



New England States Government Finance Officers Association

GASB Update—3/25/2010

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



Where Are We Now?



Effective Dates—June 30

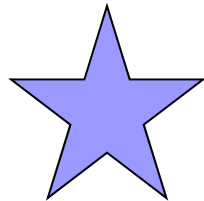
- June 30, 2010
 - Statement 45—Employer’s OPEB—Phase III
 - Statement 51—Intangible Assets
 - Statement 53—Derivative Instruments
 - Statement 57—OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans—provisions related to the use and reporting of the alternative measurement method (paragraphs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

- June 30, 2011
 - Statement 54—Fund Balance and Governmental Fund Type Definitions



Effective Dates—June 30

- June 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)



Issuance of 2009-2010
Comprehensive Implementation Guide



Statement 51

Intangible Assets



Description

- An intangible asset is an asset that possesses all of the following characteristics:
 - Lack of physical substance
 - Nonfinancial nature
 - Initial useful life extending beyond a single reporting period



Description

- Statement generally does not provide guidance on whether a transaction results in an asset
 - Look to definition of “asset” in Concepts Statement No. 4, *Elements of Financial Statements* for guidance
 - Basis for conclusions does state that powers created through statute or inherent nature of government are not intangible assets



Common Types of Intangible Assets

- Right-of-way easements
- Other types of easements
- Patents, copyrights, trademarks
- Land use rights
- Licenses and permits
- Computer software
 - Purchased or licensed
 - Internally generated
 - Websites



Classification—Basic Guidance

- All intangible assets subject to Statement 51 should be classified as capital assets:
 - All existing authoritative guidance related to capital assets should be applied to these intangible assets
 - Since considered capital assets, not reported as assets in governmental fund financial statements
- Scope exceptions:
 - Intangible assets acquired or created primarily for directly obtaining income or profit
 - Capital leases
 - Goodwill from a combination transaction



Internally Generated Intangible Assets

- Internally generated intangible assets (IGIA) are assets that are:
 - Created or produced by the government or an entity contracted by the government; or
 - Acquired from a third party but require more than minimal incremental effort to achieve expected service capacity
- Statement provides a specified-conditions approach to recognizing outlays associated with IGIA



Internally Generated Intangible Assets

- Outlays incurred related to an IGIA that is considered identifiable should be capitalized only upon the occurrence of **ALL** of the following:
 - Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the asset upon completion of the project;
 - Demonstration of the technical or technological feasibility for completing the project so that the asset will provide its expected service capacity;
 - Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset
- Outlays incurred prior to meeting the criteria should be expensed as incurred—no “recycling” of expenses



Internally Generated Computer Software

- Specific guidance on applying the IGIA specified-conditions approach for internally generated computer software (IGCS) is provided
- IGCS is either:
 - Developed in-house by government personnel or a contractor on their behalf; or
 - Commercially available software modified using more than minimal incremental effort before being put in operation
- Guidance based on development stages similar to AICPA SOP 98-1



Internally Generated Computer Software

- Activities associated with IGCS should be categorized in one of three development stages:
 - Preliminary project stage
 - Conceptual formulation and evaluation of alternatives
 - Determination of existence of needed technology
 - Final selection of alternatives
 - Application development stage
 - Design of the chosen path
 - Coding
 - Installation to hardware
 - Testing and parallel processing
 - Data conversion, if necessary to make operational
 - Post-implementation/operation stage
 - Application training
 - Software maintenance
 - Data conversion, if not necessary to make operational



Internally Generated Computer Software

- IGIA specified-conditions criteria are considered met for IGCS when:
 - The activities in the preliminary project stage are completed
 - Management authorizes and commits to funding the project
- For commercially available software that is IGCS, these criteria are generally considered met upon the government's commitment to purchase or license software



Internally Generated Computer Software

- Reporting should be based upon the nature of the activity, and not the timing of its occurrence
- Reporting of activity outlays:
 - Preliminary project stage—expense as incurred
 - Application development stage—capitalize once criteria is met; cease capitalizing when software is operational
 - Post-implementation/operation stage—expense as incurred
- No specific guidance on the types of outlays that can be capitalized (for example, direct costs versus indirect costs)



