GASB Update

May 2012

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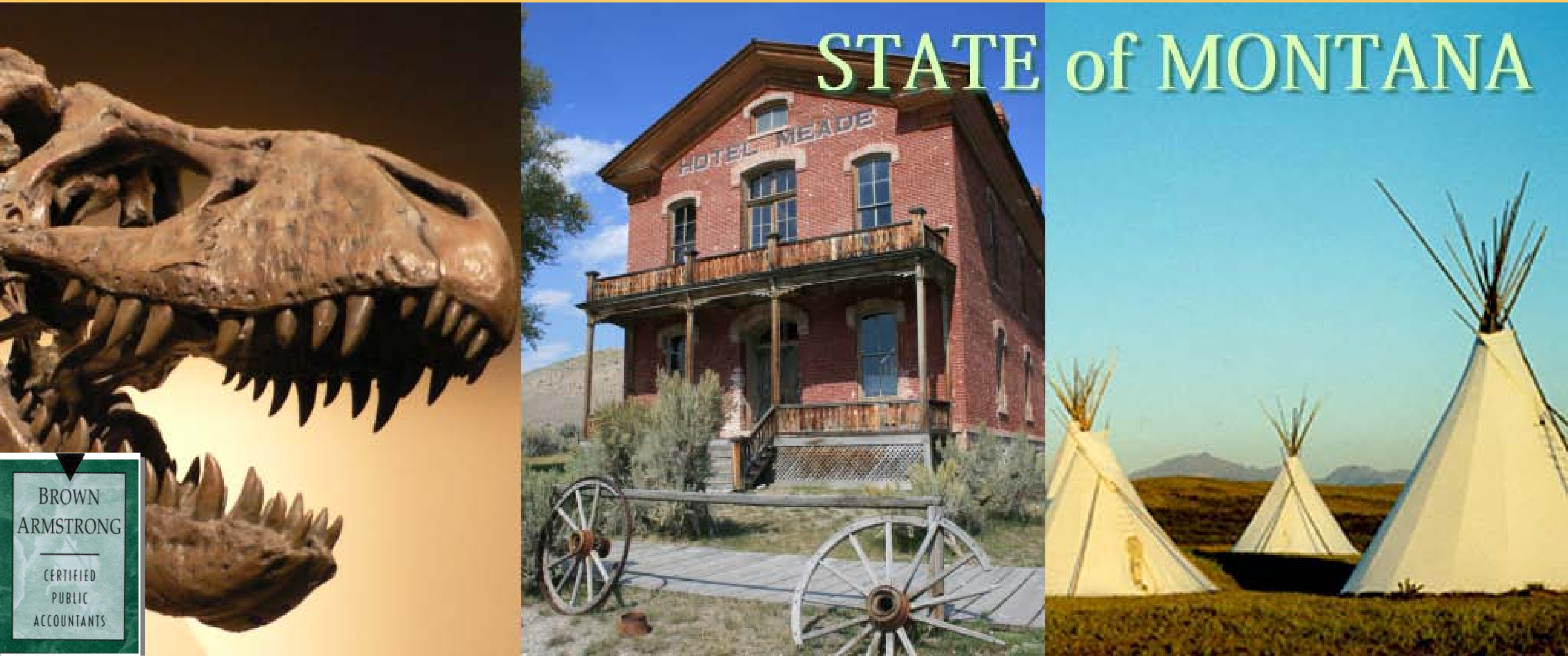


GASB Update

- Implementation Calendar
- GASB Update
  - GASB 60 – Service Concession Arrangements
  - GASB 61 – Component Unit Guidance
  - GASB 62 - Codification
  - GASB 63- Inflows / Outflows, Net Position
  - GASB 64- Derivatives – technical changes
  - NEW – GASB 65 – Deferred Inflows & Outflows
  - NEW – GASB 66 – technical changes
  - PV on Economic Condition Reporting
  - Exposure Draft on Combinations
  - THE LATEST Progress on Defined Benefit Pensions – almost done!
  - The latest on lots of other projects!

