

**Governmental Accounting  
Update: From A to Z**

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**Where Are They  
Now?**

## Effective Dates—June 30

- June 30, 2010 and September 30, 2010
  - Statement 45—Employer's OPEB—Phase III
  - Statement 51—Intangible Assets
  - Statement 53—Derivative Instruments
  - Statement 57—OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans—provisions related to the use and reporting of the alternative measurement method (paragraphs 6 and 7)
  - Statement 58—Chapter 9 Bankruptcies

## Effective Dates—June 30

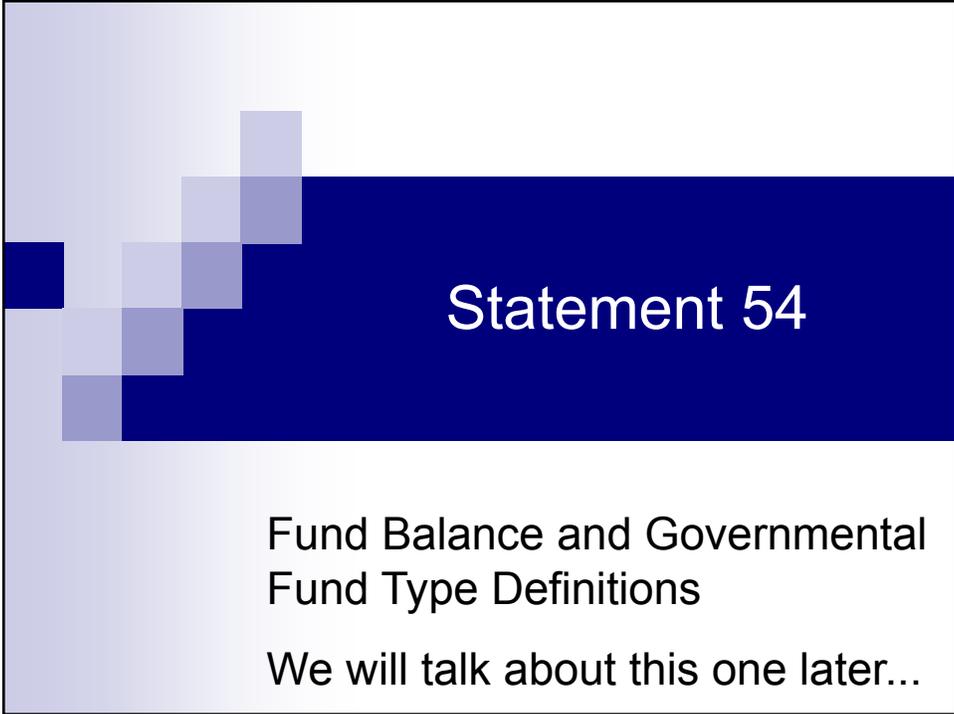
- June 30, 2011 and September 30, 2011
  - Statement 54—Fund Balance and Governmental Fund Type Definitions
- June 30, 2012 and September 30, 2012
  - Statement 57—OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans—provisions related to the frequency and timing of measurements (paragraph 8)

## Recent GASB Pronouncements

- **Statement 54**—Fund Balance Reporting and Governmental Fund Type Definitions
- **Statement 55**—The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments
- **Statement 56**—Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards

