

CENTRAL OHIO AGA 2011 PROFESSIONAL DEVELOPMENT CONFERENCE

GASB STANDARDS: WHAT'S ON THE HORIZON?

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.

Projects in Process

- ▣ Reporting Items Previously Recognized as Assets and Liabilities (ED)
- ▣ Accounting and Financial Reporting for Pensions (Plan and Employer EDs and PLS)
- ▣ Conceptual Framework – Recognition of Elements of Financial Statements and Measurement Approaches(PV)
- ▣ Financial Projections
- ▣ Government Combinations
- ▣ Financial Guarantees
- ▣ Technical Corrections
- ▣ User Guide Updates

Reporting Items Previously Recognized as Assets and Liabilities

Exposure Draft available on the GASB Website
Comment Deadline is November 18, 2011
Proposed effective date—June 30, 2013

3

Deferred Outflows/Inflows

Concepts Statement 4 provides that recognition of deferrals should be limited to those instances specifically identified by GASB

Limited to current requirements in:

- ▣ Statement 53 – Accounting and Financial Reporting for Derivative Instruments
- ▣ Statement 60-- Service Concession Arrangements

4

Reporting Items Previously Recognized as Assets and Liabilities

- ▣ The Board added this project to identify “deferrals” (ex. deferred revenue, prepaid expenses) that would be subject to requirements of Statement 63.
 - Currently reported as assets or liabilities. Should they be deferred outflows/inflows, or expenses/revenues?

5

Reporting Items Previously Recognized as Assets and Liabilities

Some potential deferred inflows of resources (currently classified as liabilities):

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

6

Reporting Items Previously Recognized as Assets and Liabilities

Some potential deferred outflows of resources (currently classified as assets):

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

7

Reporting Items Previously Recognized as Assets and Liabilities

Some balances that are proposed to remain liabilities:

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

8

Reporting Items Previously Recognized as Assets and Liabilities

Some balances that are proposed to remain assets:

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

9

Reporting Items Previously Recognized as Assets and Liabilities

Some balances that would be recognized as outflows (currently classified as assets):

- ▣ Debt issuance costs (other than insurance)
- ▣ Initial costs incurred by lessor in an operating lease
- ▣ Acquisition costs for risk pools
- ▣ Loan origination costs

10

Reporting Items Previously Recognized as Assets and Liabilities

Some balances that would be recognized as inflows (currently classified as liabilities):

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

11

Accounting and Financial Reporting for Pensions

- ▣ Two Exposure Drafts and Plain language Supplement released June 28th
- ▣ Comment deadline was September 30, 2011

Overview

- Project initiated in January 2006
- Project undertaken to reexamine standards related to postemployment benefits in order to improve:
 - Accountability and transparency related to postemployment benefits
 - Decision-making usefulness of information related to postemployment benefits for users of the financial statements
- Project is in 2 phases:
 - Phase 1 (this phase) deals with pension benefits
 - Phase 2 deals with OPEB (timeline discussed by Board in August 2011)
- Phase 1 Timeline:
 - Invitation to Comment issued in March 2009
 - Preliminary Views document issued in June 2010
 - Exposure Drafts (Employer and Plans) June 2011
 - Final standards (Employer and Plans) expected June 2012

13

Highlights

- **Key conceptual shift in reporting pension liabilities and expense under the economic resources measurement focus from a “funding” approach to an “earnings” approach:**
 - Currently, no liability is reported if government fully funds its annual required contribution (single-employer and agent plans) or pays its contractually required contribution (cost-sharing plan)
 - Under proposed approach:
 - Pension liability will be reported as employees earn their pension benefits by providing services
 - Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on nature of change
- **No significant changes to accounting for pensions in governmental funds**

14

Pension Accounting and Financial Reporting by Employers

Starting point: employer's pension obligation to employees

- ▣ Pension benefits are compensation for employees' services in financial-reporting periods
- ▣ Employment-exchange transactions create an obligation of employer to employees to provide pension benefits in retirement
 - Annual exchanges, viewed by Board generally within context of a career-long employment relationship

15

Pension Accounting and Financial Reporting by Employers

Primary and secondary responsibilities for the obligation

- Funded portion of the obligation
 - ▣ Plan becomes primarily responsible for the obligation to employees to the extent plan assets have been accumulated to provide for payment of benefits; employer is secondarily responsible for the funded portion
 - ▣ Unfunded portion of the obligation:
 - Employer remains primarily responsible for the obligation to employees to the extent the obligation exceeds plan assets

16

Pension Accounting and Financial Reporting by Employers

Unfunded pension obligation (net pension liability) should be recognized as a liability