Internally Generated Computer Software

- Reporting costs of internally generated modifications of software should follow the development stage approach if the modification results in:
 - An increase in the functionality of the software
 - An increase in the efficiency of the software
 - An extension of the estimated useful life of the software
- If modification does not result in one of the above, associated outlays should be expensed as incurred



Measurement

- Intangible assets follow measurement guidance for capital assets:
 - Historical cost
 - If donated, estimated fair value at date of donation



Amortization

- Existing guidance for depreciation of capital assets generally applies to amortizing intangible assets
- Exception for intangible assets with indefinite useful lives:
 - No factors currently exist that limit the useful life of the asset
 - Estimating a useful life does not mean indefinite useful life
 - Permanent right-of-way easement versus computer software
 - Intangible assets with indefinite useful lives should not be amortized



Note Disclosures

- No note disclosure requirements specific to intangible assets
- Intangible assets should be incorporated into the capital asset note disclosures
- An implementation guide question discusses inclusion of intangible assets in major classes of capital assets



Effective Date and Transition

- Effective date is fiscal periods beginning after June 15, 2009
- Provisions generally should be retroactively applied
- Exceptions for retroactively reporting intangible assets:
 - Permitted but not required for IGIA and intangible assets with indefinite useful lives at transition
 - Required for all other intangible assets acquired in fiscal years ending after June 30, 1980 by phase 1 or 2 governments
 - Encouraged but not required for all other intangible assets of phase 3 governments



Statement 53

Accounting and Financial
Reporting for Derivative
Instruments



What is a Derivative Instrument for Financial Reporting Purposes

- A derivative instrument is a financial instrument or other contract that has **ALL** of the following characteristics:
 - Settlement factors—(1)one or more reference rates and (2)one or more notional amounts or payment provisions or both
 - Reference rate—specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (such as the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract)
 - Notional amount—number of currency units, shares, bushels, pounds, or other units specified in the derivative instrument
 - Payment provision—may specify a payment to be made if the reference rate behaves in a certain manner (ex. 3 month average of fuel prices at a certain pricing point that exceeds a certain price)



What is a Derivative Instrument for Financial Reporting Purposes

- A derivative instrument is a financial instrument or other contract that has **ALL** of the following characteristics:
 - Leverage—achieved by either a small or no initial net investment that allows for the derivative instrument to have changing cash flows or fair values that replicate an instrument that normally would require a much large investment
 - (ex. An interest rate swap may require no initial net investment. The swap's fair value though will change as if the holder of the swap had made an initial net investment in a fixed-rate instrument with a principal amount equal to the swap's notional value)



What is a Derivative Instrument for Financial Reporting Purposes

- A derivative instrument is a financial instrument or other contract that has **ALL** of the following characteristics:
 - Net settlement—its terms require or permit net settlement, it can readily be settled by a means outside the contract, or it provides for delivery of an assets that puts the recipient in a position not substantially different from net settlement



GASB Environment—Derivative Instrument Users

- Governments active in debt markets: interest rate swaps
- Utilities and transit agencies: commodity derivative instruments
- Pensions and endowments: foreign exchange derivative instruments
- Deferred compensation, pensions and college savings plans: synthetic guaranteed investment contracts