## Recent GASB Pronouncements (Continued)

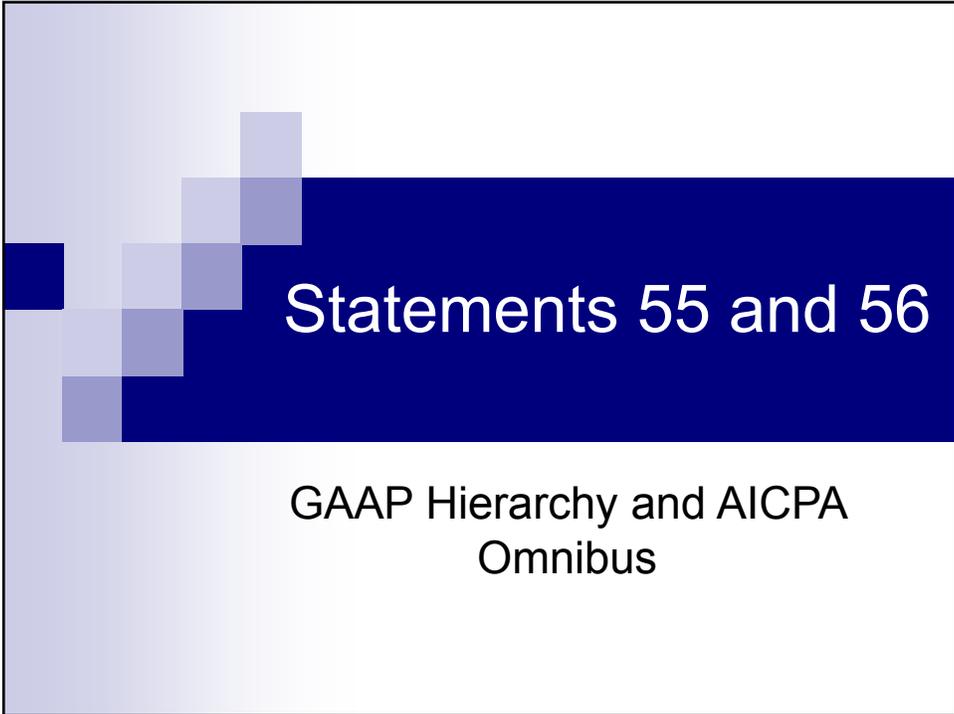
- **Statement 57**—OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans
- **Statement 58**—Chapter 9 Bankruptcies
- **Comprehensive Implementation Guide**—Annual Update issued in September



## Statement 54

Fund Balance and Governmental  
Fund Type Definitions

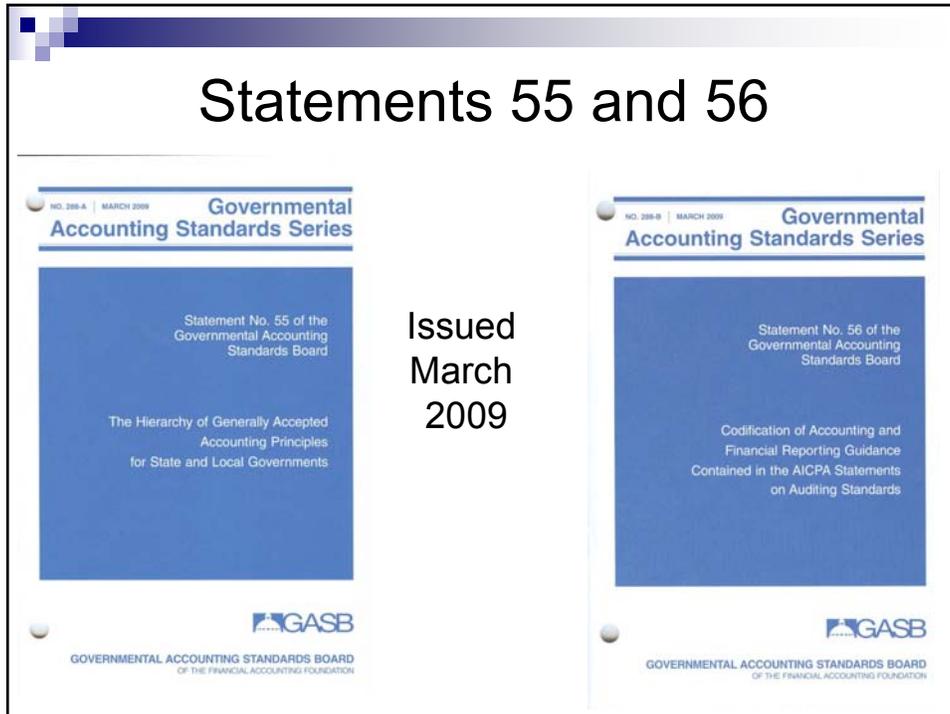
We will talk about this one later...