- ▣ The unfunded pension obligation meets Concepts Statement 4 definition of a liability of the employer:
 - A present obligation – created by past exchanges
 - Requires sacrifice of employer's resources
 - Little or no discretion to avoid the sacrifice of resources – generally a legally enforceable liability, but if not, in some cases, is a constructive liability
- ▣ The liability is measurable with sufficient reliability to be recognized in employer's financial statements
- ▣ Thus, Concepts Statement 3 criteria for recognition are met

17

TPL: Timing and Frequency

- Measured as of the employer's year-end
- For the calculation of the total pension liability, an actuarial valuation should be performed at least biennially
- Measurement of total pension liability can be from:
 - An actuarial valuation as of employer's year-end
 - Update procedures rolling-forward amounts from an actuarial valuation as of a date no more than 24 months earlier

18

TPL: Projection of Benefit Payments

- All current plan members in accordance with:
 - The terms of the benefit arrangement
 - Any additional legal agreement(s) to provide benefits that are in force at the actuarial valuation date
- Exclude benefits provided through allocated insurance contracts and insured benefits if paid up and the probability is remote that the employer will be obligated for future transfers of assets

19

TPL: Projection of Benefit Payments (cont.)

- Include automatic cost-of-living adjustments (COLAs) and other automatic retroactive benefit changes
- Include ad hoc COLAs and ad hoc retroactive benefit changes *that are substantively automatic*
- Include projected future salary increases (when benefit formula is based on future levels)
- Include projected future service credits (when determining probability of eligibility for benefits and when benefit formula is based on years of services)

20

TPL: Assumptions

- Unless otherwise specified, assumptions should be made in conformity with Actuarial Standards of Practice
 - ASOPs require the actuary to evaluate the reasonableness of all assumptions at each measurement date

21

TPL: Discount Rate

- Single rate reflective of:
 - Long-term expected rate of return (EROR) to the extent that plan net position from specified sources is
 - Projected to be sufficient to make benefit payments
 - Expected to be invested using a long-term investment strategy
 - Otherwise, index rate for a tax-exempt 30-year municipal bond rated AA/Aa (or equivalent) or higher

22

TPL: Discount Rate

Long-term EROR:

- Should consider the nature and mix of current and expected pension plan investments
- For determination of future plan net position:
 - Include expected future employer contributions intended to fund benefits of current plan members
 - Exclude expected future employer contributions intended to fund benefits of future plan members and expected future contributions by future plan members

23

TPL: Attribution

- Entry age normal actuarial cost method
 - Attribution on an individual employee-by-employee basis
 - Service costs should be level as a percentage of employee's projected pay
 - Beginning attribution period should be first period in which employee's service accrues benefits
 - All benefits should be attributed through all assumed exit age(s)
 - Service costs determined on same benefit provisions reflected in employee's actuarial present value of benefit payments

24

Plan Net Position Restricted for Pensions

- Measured at employer's fiscal year-end
- Measured using same valuation methods that are used in the statement of plan net position by the defined benefit pension plan, including measurement of investments at fair value

25

Recognition of Changes in the Net Pension Liability

Change in the NPL	Expense	Deferred Outflow or Inflow of Resources
Service cost	X	
Interest on TPL	X	
Plan changes	X	
TPL-related differences between expected and actual experience	Inactive portion	Active portion (with piece expensed)
Changes in assumptions	Inactive portion	Active portion (with piece expensed)
Projected earnings on investments	X (reduction)	
Difference between projected and actual investment earnings		X (with piece expensed)
Other sources	X	

26

Deferred Outflows of Resources/ Deferred Inflows of Resources

- Recognize TPL-related balances in expense over a closed period, using weighted-average expected remaining service
- Recognize differences between actual and projected earnings on plan investments in expense over 5 years
- Expense recognition begins in the period in which the difference/change occurred

27

Pension Accounting and Financial Reporting by Employers

Recognition by cost-sharing employers

- ▣ Cost-sharing is a way that employers share benefit risks and pool assets
- ▣ The unfunded obligation is the primary responsibility of the employers collectively
- ▣ Each cost-sharing employer is implicitly primarily responsible for a proportionate share of the collective unfunded obligation
- ▣ An employer's share of the collective unfunded pension obligation:
 - Meets the definition of a liability
 - Is measurable with sufficient reliability to support recognition

28

Cost-Sharing Employers

- Recognize proportionate share of the collective:
 - Net pension liability
 - Pension expense
 - Deferred outflows of resources
 - Deferred inflows of resources
- Proportion is a measure of the employer's expected long-term relative contribution effort compared to the total of the long-term contribution effort of all the participating employers