Implementation Dates

Statement	Topic	Date	Fiscal Year
57	OPEB – Alternative measurement	Frequency and timing issues – periods *beginning* after 6/15/11	July 1, 2011 – June 30, 2012
60	Service Concession Arrangements	Financial statements for periods *beginning* after 12/15/11	July 1, 2012 – June 30, 2013
61	Component Units	Financial statements for periods *beginning* after 6/15/12	July 1, 2012 – June 30, 2013
62	Codification	Financial statements for periods *beginning* after 12/15/11	July 1, 2012 – June 30, 2013
63	Statement of Net Position	Financial statements for periods *beginning* after 12/15/11	July 1, 2012 – June 30, 2013
64	Derivatives Update	Frequency and timing issues – periods *beginning* after 6/15/11	July 1, 2011 – June 30, 2012

Implementation Dates

Statement	Topic	Date	Fiscal Year
65 – NEW	Assets, Liabilities	Financial statements for periods *beginning* after 12/15/12 – likely to implement though with GASB 62 – 1 year earlier	July 1, 2013 – June 30, 2014
66 – NEW	Technical Changes	Financial statements for periods *beginning* after 12/15/12 – likely to implement though with GASB 62 – 1 year earlier	July 1, 2013 – June 30, 2014

Implementation Dates

Statement	Topic	Date	Fiscal Year
DEFINED BENEFIT PENSIONS		**Periods *beginning* after 6/15/12 AND** •In a DB plan with > $1 billion in assets in the FY ended after 6/15/10 **AND** • **Not** in an agent or cost sharing plan •**No** unconditional special funding •**No** hybrid plan •**No** Trust with a special funding situation	**July 1, 2012 – June 30, 2013** **OR**
		Periods *beginning* after 6/15/13	**July 1, 2013 – June 30, 2014**
New – Combinations (ED)		Periods *beginning* after 12/15/13	**July 1, 2014- June 30, 2015**

BEING UPDATED – STAY TUNED

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

STATE of MONTANA

Implementation Calendar

2011-2012	2012-2013	2013-2014	2014-2015
57 (Partial)	60	65 (unless w/ 62)	Combinations (ED)
64	61	66 (unless w/ 62)	
	62	D B Pensions 2	
	63		
	D B Pensions 1		