## Statements 55 and 56

GAAP Hierarchy and AICPA  
Omnibus

## Statements 55 and 56



## What Do You Need to Know about Statements 55 and 56?

- Accounting and financial reporting guidance currently found in the AICPA's Statements on Auditing Standards brought into the GASB literature "as is", but set in a governmental context
- Statement 55—GAAP Hierarchy
  - First step in the potential reexamination of current multi-level hierarchy
- Statement 56—AICPA Omnibus
  - Related party transactions, subsequent events, and going concern considerations

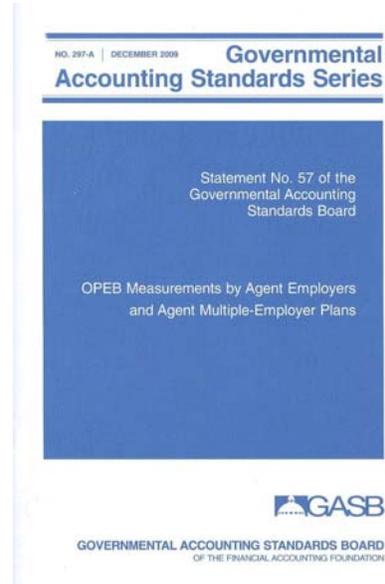
GAAP Hierarchy Summary	
<i>Established Accounting Principles</i>	
GASB Statements and Interpretations plus AICPA and FASB pronouncements if made applicable to state and local governments by a GASB Statement or Interpretation	
GASB Technical Bulletins, and the following pronouncements if specifically made applicable to state and local governments by the AICPA: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position	
Consensus positions of the GASB Emerging Issues Task Force ( <i>has not been established</i> ) and AICPA Practice Bulletins if specifically made applicable to state and local governments by the AICPA ( <i>none currently exist</i> )	
"Qs and As" published by the GASB staff, as well as industry practices widely recognized and prevalent	
<i>Other Accounting Literature</i>	
Other accounting literature, including GASB Concepts Statements; pronouncements in the first four categories of the hierarchy for nongovernmental entities when not specifically made applicable to state and local governments	

# Statement 57

## OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

## Statement 57

Issued  
December 2009



## OPEB Measurements by Agent Employers and agent Multiple-Employer Plans

- Objectives—to address issues related to:
  - The use of the alternative measurement method
  - The frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB)

## Statement 57

- Expands option for qualified agent employers to use the **alternative measurement method**
  - permits an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method
- Amends agent multiple plan reporting requirements
  - permits the requirement that a defined benefit OPEB plan obtain an actuarial valuation - be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible

## Statement 57

- Clarifies **measurement frequency and timing** requirements for agent employers
  - when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements

## Statement 57

### ■ Other Postemployment Benefits – Certain Implementation Issues

#### □ Effective Date:

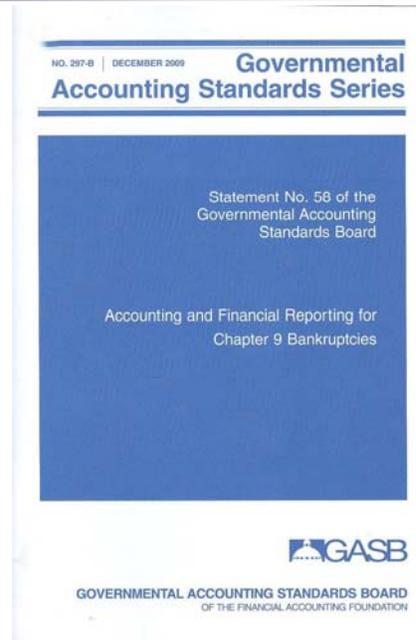
- Provisions related to the use and reporting of the alternative measurement method are effective immediately
- Provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011
- Earlier application is encouraged.