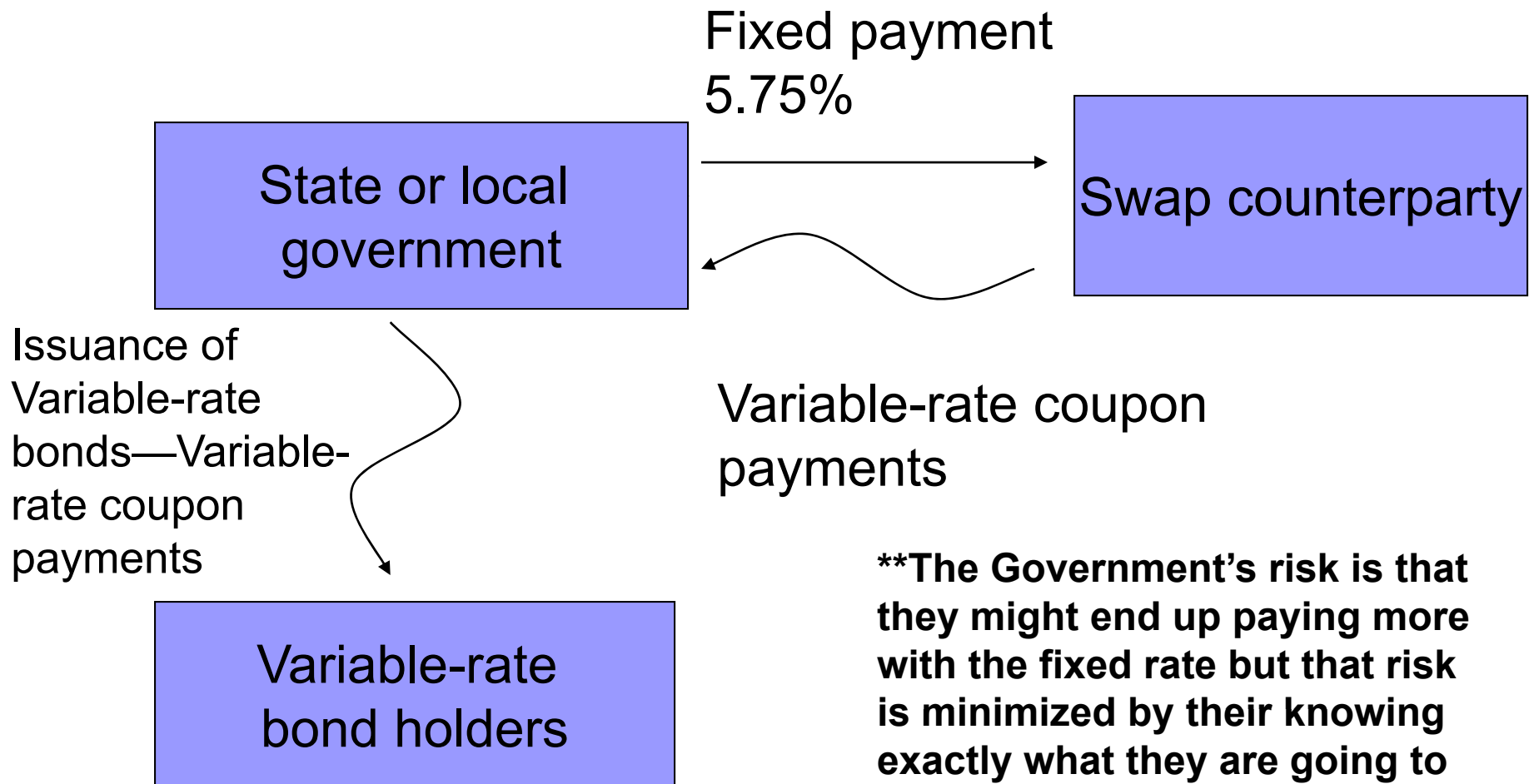
Note: derivatives may be employed as cash flow hedges (most common) or fair value hedges



Examples of Derivatives

- Interest rate swaps—bond issuance
 - Variable-rate to fixed rate—government issues variable-rate bonds to enjoy a lower cost of funds but swaps into a fixed rate for budgetary reasons (most common)
 - Fixed rate to variable rate—government issues fixed rate debt but swaps into variable rate because it believes interest rates will fall over the life of the debt
- Basis swap
 - Exchange payments based on the changes of two variable rates
- Swaption
 - Gives the purchaser of the option the right, but not the obligation, to enter into an interest rate swap
- Commodity swap
 - Reduce exposure to a commodity's price risk

Cash Flow Hedge: Variable-to-Fixed Interest Rate Swap



****The Government's risk is that they might end up paying more with the fixed rate but that risk is minimized by their knowing exactly what they are going to pay.**