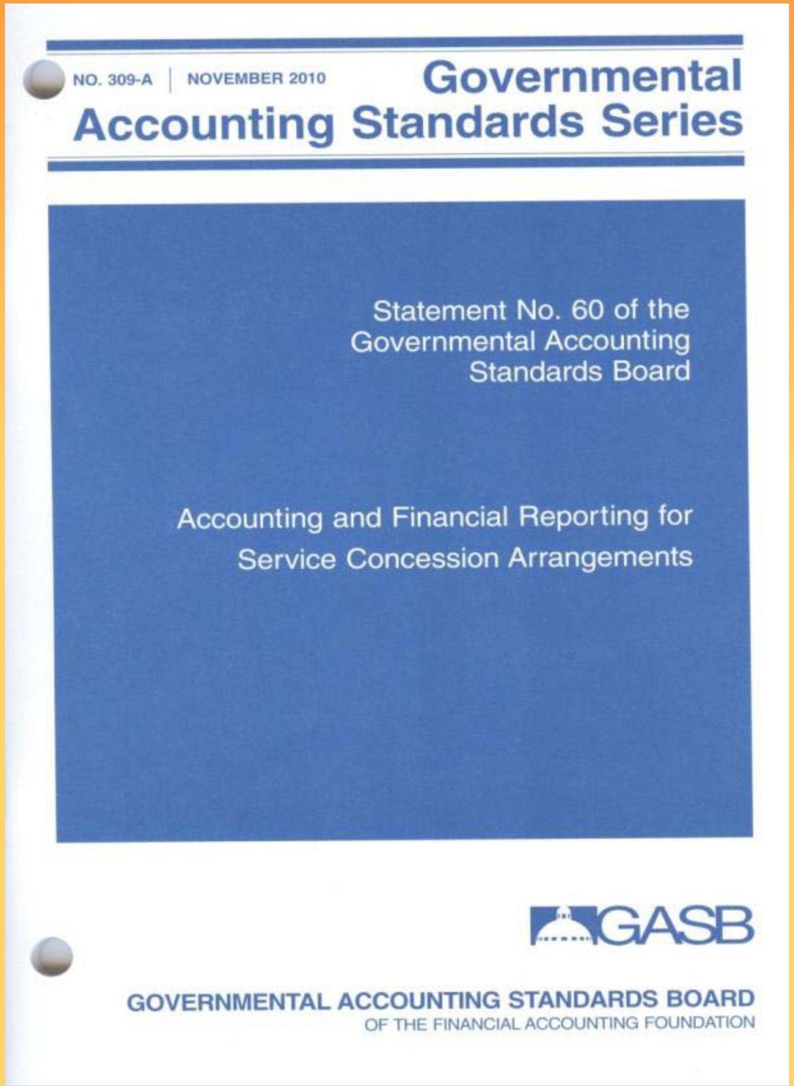
BEING UPDATED – STAY TUNED

BROWN ARMSTRONG CERTIFIED PUBLIC ACCOUNTANTS

STATE of MONTANA

Statement No. 60

- Approved by the Board in November 2010
- Released December 16, 2010
- Effective for periods beginning after December 15, 2011


NO. 309-A | NOVEMBER 2010

Governmental Accounting Standards Series

Statement No. 60 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Service Concession Arrangements

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB 60- Service Concession Arrangements (SCAs)

- SCAs are a type of public / private partnership *or* public / public partnership
- Needs
  - Transferor Government
    - Has rights and can impose obligations through the use of infrastructure or facilities
  - Operator
    - Can be another government or a private entity

GASB 60- Service Concession Arrangements (SCAs)

- Terms of the SCA may include
  - Payments from the operator to the government for the right to build, operate and collect user fees on infrastructure or public asset
  - May include revenue sharing arrangements

GASB 60- Service Concession Arrangements (SCAs)

- SCAs exist when all criteria are met:
  - Transfer must be between a government and *either* another government or a private entity that will serve as an *operator*
  - Right and obligation is conveyed to provide public services through the use and operation of a **capital asset** in exchange for *significant consideration*.
    - Can be up front payment or installments, a new facility or a betterment to an existing facility

GASB 60- Service Concession Arrangements (SCAs)

- SCAs exist when all criteria are met:
  - The operator collects and is compensated by fees from third parties
  - The transferor government is entitled to a residual interest at the end of the SCA
  - The transferor government has the ability to modify / approve the services that the operator provides, to whom it is provided and the prices / rates charged

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STATE of MONTANA

GASB 60- Service Concession Arrangements (SCAs)

- Reporting is **only on full accrual financial statements** (not in governmental fund statements)
- If provisions are met then:
  - Transferor government continues to report capital asset for facility
    - If new facility, capital asset reported by transferor at fair value along with any contractual obligations
      - **Deferred Inflow of Resources reported as the difference**

GASB 60- Service Concession Arrangements (SCAs)

- Liability is at present value of the obligation when
  - Contractual obligation relates to the facility (capital improvements, O&M, insurance etc.)
  - Could relate to a minimum level of service provided by the government for the facility (e.g. police / fire presence)

GASB 60- Service Concession Arrangements (SCAs)

- Capital Asset rules carry forward <u>unless</u> the asset is required to be returned to the government in its original or better condition
  - Improvements capitalized / depreciated
- **Deferred Inflow of Resources** recognized and reduced / revenue recognized systematically over life of arrangement
  - If liability is set up for future services that need to be provided – reduced as services provided

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STATE of MONTANA

GASB 60- Service Concession Arrangements (SCAs)

- What about up front or installment payments from operator?
  - Record at present value as an asset
  - Contractual obligations as liabilities
  - **Deferred inflow of resources as difference**
    - Revenue recognized as deferral reduces

GASB 60- Service Concession Arrangements (SCAs)