## Statement 58

Accounting and Financial Reporting  
for Chapter 9 Bankruptcies

## Statement 58

Issued  
December 2009



## Statement 58

- Chapter 9 (“municipal”) bankruptcies excludes state and tribal governments
- As of 2009 only 24 states authorized Chapter 9 filings by their municipal governments
  - Oklahoma governments– State statute (tit. 62, § 283) applies to “debtor municipal corporation or political subdivision” of the state

## Accounting and Financial Reporting for Chapter 9 Bankruptcies

- Objective—to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code

## Chapter 9 Bankruptcies

- Accounting and Financial Reporting for Chapter 9 Bankruptcies
  - Requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (approves) a new payment plan
  - Governments not expected to emerge from bankruptcy as going concerns—requires remeasurement of assets to a value that represents the amount expected to be received
  - Classifies gains or losses resulting from remeasurement of liabilities and assets as extraordinary items

## Chapter 9 Bankruptcies

- Accounting and Financial Reporting for Chapter 9 Bankruptcies
  - Disclosure requirements include:
    - Pertinent conditions and events giving rise to the petition for bankruptcy
    - Expected gain
    - Effects upon services
  - Proposed Statement would be effective for reporting period beginning after June 15, 2009 (6/30/10 or 12/31/10)

Comprehensive  
Implementation Guide  
2009-2010 Edition

## Comprehensive Implementation Guide

- Includes updates, and supplements all prior guides issued through June 30, 2009
  - More than 1,800 questions and answers
- Adds more than 100 new questions and answers including the material from the Implementation Guide to Statement 53 on Derivative Instruments
  - Also includes appendices to provide Q&As without the effects of Statement 53 for those governments for which the Statement is not yet effective

## Other Current Projects

## Other Current Projects

- Concepts Statement
  - Recognition and Measurement Attributes
- Service Efforts and Accomplishments (SEA) Reporting
  - Voluntary Guidelines
- Pension Accounting and Reporting
- Pre-November 30, 1989 FASB Pronouncements
- Service Concession Arrangements (SCA)
- Financial Instruments Omnibus
- Statement 14 Reexamination
- Economic Condition Reporting: Fiscal Sustainability

## Recognition and Measurement Attributes Concepts Statement

- Develop recognition criteria for **whether** information should be reported in state and local government financial statements and **when** that information should be reported
- Consider the measurement attribute or measurement attributes (for example, historical cost or fair value) that conceptually should be used
- GASB working with Federal Accounting Standards Advisory Board (FASAB)

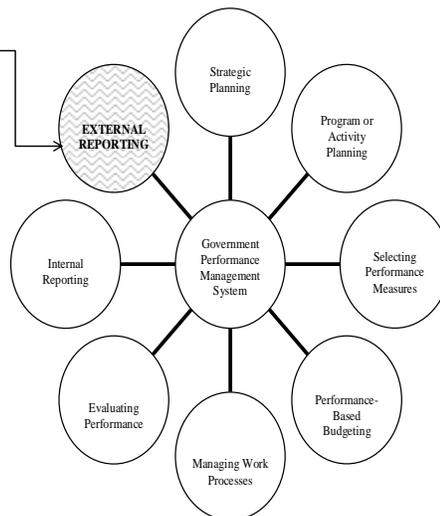
## Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

- Final document—June 2010
- Conceptually based suggested guidelines for voluntary reporting of Service Efforts and Accomplishments (SEA) Performance Information

- What the project is:
  - Focus on voluntary reporting
  - Focus on suggested guidelines
  - Focus on clarifying GASB's role
- What the project is not:
  - Establishing performance measures
  - Establishing performance benchmarks
  - Establishing reporting standards
  - Requiring SEA reporting

## Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

Sole Focus  
Of GASB  
Efforts



## Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

➤ Suggested Guidelines for Voluntary Reporting, *SEA Performance Information* composed of three parts:

- Four **essential components** of an effective SEA **report**
- Six **qualitative characteristics** that are appropriate for reporting SEA **performance information**
- A discussion of how to **effectively communicate** SEA performance information

## Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

### **FOUR ESSENTIAL COMPONENTS**

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

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

## Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

### **SIX QUALITATIVE CHARACTERISTICS**

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

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

## Suggested Guidelines For Voluntary Reporting, *SEA Performance Information*

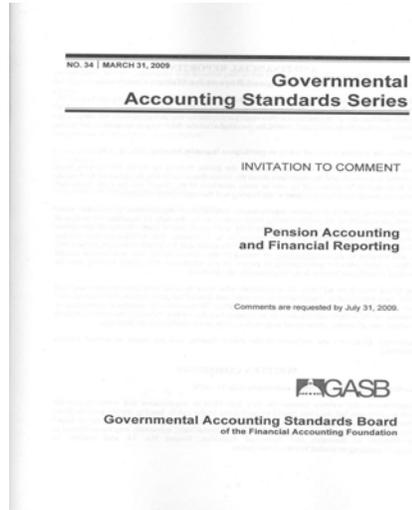
### **EFFECTIVE COMUNICATION**

Provide further guidance on the effective communication of SEA performance information

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

## Scope of the Postemployment Benefits Project

- Includes reexamination of Pension Statements No. 25 (Plans) and 27 (Employers) to assess effectiveness and consider potential improvements in financial reporting
- More than 115 responses received to the ITC



## Scope of the Postemployment Benefits Project

- Basic Approach
  - Funding based with parameters—harmonize accounting with actuarial funding methodology by
    - Using the annual employer contributions calculated originally for funding purposes as the basis for accounting expense measurement
    - Using the UAAL as the measure of an employer's unfunded accrued benefit obligation for accounting and financial reporting purposes
  - Liability based—report the effects of the employment exchange—what they believe is the employer's *liability* to employees for unfunded pension benefits that employees have earned by virtue of their services to date and terms of the plan
  - Something in between

## Scope of the Postemployment Benefits Project

- How the actuarial liability should be measured
  - Should the projection of pension benefits include or exclude projected future changes—Salary projections, COLA's
  - What should be the basis for determining the discount rate used for discounting projected pension benefits to their present value for accounting purposes—estimated long-term investment yield for the plan, risk-free rate, employer's borrowing rate, average return on high-quality municipal bonds

## Scope of the Postemployment Benefits Project

- Plan reporting—
  - What a pension plan should report as its liability in regard to pension benefits—liability for benefits currently due and payable, the accrued benefit obligation
  - Whether a presentation of changes in the unfunded accrued benefit obligation should be a required part of general purpose financial reporting
- Cost sharing allocations for employers—
  - Whether the relationship between a cost-sharing employer and the cost sharing multiple-employer plan in which it participates differ enough in economic substance from the relationship that a sole or agent employer has with the plan in which it participates to support different requirements with regard to liability and expense recognition

## Scope of the Postemployment Benefits Project

- Liability and expense recognition—
- Use of actuarial methods—

## Scope of the Postemployment Benefits Project

- Preliminary Views Document – June 2010 with comments accepted through September 28, 2010
  - ❑ A type of due process document that sets forth tentative conclusions of the GASB for comment prior to Exposure Draft stage
  - ❑ Sometimes used when views of the Board members are split, or, as in this case, when views of interested constituents are expected to be split

## Postemployment Benefits Project

- Tentative decisions to date include:
  - Employment exchange creates an obligation that meets the conceptual definition of a liability
  - The pension plan is the primary obligor for benefit obligations to the extent of assets in the plan trust
  - The employer is the primary obligor for any unfunded obligations and is the secondary obligor for plan obligations
  - The unfunded pension obligation should be recognized as a liability