Basic Approach

- Derivative instruments are measured on the statement of net assets at **fair value**
- Fair value changes are reported on the “change statement” as **investment income**
- Exception: Effective Hedges
 - Changes in fair value of derivative instruments would be reported on the statement of net assets as deferrals—either deferred inflows or deferred outflows
 - Swap asset—deferred inflows
 - Swap liability—deferred outflows



Methods of Evaluating Effectiveness

Effectiveness is determined by using a specified method of evaluating hedges

- Qualitative method

Consistent critical terms—comparing critical terms of derivative and the hedgeable item to see if they match

- Quantitative method—if the critical terms are different then to evaluate effectiveness, must use one of these methods

 - Synthetic instrument

 - Linear regression

 - Dollar offset

 - Other methods



Hedge Accounting Requirements

- Effectiveness must be evaluated at the end of every reporting period
- If in later reporting periods a method finds a derivative instrument to be ineffective, another method may be used



Required Note Disclosures

- Much of the required disclosures in TB 2003-1 are carried forward to GASB 53:
 - Terms and objectives
 - Financial risks
 - Impact on cash flows associated with debt
- A number of new disclosures are also provided in GASB 53:
 - Summary of derivative instrument activity
 - Additions to credit risk disclosures
 - Contingent features



Required Note Disclosures

- Summary of derivative instrument activity provided by:
 1. Governmental activities, business-type activities, and fiduciary activities
 2. Then by fair value hedges, cash flow hedges, and investment derivatives
 3. Then by type



Required Note Disclosures

- Summary should include the following information:
 - Notional amount
 - Fair values and changes in fair value and where such amounts are reported in the financial statements
 - If derivative instrument fair values are determined by other than quoted prices, disclose methods and significant assumptions used to estimate fair value
- Disclosures for HEDGING derivatives
 - Significant terms
 - Risks: Credit, Interest rate, Basis, Termination, Rollover, Market-access, Foreign currency
- Disclosures for INVESTMENT derivatives
 - Risks: Credit, Interest rate, Foreign currency




Effective Date and Transition

- Effective for financial periods beginning after June 15, 2009. Earlier application is encouraged.
- Provisions should be retroactively applied and prior periods presented should be restated if practical
- Implementation guide is now available!!



Statement 57

OPEB Measurements by Agent
Employers and Agent Multiple-
Employer Plans



OPEB Measurements by Agent Employers and agent Multiple-Employer Plans

- Statement No. 57—December 2009
- 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)



OPEB

■ Other Postemployment Benefits – Certain Implementation Issues

- Address several significant issues that have been identified in practice since the issuance of Statements No. 43 and 45
 - Issues related to the use of the alternative measurement method
 - Statement 45 amended to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method
 - Statement 43 amends the requirement that a defined benefit OPEB plan obtain an actuarial valuation—The amendment permits the requirement to 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
- Will allow more agent employers to use the alternative measurement method to produce actuarial based information for purposes of financial reporting
 - Cost of compliance with the requirements of Statement 45 for eligible agent employers may be reduced



OPEB

- Other Postemployment Benefits – Certain Implementation Issues
 - Address several significant issues that have been identified in practice since the issuance of Statements No. 43 and 45
 - Issues related to the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans
 - Statement 43 clarified that 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
 - Will improve the consistency of reporting with regard to funded status and funding progress information




OPEB

- 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



Accounting and Financial Reporting for Chapter 9 Bankruptcies

- Statement No. 58—December 2009
- 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)



Other Current Projects



Other Current Projects

- Concepts Statement
 - Recognition and Measurement Attributes
- Service Efforts and Accomplishments (SEA)
 - Suggested Guidelines for Voluntary Reporting
- 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



Concepts Statement—Recognition and Measurement

- Recognition and Measurement attributes:
 - Governmental funds—what belongs in a fund for financial reporting purposes
 - Fair value (remeasured value) versus historical cost (initial value)



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:

