

CENTRAL OHIO AGA 2011 PROFESSIONAL DEVELOPMENT CONFERENCE

GASB UPDATE

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

Upcoming Effective Dates

- ▣ June 30, 2012
 - Statement 57—OPEB (Agent)
 - Statement 64—Derivatives-Hedge Accounting Terminations
- ▣ December 31, 2012
 - Statement 60—SCA
 - Statement 62—Pre-89 Codification
- ▣ June 30, 2013
 - Statement 61—Financial Reporting Entity
 - Statement 63—Deferrals and Net Position

**STATEMENT NO. 58,
ACCOUNTING AND
FINANCIAL REPORTING FOR
CHAPTER 9 BANKRUPTCIES**

Scope

- ▣ Chapter 9 (“municipal”) bankruptcies
 - Applies whether or not government expected to emerge as going concern
 - The term “municipalities” excludes:
 - ▣ State governments
 - ▣ Tribal governments
 - Only if bankruptcy is specifically authorized by state law (24 states authorized as of 2009)
 - Excludes debt adjustments outside of bankruptcy
 - ▣ Follow GASB 62 (from FASB 15)

Overview

- ▣ Business as usual for the government
- ▣ It's all about restructuring debt
 - 3 paths to relief
- ▣ Potential to reject or renegotiate:
 - Unexpired leases
 - Collective bargaining agreements
 - Pension obligations
- ▣ Financial reporting follows the Plan of Adjustment

Recognition and Display

- ▣ Old debt discharged and new debt reported when Plan of Adjustment becomes binding
 - Typically when court "confirms" the Plan
- ▣ Adjustments are extraordinary item
- ▣ Contingent future payments per Plan are recognized if probable
- ▣ Professional fees and direct costs of bankruptcy expensed (expenditure) as incurred

Measurement

- ▣ Payables, Notes, & Debt Obligations
 - Measurement should be based on payments in confirmed Plan of Adjustment
 - ▣ Interest reduced—Report lower interest in future
 - ▣ Pre-petition principal and accrued payables reduced:
 - If reduced below carrying amount—Gain
 - If NOT reduced below carrying amount (e.g., deep discount debt)—Report as adjustment to interest in future
 - ▣ Expense any unamortized premium or discount
 - If Plan does not specify interest or principal
 - ▣ Discount new payments at old rate

Measurement

- ▣ Pensions & OPEB
 - If obligation for unsecured benefits is “rejected” in the Plan of Adjustment
 - ▣ Accounted for as *termination* of benefit plan
 - Any existing assets or liabilities eliminated
 - ▣ Any new liability is reported as a judgment
 - If liability is NOT rejected
 - ▣ Report any change as a modification of the benefit plan, measured per pension and OPEB standards

Measurement

- ▣ Capital Leases
 - Same as GASB 62 (FASB 13) remeasurement
- ▣ Other Liabilities
 - Incorporate Plan payment provisions into measurement expectations

Other Provisions

- ▣ Disclosures:
 - Required once petition for bankruptcy is filed
 - Cease in period following fiscal year in which case closed or petition dismissed
- ▣ If not expected to emerge as going concern
 - Remeasure assets to amount expected to be received as of the date of the confirmation of the Plan of Adjustment

Effective Date

- ▣ Periods beginning after June 15, 2009
- ▣ Early application encouraged
- ▣ Retroactive application required for all prior periods presented during which government was in bankruptcy

Statement No. 59: Financial Instruments Omnibus

Effective Date—
June 30, 2011

Statement No. 59: Financial Instruments Omnibus

Amends:

- Statements 25 and 43—Unallocated insurance contracts
- Statement 31—2a7-Like external investment pools
- Statement 40—Interest rate risk disclosures for bond mutual funds
- Statement 53:
 - Contracts that include nonperformance penalties
 - Certain financial guarantee contracts
 - Revenue-based contracts
 - Hybrid instruments—Investor's initial rate of return

Statement No. 60 Service Concession Arrangements

Effective for years ending
December 31, 2012

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
 - Management arrangements
 - SCAs.

Service Concession Arrangements

Scope: What is an SCA?

An arrangement in which:

- ▣ a transferor 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
- ▣ the transferor is entitled to significant interest in the service utility of the capital asset at the end of the agreement (a residual interest)
- ▣ the transferor 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

Service Concession Arrangements

How should the significant up-front payments (including installment arrangements and operator-constructed assets) be recognized?