## Measurement of the Net Pension Liability – Tentative Decisions

- Projection of benefits:
  - Should include automatic COLAs and generally should include projected future salary increases and projected future service credits
  - Also should include ad hoc COLAs in circumstances where essentially not different from automatic
- Discount rate:
  - Long-term expected rate of return for projected benefit payments covered by current and projected future plan net assets
  - High-quality municipal borrowing rate (tax exempt) for benefit payments, if any, beyond point at which plan net assets are projected to be fully depleted

## Measurement of the Net Pension Liability – Tentative Decisions (cont.)

- Attribution of the present value of projected benefit payments to periods:
  - A *single actuarial cost measurement method* should be used to attribute employee service cost to periods: *entry age*, applied on a *level-percentage-of-payroll* basis
  - Attribution period: *service life of each employee*
- Employer's net pension liability = Accumulated value of service costs attributed to past periods – minus – Amount equal to plan net assets (including investments at fair value)

## Attribution of Changes in the Net Pension Liability to Periods

- Current-period *employee service cost* and *interest on the beginning liability* should be recognized as expense *currently*
- Effects of *other changes in the (total) liability* should be recognized as expense over the *remaining service lives of individual plan members* (or, if there is no remaining service life, recognized immediately)

## Attribution of Changes in the Net Pension Liability to Periods (cont.)

- *Differences between expected and actual earnings on plan net assets should **not** be recognized as expense within a corridor:*
  - No expense recognition so long as net cumulative deferred outflows or net cumulative deferred inflows remain within a corridor *15% above or below target*
  - *Immediate recognition of excess* if net cumulative deferred amount would otherwise exceed the 15% corridor

## Recognition By Cost-Sharing Employers

- Pension obligations of cost-sharing employers arise from employment exchanges with employees
- Cost-sharing is a way of sharing benefit risks and pooling assets
- A cost-sharing plan is primarily responsible for the shared obligation only to the extent of plan net 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 pension 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

## Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements

- Why November 30, 1989?
  - FAF reaffirmed jurisdictional arrangement and determined that subsequent FASB pronouncements should be considered other accounting literature unless specifically adopted by the GASB
- Why do this project now?
  - Older literature harder to find, may be exacerbated by the FASB's codification project
  - Inconsistencies in practice—what applies, what does not apply
- What has been addressed?
  - AICPA—Accounting Research Bulletins and Opinions
  - FASB—Statements and Interpretations
- Exposure Draft—January 31, 2010, with a comment period through July 31, 2010**

## Accounting and Financial Reporting For Service Concession Arrangements

### What is a service concession arrangement?

- Arrangement
- Between a transferor (a government) and an operator (governmental or nongovernmental) in which:
  - 1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (facility) **AND**
  - 2) the operator collects fees from third parties

## Accounting and Financial Reporting For Service Concession Arrangements

Major Board tentative decisions

- To qualify as a service concession arrangement (SCA) and be included in the scope of the final Statement, an arrangement's transferor (government) is required to:
  - retain a residual interest in the facility at the end of the arrangement that represents a significant portion of the service capacity of the facility
  - determine what services the operator is required to provide
  - determine to whom the operator is required to provide the services
  - determine the price ranges or rates that can be charged for the services

## Accounting and Financial Reporting For Service Concession Arrangements

Major Board tentative decisions

- To not provide guidance at this time on recognition issues associated with financial statements prepared using the current financial resources measurement focus—being consider on a conceptual basis in the Recognition and Measurement Attributes Project
- The transferor and operator should capitalize improvements made by the operator to the facility over the term of an SCA as they are made
- The transferor should not be required to depreciate the facility if the operator is required to return the facility in its original or an improved condition