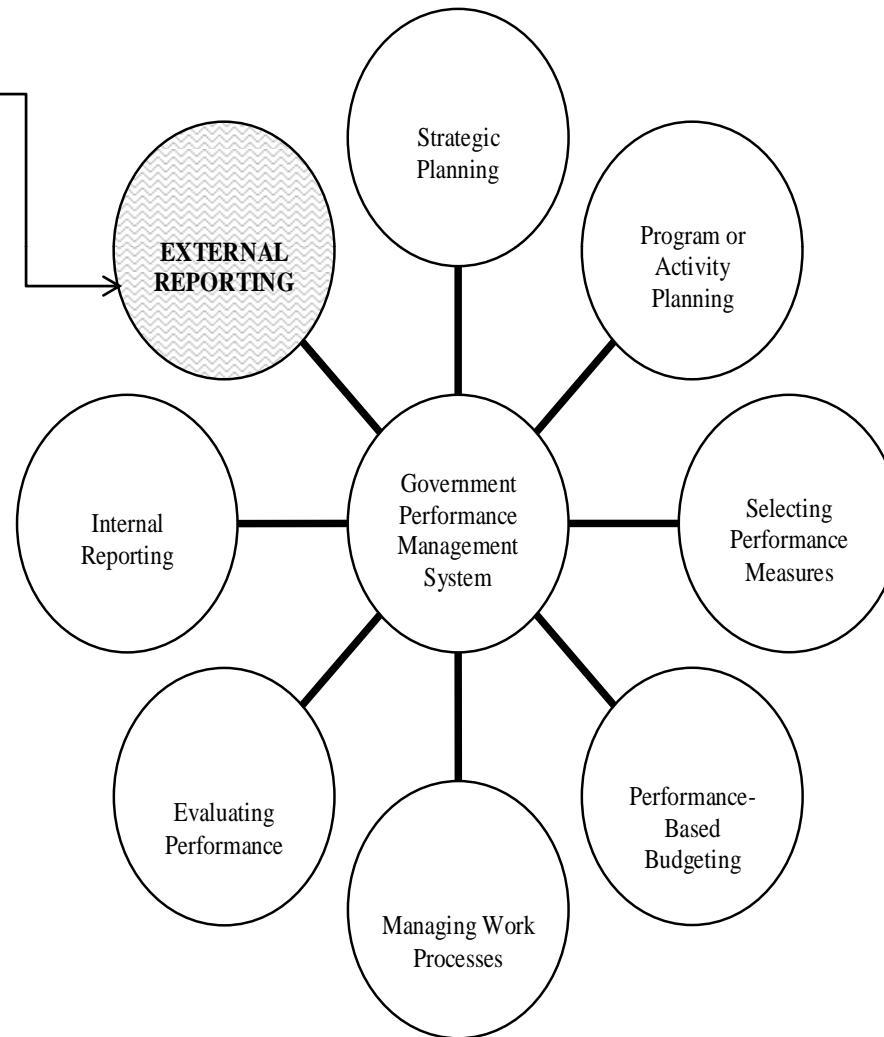
- Focus on voluntary reporting
- Focus on suggested guidelines
- Focus on clarifying GASB's role

- 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

- ✓ Relevance
- ✓ Understandability
- ✓ Comparability
- ✓ Timeliness
- ✓ Consistency
- ✓ Reliability




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

- 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



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

Primary issue—Who should report the capital in a service concession arrangement—transferor versus the operator?

- The transferor determines or regulates all of the following:
 - 1) What services the operator is required to provide
 - 2) To whom the operator is required to provide the services
 - 3) The price ranges or rates that can be charged for the services
- The transferor is entitled to—through ownership, beneficial entitlement or otherwise—significant residual interest in the property at the end of the arrangement

Issue—When should upfront payments be recognized?

- Generally, over the life of the agreement



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.



Financial Instruments Omnibus

- Revisions of existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools

- Amendments include:

- Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

- Amended to remove the fair value exemption for unallocated insurance contracts—unallocated insurance contracts would be measured at fair value instead of contract value.



- Will improve consistency of investment measurements that are reported by pensions and other post employment benefit plans!**



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 – end of March 2010 – with a written comment period through June 30, 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.



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
- Agenda reviewed three times a year the GASB



Questions?



Telephone—(203) 847-0700

Web site—www.gasb.org