead to disposal
- If not separately reported in financial statements:
 - Total expenses, distinguishing between operating and nonoperating
 - Total revenues, distinguishing between operating and nonoperating
 - Total governmental revenues and expenditures

146

Accounting and Financial Reporting for Nonexchange financial guarantees

GASB Statement No. 70

147

Overview

- By extending financial guarantee, government agrees to indemnify third part of the entity that issued the obligation does not fulfill its obligation
- Third party may be
 - Other government
 - Nongovernmental entity
 - Individuals
- Guarantee done to fulfill government's mission to assist others within its jurisdiction
- Nonexchange guarantee occurs when guarantor does not receive something of equal value in return

148

Government Extending Guarantee

- Must consider qualitative factors to assess likelihood payment will be required
 - Initiation of process of entering into bankruptcy or financial reorganization
 - Breach of a debt contract in relation to the guaranteed obligation
 - Indicators of significant financial difficulty

149

Examples of Breach of Debt Contract

- Failure to meet rate covenants
- Failure to meet coverage ratios
- Default or delinquency in interest or principal payments

150

Indicators of Significant Financial Difficulty

- Failure to make payments to paying agents or trustees on timely basis
- Drawing on a reserve fund to make debt service payments
- Initiation of a process to intercept receipts to make debt service payments
- Debt holder concessions
- Significant investment losses
- Loss of a major revenue source
- Significant increase in noncapital disbursements relative to operating revenues
- Commencement of financial supervision by another government

151

Economic Resource Model

When qualitative factors indicate a better than 50% chance that payment under guarantee will be required

- Government should recognize an expense and liability
- Amount recognized should be the discounted present value of best estimate of future outflows resulting from guarantee
- If estimate is a range, use the lowest value

152

Current Financial Resource Model

When qualitative factors indicate a better than 50% chance that payment under guarantee will be required

- Recognize expenditure and fund liability, to the extent that the liability is expected to be liquidated with current financial resources
- Amounts are normally expected to be liquidated when payments are due and payable on guaranteed obligation

153

Issuer of Guaranteed Obligation

- If government is required to pay grantor for guarantee payments, government should reclassify that portion of guaranteed obligation as liability to grantor
- Continue to recognize liability until released
- When released, recognize revenue to the extent of the reduction of its guaranteed liabilities

154

Disclosures – Issuer of Guarantee

When guarantee made:

- Description of transaction
 - Legal authority and limits for extending guarantees
 - Relationship of government to the issuer
 - Length of time of the guarantee
 - Arrangements for recovering payments from issuer
- Total amount of all guarantees extended that are outstanding at reporting debt

155

Disclosures – Issuer of Guarantee

Government that recognizes liability or has made payments

- Brief description of timing of recognition and measurement of the liabilities
 - Beginning of period balances
 - Increases, including initial recognition and adjustments
 - Guarantee payments made and adjustments
 - End-of-period balances
- Cumulative amounts of payments made on guarantees as of reporting date
- Amounts expected to be recovered that have been made through the reporting date

156

Disclosures – Issuer of Debt

Government with outstanding obligations that have been guaranteed:

- Name of entity providing guarantee
- Amount of guarantee
- Length of time of guarantee
- Amount paid, if any, by entity extending the guarantee
- Description of requirements to repay entity extending guarantee
- Outstanding amounts required to be repaid

157

Disclosures – Issuer of Debt

Government with guaranteed debit for which payments have been made, but debt no longer outstanding

- Amount paid by the guarantor
- Cumulative amount paid by guarantor
- Description of requirements to repay the entity
- Outstanding amounts required to be repaid

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Standard

- Effective for periods ending after 6/15/2014
- Early application encouraged
- In period first applied, changes made to comply with statement should be treated as an adjustment of prior periods, with statements presented for periods being restated
- If restatement not practical, cumulative effect of applying standard reported as restatement of beginning net position
- Reason for not restating prior periods should be explained
- Nature of any restatement and its effect

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