29

Cost-Sharing-Specific Measurements

- Effect of a change in proportion
- Difference between employer's actual contributions and proportionate share of employer contributions recognized by the plan
- Recognize as a deferred outflow of resources/deferred inflow of resources in period of change/difference
- Recognize pension expense over same period used at collective level for change of assumption/experience-related difference

30

Recognition: Modified Accrual

- Liability: Normally expected to be liquidated with expendable available resources
- Pension Expenditures: Amount contributed to the pension plan or expected to be liquidated with expendable available resources

31

Notes to Financial Statements

- Description of benefits
- Assumptions used to measure total pension liability (including discount rate)
 - NPL using +/- 1 percentage point
- Information about the elements of the plan's basic financial statements (plan net position) – can refer to plan report
- Changes in components of net pension liability by source*
- Components of pension expense*
- Components of changes in deferred inflows of resources/deferred outflows of resources related to pensions*

*Single and agent employers only; cost-sharing amount recognized and impact of contribution and collective share differences

32

Required Supplementary Information

- Ten-year schedule of changes in the components of the net pension liability by source
 - Cost-sharing at collective level
- Ten-year schedule (cost-sharing collective and employer level with employer proportionate share percentage):
 - Total pension liability
 - Plan net position
 - Net pension liability
 - Ratio of plan net position to total pension liability
 - Covered-employee payroll
 - Ratio of net pension liability to covered-employee payroll

33

Required Supplementary Information (cont.)

- Ten-year schedule of:
 - Actuarially calculated employer contribution, if determined
 - If cost-sharing employer, contractually required contribution
 - Employer contributions made
 - Difference between actuarially calculated employer contribution and contributions made, if applicable
 - Covered-employee payroll
 - Ratio of contributions to covered-employee payroll

34

Liabilities to a Defined Benefit Pension Plan and Insured Benefits

- Liabilities to a defined benefit pension plan should be reported separate from net pension liability with amounts and significant terms disclosed in the notes
 - Short-term payables to a plan for legally or contractually required contributions outstanding at year-end
 - Long-term assessments upon joining multiple-employer plan
- Insured benefits to be reported the same as under Statement 27

35

Defined Contribution Pension Benefits

- Pension expense: Amount of contributions or credits to employees' accounts attributable to the employees' services in the period, net of employee forfeitures
 - Forfeited amounts reallocated to other employee accounts should not be considered forfeitures for this purpose
- Pension liability: Difference between amount recognized as expense and amount contributed by employer

36

Special Funding Situation

- Nonemployer with a unconditional legal requirement:
 - Nonemployer will recognize its proportionate share of net pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources
 - Amounts recognized by employer will be reduced by amounts recognized by nonemployer
- Nonemployer with a conditional legal requirement:
 - Nonemployer will recognize its contributions in accordance with GASB Statement 24 (grant expense/expenditure)
 - Employer will recognize revenue in amount of nonemployer contributions

37

Effective Date

- Periods beginning after June 15, 2012 if:
 - Only required to apply requirements for a single employer
 - No unconditional special funding situation
 - Plan net position of \$1 billion or more in plan's first fiscal year ending after June 15, 2010
 - Employer's plans are not reported by an entity that also reports
 - A pension plan with an unconditional special funding situation
 - A multiple-employer pension plan
- Otherwise, periods beginning after June 15, 2013

38

GASB'S CONCEPTUAL FRAMEWORK PROJECT RECOGNITION AND MEASUREMENT

PV Issued 6/28
Comment deadline 9/30

Recognition and Measurement Attributes Concepts Statement

Project Objectives:

- ▣ Develop recognition criteria for *whether* information should be reported in state and local government financial statements and *when* that information should be reported
 - Economic resources
 - Near-term financial resources
- ▣ Consider the measurement attribute or measurement attributes (for example, historical cost or fair value) that conceptually should be used in government financial statements
 - Initial values
 - Re-measured values

Recognition and Measurement Attributes Concepts Statement

Near-term financial resources:

- ▣ Would replace current financial resources measurement focus (governmental funds)
 - CFR is not conceptual—collection of rules and conventions
 - “Current” implies one year to many
- ▣ Reporting model changed with introduction of government-wide reporting
 - Before Statement 34 some items “had no home”
 - Users looking to assess interperiod equity should focus on the government – wide statements

Recognition and Measurement Attributes Concepts Statement

Near-term financial resources:

Recognizes balances from a near-term perspective and flows of financial resources for the reporting period