## Accounting and Financial Reporting For Service Concession Arrangements

### Major Board tentative decisions

- An operator participating in a revenue sharing arrangement in an SCA should always record the gross amount of revenues generated from the operation of a facility
- A transferor participating in a revenue sharing arrangement in an SCA should recognize revenue when it is earned in accordance with the terms of the arrangement
- A transferor participating in a revenue sharing arrangement in an SCA should record a receivable at the inception of the SCA for the present value of unconditional payments expected to be received over the term of the arrangement

## Accounting and Financial Reporting For Service Concession Arrangements

### MAJOR UNRESOLVED ISSUE

Classification of the transferor's liability or deferred inflow

Tentative conclusion:

Receipt of up-front or installment payments or a new or improved facility creates a **liability or deferred inflow** for the transferor to permit the operator access to the facility

## Accounting and Financial Reporting For Service Concession Arrangements

- Provisions of this proposed Statement would be effective for periods beginning after Jun 15, 2011 ( FY's ending June 30, 2012 or December 31, 2012)
- Provisions generally would be required to be applied retroactively for all periods presented.

## Accounting and Financial Reporting For Service Concession Arrangements

- Exposure Draft was issued in June 2009 with a comment deadline of September 30, 2009
- Final Statement or a revised Exposure Draft expected in June 2010

## Financial Instruments Omnibus

- Exposure Draft issued in June 2009 with a comment deadline of October 30, 2009
- Proposes revisions of existing financial reporting requirements to address issues that have arisen since the release of:
  - Statement 31—Investment and External Investment Pools
  - Statement 40—Deposit and Investment Risk Disclosures
  - Statement 53—Derivative Instruments

## Financial Instruments Omnibus

### Amendments include:

- Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*
  - Amended to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that is not registered with the SEA as an investment company but that operates in a manner compliant with the SEC's Rule 2a7.
- ★ **Will provide practitioners with improved guidance on the relevance of complying with the SEC requirements!**
- Statement No. 40, *Deposit and Investment Risk Disclosures*
  - Amended to indicate that interest rate risk information should be disclosed only for *bond* mutual funds that do not meet the requirements of a 2a7-like pool.
- ★ **Will provide better guidance regarding the applicability of interest rate risk disclosures!**

## Financial Instruments Omnibus

### Amendments include:

- Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*
  - Amended to clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument would not be satisfied by a contract provision for a penalty payment for nonperformance.
  - Amended to provide that certain financial guarantees would no longer be exempted from the scope of Statement 53—certain financial guarantees, specifically certain credit default swaps, would be measured at fair value.

## Financial Instruments Omnibus

### Amendments include:

- Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*
  - Amended to clarify that certain contracts based on a specific volume of sales or service revenues would be excluded from the scope of Statement 53.
  - Amended to provide that the “leveraged yield” criteria of Statement 53 would be met if the initial rate of return on the companion instrument has the *potential* for at least a doubled yield.



**Will refine which financial instruments are within the scope of Statement 53—Clarifies four practice issues!**

## Financial Instruments Omnibus

- Provisions of this proposed Statement would be effective for periods beginning after Jun 15, 2010 ( FY's ending June 30, 2011 or December 31, 2011)
- Earlier application would be encouraged

## Statement 14 Reexamination

- Retain current reporting entity framework. This framework includes:
  - (1) the criteria for inclusion of component units and
  - (2) the methods of presenting component units
- In addition to meeting the fiscal dependency criterion, a financial benefit/burden relationship should be present for a potential component unit to be included in the primary government's financial statements based on the financial dependency criterion.
- The "misleading to exclude" notion will be retained in Statement 14, but amendments to the guidance will clarify the professional judgment aspect of the guidance.