- What about governmental operators?
  - Right to access facility is an intangible asset per GASB-51
  - Any improvements increase the intangible asset
  - Amortization is over the life of the agreements
  - If specified condition is needed upon return
    - If asset not in the condition
    - If amount to restore is estimable
    - Liability declared then

GASB 60- Service Concession Arrangements (SCAs)

- Revenue Sharing Arrangements
  - Transferor government only reports revenue that accrues to them
  - If revenue sharing amount is fixed
    - Amounts should be reported at present value by transferor government and governmental operator
- Note disclosure
  - Nature of arrangement, assets, liabilities, deferrals, rights, guarantees
- Transition – periods beginning after 12/15/11 – restate prior periods

A Few More Words About 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.

Service Concession Arrangements

A case study: The GNP Municipal Golf Course

The SCA Agreement Includes the following provisions:

Section 1.02. <u>Premises</u>. Licensor owns the GNP Public Golf Course, an eighteen-hole layout and related facilities. The golf course, restaurant, bar, clubhouse, driving range, related amenities, and any additions thereto, shall be referred to as "the Premises".

Section 2.01. <u>Commencement Date</u>. The Term shall commence upon January 1, 20XX subject to the following conditions:

Licensee shall have exclusive use of the Premises during each year and shall be open for operation per a schedule to be submitted by Licensee and approved by Licensor, with reasonable periods of closure for holidays, inclement weather or season, under a policy as may be determined by Licensee in consultation with Licensor.

Notwithstanding anything contained herein, Licensor shall have unrestricted rights of ingress and egress as are necessary to allow it access to locations in and about the Premises for inspection purposes from time to time.

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Service Concession Arrangements

Section 3.01. __Use__. Licensee shall use the premises for the primary purpose of operating a golf course, driving range, clubhouse (with golf-related merchandise sales), and restaurant/bar, but no other activity. Such use includes the operation of the clubhouse, restaurant/bar, and concessions for the sale of food, apparel, alcoholic and non-alcoholic beverages, equipment, and souvenirs usually associated with golf course activities.

Section 4.01. **__Budgets__.** Licensee agrees to submit its schedule(s) of greens fees, cart fees, club rentals and season golf passes or special rates, if any, to the Licensor annually, by January 1 of each year for that Golf Year, for approval by Licensor, together with a budget of operations, generally, to assist Licensor in evaluating the proposed fees.

Section 5.01. **__License Fees__**. Licensee agrees to pay to Licensor an annual license fee (the "License Fee") as follows, based on specific sources of revenues and on the terms set forth below (next slide).

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STATE of MONTANA

Service Concession Arrangements

Commencing with receipts on and after January 1, 20X1, Licensee shall pay Licensor as its annual license fee hereunder, the sum of $175,000 (the "Base License Fee"), plus 25% of Gross Golf Revenues exceeding $1,700,000, but not exceeding $1,900,000 for any Golf Year plus 35% of Gross Golf Revenues exceeding $1,900,000 for any Golf Year The Base License Fee shall be increased periodically as follows:

Golf Year	Base License Fee
2011	$175,000
2012	$200,000
2013	$200,000
2014	$225,000
2015 (if Term extended)	$225,000
2016 (if Term extended)	$225,000
2017 (if Term extended)	$225,000
2018-2024 (if Term extended)	$250,000

PV as up front payment

????

Service Concession Arrangements

Additionally, Licensee shall pay to Licensor 10% of the annual Non-Golf Revenues (golf shop retail sales, food and beverage retail sales, room rental fees, and all other fees generated from activities held at the Premises which are not otherwise included in Gross Golf Revenues) for any Golf Year to the extent the same exceed $750,000 but do not exceed $950,000, plus 15% of the annual Non-Golf Revenues for any Golf Year that exceed $950,000.

Service Concession Arrangements

Day 1 accounting:

The City would continue to recognize the golf course as a capital asset and recognize a receivable and a deferred inflow of resources for the present value of the installment payments, estimated to be $741,200. The City would not record an estimated present value for the variable portions of the base license fees or the payments it will receive under the revenue sharing agreement because those amounts are contingent on the generation of revenues from the golf course and will be recognized as revenue by the City as they are earned in accordance with the agreement.