- Transferor reports:
 - 1) An assets for up-front payment or the present value of installment payments or capital assets contributed
 - 2) Any contractual obligations as liabilities,
 - 3) And a corresponding deferred inflow of resources equal to the difference between (1) and (2).

Periodic amortization – recognized as revenue over the duration of the agreement

Governmental fund reporting?

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Service Concession Arrangements

Reporting the capital assets:

- Existing facility:
 - Transferor continues to report existing facility as capital asset.
- New facility or improvements to existing facility:
 - Transferor reports
 - 1) A new facility or improvements as capital asset at fair value when placed into operation,
 - 2) Any contractual obligations as liabilities,
 - 3) And a corresponding deferred inflow of resources equal to the difference between (1) and (2).

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Transferor Accounting

- ▣ After initial measurement, the capital asset is subject to existing requirements for depreciation, impairment, and disclosures.
- Improvements made to the facility during the arrangement would **increase** the transferor's asset.
- ▣ Does **NOT** depreciate if arrangement requires operator to return facility to transferor in its original or enhanced condition.

Transferor Accounting

- A liability is recorded at present value if a contractual obligation exists AND if it meets either of the following criteria:
 - (1) The contractual obligation directly relates to the facility. *(for example, capital improvements, insurance, or maintenance)*
 - OR
 - (2) The contractual obligation relates to a commitment by the transferor to maintain a minimum or specific level of service in connection with the operation of facility. *(for example, police or emergency services, maintenance around facility)*

Transferor Accounting

- ▣ Revenue is recognized in a systematic and rational manner over the term of arrangement as the deferred inflow is reduced.

- ▣ Liability is reduced as transferor's obligations are satisfied.
 - When obligation is satisfied, a deferred inflow is reported and related revenue is recognized in systematic and rational manner over the term of the arrangement.

Governmental Operator

- Reports an *intangible asset* for the right to access and use the property
 - Measured by the amount of up-front payment or contributed asset
 - Amortized over the life of the arrangement
- Improvements made to the facility by the government operator increases the government operators intangible asset if the improvements increase the capacity of efficiency of the facility.
- Reports a liability to restore facility to a specified condition if required by agreement and the facility is not in the expected condition.

Service Concession Arrangements

Other provisions:

Revenue-sharing arrangements

- *Governmental operator* reports all revenues earned and expenses incurred
- Unconditional payments treated like installments
- The transferor recognizes conditional amounts when earned according to the agreement

Disclosures:

- Description of the arrangement
- Nature and extent of rights retained or transferred
- Nature and amounts of recognized assets and liabilities

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Note Disclosures

- The following information should be disclosed in the notes to the financial statements of both the transferor and government operator
 - A general description of the arrangement
 - Including management's objectives for entering into the arrangement
 - If applicable, the status of the project during the construction period
 - Nature and amounts of assets, liabilities, and deferred inflows of resources related to the SCA that are recognized in the financial statements
 - Nature and extent of rights retained by the transferor or granted to the government operator
 - If applicable, disclosures should be made about guarantees and commitments, including identification, duration, and significant contract terms of the guarantees or commitments.

**Statement No. 61
The Financial Reporting Entity--
Omnibus**

**REEXAMINATION OF
STATEMENT 14
EFFECTIVE FOR YEARS
ENDED JUNE 30, 2012**

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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

Overview

- ▣ The most significant effects of the amendments 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
 - Joint ventures
 - Component units
 - Investments

Inclusion Criteria

- ▣ Statement 14 requires inclusion if PCU is fiscally dependant. That is, PG 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.