## Statement 14 Reexamination

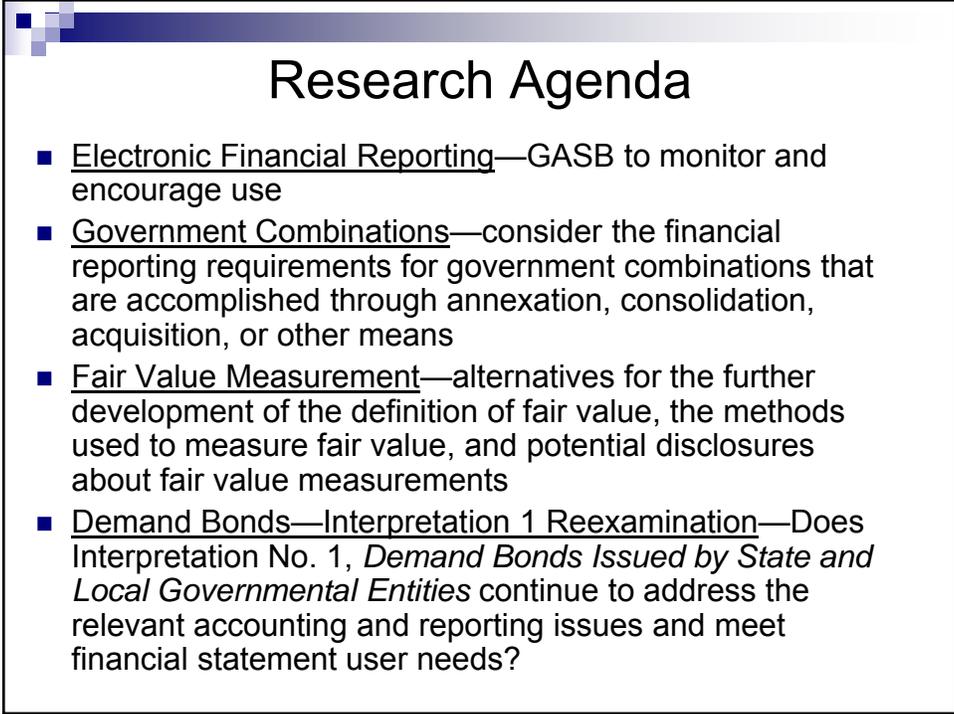
- Component units will be blended if the component unit's governing body is substantively the same as the governing body of the primary government and either:
  - (1) A financial benefit/burden relationship exists with the primary government or
  - (2) Management of the primary government has operational responsibility for the component unit. Debt issuing component units would qualify for blending if primary government resources are used to retire their debt.
- Exposure Draft issued March 2010

## Economic Condition Reporting: *Fiscal Sustainability*

- Identify the information that users need to assess a government's economic condition and its components, including information regarding fiscal sustainability,
- Compare those needs with the information users currently receive in the comprehensive annual financial report (CAFR) and other sources, and
- Consider whether guidance or guidelines should be considered for additional information.
- Basic Facts about GASB's Project can be found at [http://www.gasb.org/facts/Economic\\_Condition\\_Reporting\\_Fact\\_Sheet.pdf](http://www.gasb.org/facts/Economic_Condition_Reporting_Fact_Sheet.pdf)
- Article can be found at [http://www.gasb.org/newsletter/fiscal\\_sustainability\\_dec2009.html](http://www.gasb.org/newsletter/fiscal_sustainability_dec2009.html)



# Research Agenda



## Research Agenda

- Electronic Financial Reporting—GASB to monitor and encourage use
- Government Combinations—consider the financial reporting requirements for government combinations that are accomplished through annexation, consolidation, acquisition, or other means
- Fair Value Measurement—alternatives for the further development of the definition of fair value, the methods used to measure fair value, and potential disclosures about fair value measurements
- Demand Bonds—Interpretation 1 Reexamination—Does Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities* continue to address the relevant accounting and reporting issues and meet financial statement user needs?

## Calling All Issues

- Agenda is full; however, emerging issues still need to be addressed
  - GASB is not fishing for issues
- If you have identified an issue that you believe warrants the GASB's attention, please submit that issue via email to [director@gasb.org](mailto:director@gasb.org)
- Agenda reviewed three times a year by the GASB

Questions?