Service Concession Arrangements

Accounting in subsequent years:

The City would continue to apply existing capital asset guidance, including depreciation, if applicable, to the golf course and related equipment. If the City elects to use the straight-line method, it would recognize $185,300 (the present value of installment payments divided by 4 years) in revenue and reduce the deferred inflow of resources in the same amount each year of the arrangement. The City would recognize its percentage shares of revenues from the operation of the golf course and related concessions as these revenues are earned in accordance with the terms of the base fee and revenue sharing agreements.

The City would provide the disclosures required by paragraphs 16 and 17 of Statement 60, as applicable.

Service Concession Arrangements

- Day 1 Accounting

DR. Service Concession Arrangement Receivable – Golf Course
$741,200

CR. Deferred Inflow of Resources
$741,200

- Subsequent Years

DR. Deferred Inflow of Resources $185,300 [$741,200 ÷ 4]

CR. Lease Revenue(?) $185,300

Lease revenue also recognized for payments, interest revenue for effective interest method. Receivable would reduce by lease payments.

For capital asset, depreciation / betterment / impairment rules carry forward.

Practice Point – may want to have a separate caption for capital assets under SCAs

Case 2 – State Toll Road

- Facts and Assumptions: A State, through its State Department of Transportation (SDOT), the transferor, enters into an arrangement with the Metropolitan Tollway Authority (MTA), a governmental operator, involving the Pelton Tollway, a capital asset currently being reported by the State in the Tollway Authority enterprise fund at a carrying amount of $1 billion. The SDOT receives an up-front payment of $3 billion from the MTA, in return for which the MTA receives the right to operate the tollway and receive and retain toll revenues for a period of 75 years. The arrangement meets all criteria in paragraph 4 to qualify as a service concession arrangement. The transferor has no contractual obligations to sacrifice financial resources under this agreement. The MTA is not a component unit of the State's financial reporting entity.

Case 2 – State Toll Road

- Day 1
  - What do you do with the capital assets?
  - What do you do with the $3 billion?
  - What would MTA do?
- Future years
  - What is the accounting for the state?
  - What is the accounting for MTA?