Inclusion Criteria

- ▣ Statement 14 requires inclusion of a PCU 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 PG that is other than temporary

Blending Requirements

- ▣ Statement 14 requires blending if PG & CU have "substantively the same" governing body
 - For example, County Board also serves as the Board of the Forest Preserve District
- ▣ Statement 61 expands that requirement to also include:
 - A financial benefit/burden relationship, or
 - PG has "operational responsibility" for CU
 - ▣ PG's personnel manage activities of CU like a fund, program, or department of the primary government

Blending Requirements

- ▣ The blending criteria is broadened to include component units whose total debt outstanding is expected to be repaid entirely or almost entirely by revenues 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 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

Blending Requirements

- ▣ Statement 61 clarifies how to blend component units in a BTA reporting model:

In the three basic statements:

- 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, or
 - Present combining info in the notes
 - ▣ Additional column(s), with PG total column

Major Component Units

- ▣ 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 an equity interest in:
 - 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
 - Minority interests would be classified in net assets as "Restricted, nonexpendable"
- ▣ Recognition and Measurement is based on JV equity interest requirements in Statement 14

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 CUs for disclosure)
- ▣ No new disclosures

**STATEMENT NO. 62
CODIFICATION OF PRE-NOVEMBER 30,
1989 FASB PRONOUNCEMENTS**

- Effective for periods ended December 31, 2012

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**Codification of Pre-November 30,
1989 FASB Pronouncements**

Background

- 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
- Objective: Specifically identify applicable provisions in FASB Statements and Interpretations, APB Opinions, ARBs, and AICPA Accounting Interpretations, and incorporate those provisions into the GASB's literature

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Codification of Pre-November 30, 1989 FASB Pronouncements

- ▣ Conflict with or contradict GASB standards
 - FAS 4 Gain or loss on debt extinguishments
 - FAS 43 Compensated absences
- ▣ Are not applicable to governments
 - FAS 84 Convertible debt
 - FAS 89 Changing prices
- ▣ Rarely applicable (excluded)
 - FAS 19 Oil and Gas
- ▣ Are applicable to governments
 - FAS 5 Contingencies
 - FAS 34 Capitalization of interest
- ▣ Will be addressed in GASB projects (applicable, but excluded)
 - APB 16 Business combinations

Codification of Pre-November 30, 1989 FASB Pronouncements

- ▣ Statement 20 is superseded
 - All applicable pre-11/30/89 standards are contained in the GASB's codification
 - All potentially applicable post-11/30/89 non-GASB standards will be "other accounting literature"
- ▣ Guidance on 29 topics is brought into the GASB literature, including:
 - Capitalization of interest costs (FAS 34)
 - Statement of net assets classification (ARB 43, APB 12 & FAS 6)

Codification of Pre-November 30, 1989 FASB Pronouncements

- 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)
- Leases (FAS 13, 22 & 98 & FIN 23, 26 & 27)

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Codification of Pre-November 30, 1989 FASB Pronouncements

- 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)

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Codification of Pre-November 30, 1989 FASB Pronouncements

Early implementation--what are the issues?

- GASB Statement 20, paragraph 7 option
- Guidance for government combinations
- FASB lease guidance

STATEMENT NO. 63

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

Background

- Initiated in May 2010
- 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

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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
- 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
 - = assets + deferred outflows – liabilities – deferred inflows

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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
 - Restricted
 - Unrestricted
- Governmental funds continue to report fund balance

Statement of Net Position				
	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
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 MSA 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	150,980,601	292,568,336	36,993,547
Total capital assets	170,022,760	157,388,751	327,411,511	37,744,786
Total assets	228,758,185	171,382,867	398,150,852	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	—
Unamortized service concession arrangement payments	—	4,467,536	4,467,536	—
Total deferred inflows	1,040,482	4,467,536	5,508,018	—
NET POSITION				
Net investment in capital assets	103,711,386	79,088,574	182,799,960	15,906,392
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 (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

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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STATEMENT NO. 64 DERIVATIVE INSTRUMENTS: APPLICATION OF HEDGE ACCOUNTING TERMINATION PROVISIONS

Statement No. 64

- Statement 53 requires immediate recognition of deferred amounts when swap is terminated
- Statement 64 clarifies when a hedging relationship (and hedge accounting) continues
 - Collectibility of swap payments is probable
 - Counterparty (or support provider) is replaced with an assignment or in-substance assignment
 - Act of default or termination by counterparty (or support provider)

Statement No. 64

Glossary of Statement 53 is amended to define:

- *Assignment*—Occurs when a swap agreement is amended to replace an original swap counterparty, or the swap counterparty's credit support provider, but all of the other terms of the swap agreement remain unchanged.
- *In-substance assignment*-provides four criteria to be met

Questions?

krschermann@gasb.org

(203) 956-5206

Web site—www.gasb.org