- ▣ Assets include resources that are normally receivable at period-end and due to convert to cash within the near term (also cash and other financial resources that are available to be converted to cash within the near term)
 - Balances of cash and investments
 - Taxes receivable for the period that are due in the near term
- ▣ Liabilities include those normally payable at period-end and due within the near term
 - Accounts payable and accrued payroll normally due in the near term
 - Matured amounts of long-term and revenue anticipation debt
 - Accrued interest payable due in the near term

Recognition and Measurement Attributes Concepts Statement

Near-term financial resources:

- ▣ Outflows are recognized as spending occurs for the period.
 - Purchases of goods and services, including prepayments
 - Purchase of inventories
 - Lending activities
 - Principal payments that mature in the period
 - Interest due during the period or in the near term
- ▣ Inflows are recognized for newly acquired financial resources that were available for spending.
 - Taxes levied for the period—collected during the period or in the near term
 - Repayments from lending activities due during the period
 - Proceeds from all borrowing, including long-term debt and revenue anticipation notes

ECONOMIC CONDITION REPORTING: FINANCIAL PROJECTIONS

Project Objectives

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

Project Objectives

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

What is Economic Condition?

- ▣ Economic Condition—A composite of a government’s financial position, fiscal capacity, and service capacity. **(Redundancies removed)**
 - Financial Position—The status of a government’s assets, **deferred outflows**, liabilities, **deferred inflows**, and **net position**, as displayed in the basic financial statements.
 - Fiscal Capacity—The government’s ability and willingness to meet its financial obligations as they come due on an ongoing basis.
 - Service Capacity—The government’s ability and willingness to meet its commitments to provide services on an ongoing basis.

GASB’s Tentative Definition of Fiscal Sustainability

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

Is There a Link Between Economic Condition and Fiscal Sustainability?

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

Specific Components of Fiscal Sustainability Information

As Required Supplementary Information:

- ▣ Projections of the major individual inflows of resources
 - In dollars and as a percentage of total inflows of resources
 - Explanations of the known causes of resource fluctuations (including nonrecurring resources)
- ▣ Projections of the major individual outflows of resources by program or function
 - In dollars and as a percentage of total outflows of resources
 - Explanations of the known causes of resource fluctuations

Specific Components of Fiscal Sustainability Information

As Required Supplementary Information:

- ▣ Projections of major individual financial obligations and total financial obligations including bonds, pensions, OPEB, and long-term contracts
- ▣ Projections of annual debt service requirements (principal and interest)
- ▣ Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies

Basis and Methodology for Making Projections

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

Due Process

- ▣ Preliminary Views document is expected to be released in October
 - 90 day comment period
 - Public hearings likely will be held in late January
 - Preliminary views expected to be field tested during the due process period

GOVERNMENT COMBINATIONS

Government Combinations

Applicable guidance--effect of Statement 62?

Scope includes:

- ▣ Combinations in which no consideration is given
- ▣ Combinations in which consideration is given (acquisitions)

Government Combinations

When no consideration is given:

- ▣ Consolidation—dissolution and combination of legally separate entities
- ▣ Other combinations and spin-offs
 - Annexations
 - Redistricting
 - Shared service agreements
- ▣ Assets and liabilities generally at carryover values
 - Impairment?

Government Combinations

When consideration is given:

- ▣ Purchase/Acquisition
 - Assets and liabilities from the acquiree at fair value
 - Accounting for the difference?

Project timeline

- ▣ Exposure Draft expected in the 1st quarter of 2012
- ▣ Final Statement should be issued by the end of 2012

FINANCIAL GUARANTEES

Project overview

- ▣ Current economic environment and financial stress on all levels of government
- ▣ Primary objective is to establish additional guidance regarding the recognition and disclosure of financial guarantees extended and received by state and local governments
- ▣ Primarily commitments related to debt issued by other governmental, not-for-profit entities, and in certain cases for-profit entities
- ▣ No single comprehensive source of guidance

Project overview

- ▣ Scope and definition
 - A guarantor is required to perform an action when certain “trigger” events occur – indemnify an entity for a loss incurred
 - A guarantor is an entity separate from the entities involved in the underlying transaction that is being guaranteed
 - A financial guarantee involves three entities:
 - the entity that extends the guarantee,
 - the entity that issues the guaranteed obligation
 - the entity that ultimately receives the indemnifying payment
 - Only nonexchange transactions within project scope
 - Component units treated as separate legal entities

Existing guidance for exchange-based transactions

- ▣ GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*
- ▣ GASB Statement No. 53, *Accounting and Reporting for Derivative Instruments*
- ▣ GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- ▣ GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

Project timeline

- ▣ Exposure Draft targeted for 2nd quarter of 2012
- ▣ Final Statement expected in early 2013

Questions?

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