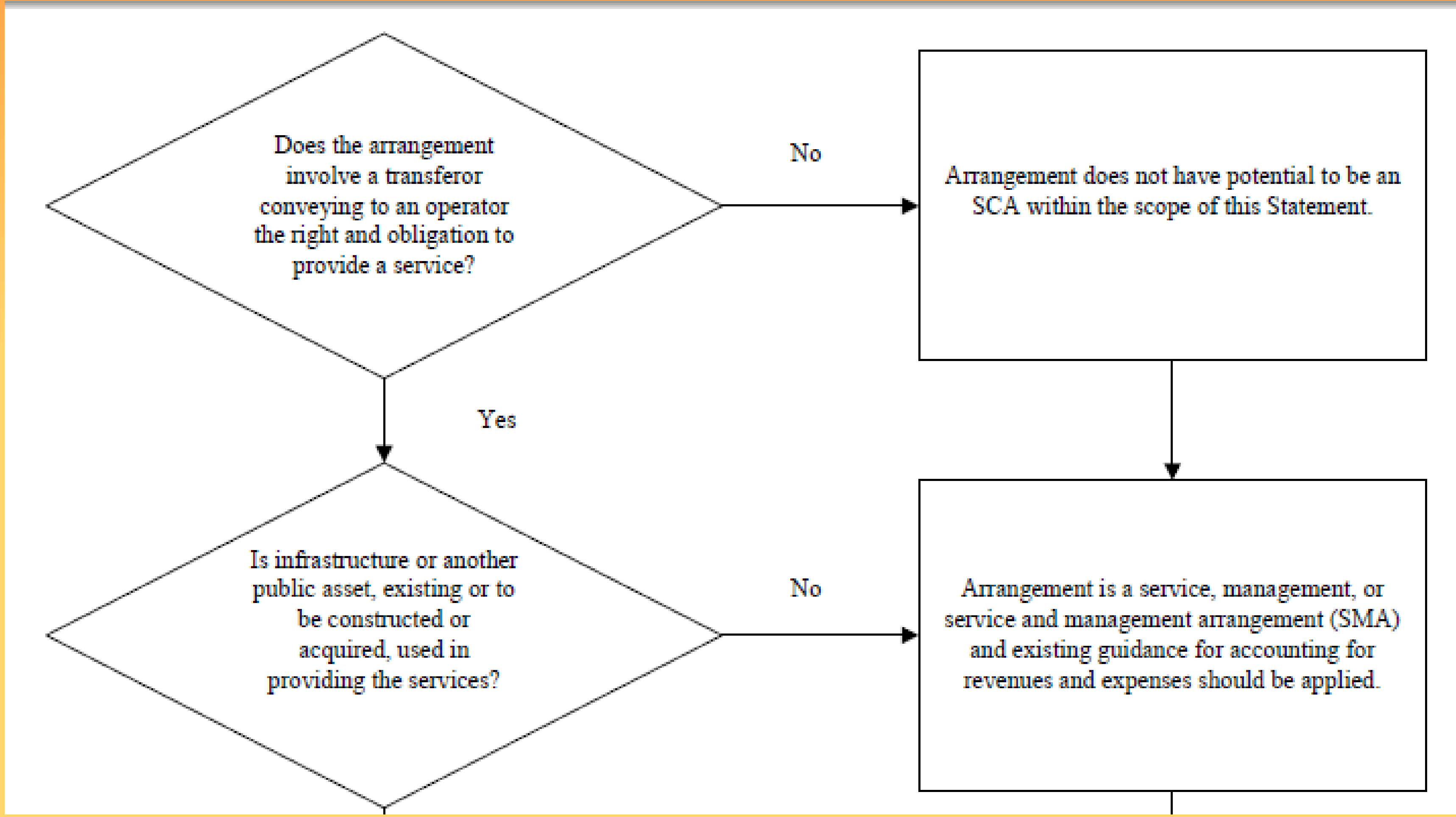
Case 3 – New Tunnel

- Facts and Assumptions: A State, through its State Department of Transportation (SDOT), the transferor, enters into an arrangement with the Local Tunnel Authority (LTA), a governmental operator, in which the LTA has agreed to design, build, and then operate a tunnel, the Geisman Tunnel, for 40 years. During the term of the arrangement, the LTA is entitled to collect and retain tolls generated by the tunnel. The arrangement meets all criteria in to qualify as a service concession arrangement. The cost to the LTA to construct the tunnel is $4 billion. The fair value of the tunnel when it is placed into operation is $5 billion. The fair value represents the present value of the net cash flows expected to be collected through the operation of the tunnel. The SDOT has a contractual obligation to insure the tunnel each year over the course of the arrangement beginning when the tunnel is placed into operation. The present value of this insurance obligation is estimated to be $500,000. The LTA is not a component unit of the State's financial reporting entity.

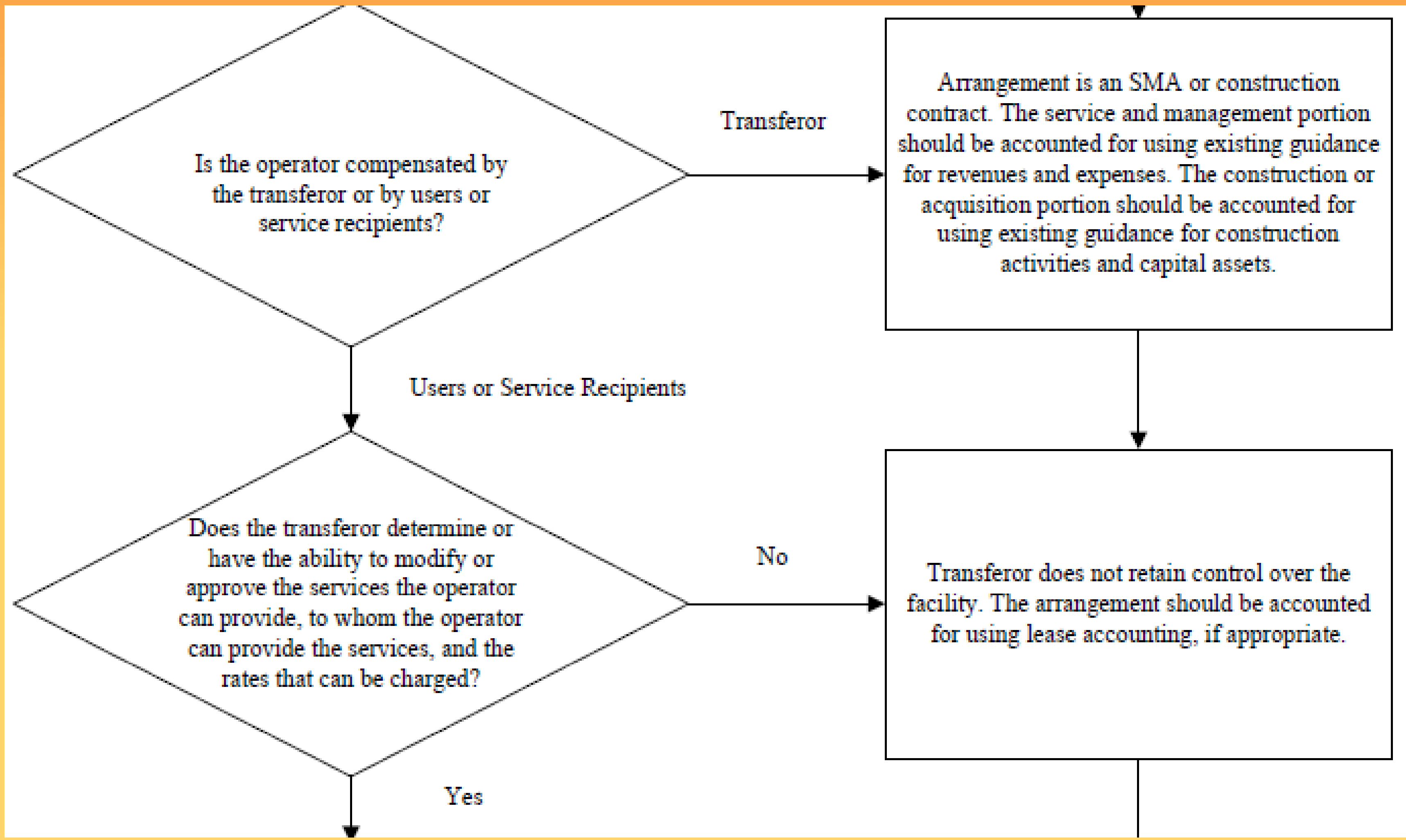
Case 3

- At day 1 – what would the state do for accounting (hint - there is an extra step)
- What would LTA recognize?

GASB 60- Service Concession Arrangements (SCAs) – a picture's worth 1,000 words



GASB 60- Service Concession Arrangements (SCAs) – a picture's worth 1,000 words



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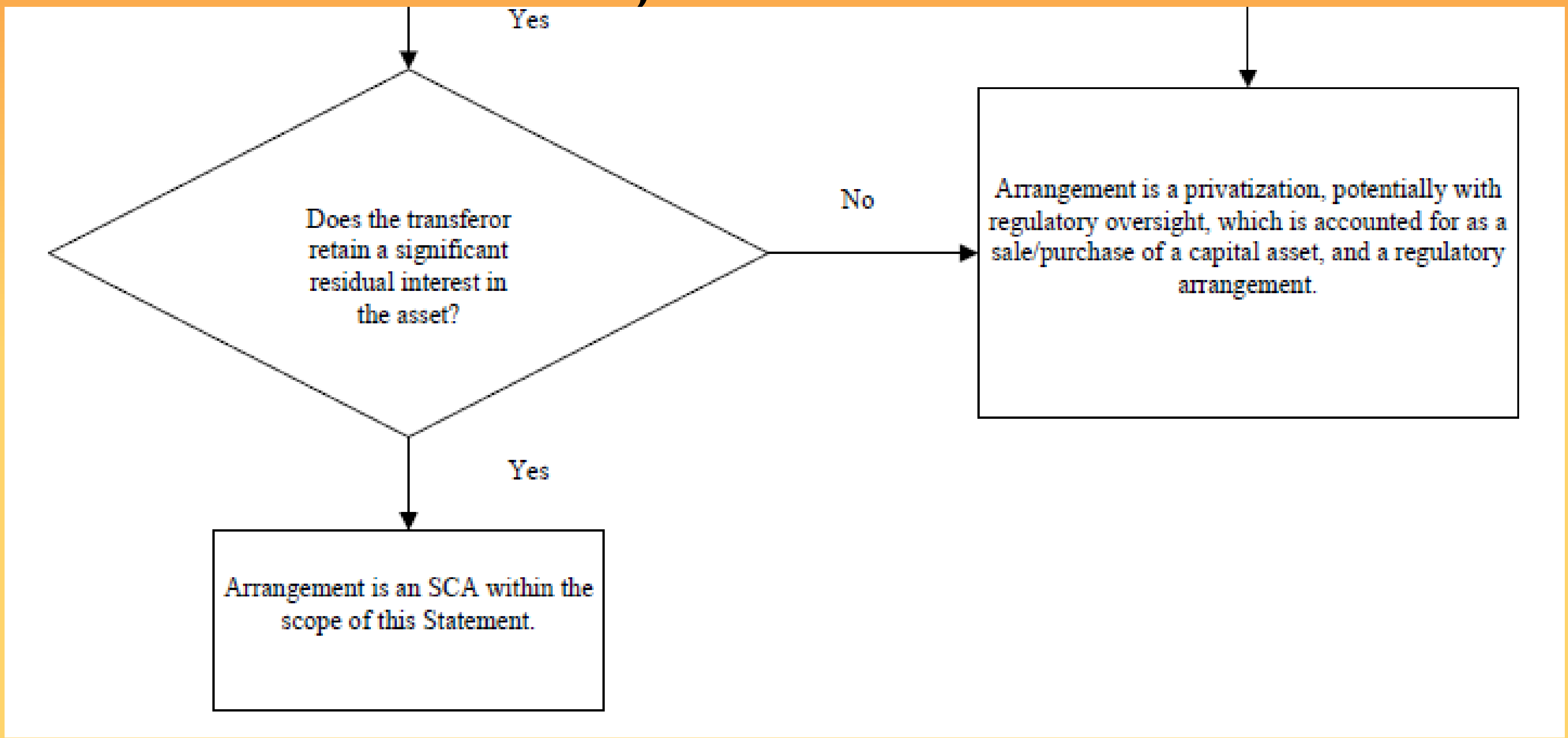


GASB 61

NO. 3-14 | NOVEMBER 2010

Governmental Accounting Standards Series

Statement No. 61
of the Governmental
Accounting Standards Board

The Financial Reporting Entity: Omnibus

an amendment of GASB Statements No. 14 and No. 34

GASB

Governmental Accounting Standards Board
of the Financial Accounting Foundation

GASB 61 – Modification of GASB 14/39 Component Units

- Modifies fiscal dependency criteria to add that there must be financial benefit / burden between the potential component unit and the government
  - Result – some component units may no longer be component units and vice versa
- Also modifies blending so that if an entity exists ostensibly to sell debt on behalf of a primary government <u>will now be required to be blended</u>
- Clarifies equity interests in joint ventures

GASB 61 – Modification of GASB 14/39 Component Units

- "Misleading to Exclude" doctrine clarified
  - Primary Government has the responsibility to determine if a component unit should be included even if the tests aren't met
    - Included because misleading to exclude
    - Result could be that some related organizations may become component units based on primary government's policies

GASB 61 – Modification of GASB 14/39 Component Units

- Fiscal Dependency Changed
  - The primary government is financially accountable if an organization is fiscally dependent on *and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.*

GASB 61 – Modification of GASB 14/39 Component Units

- If a financial benefit or burden exists, then it is reported as part of the primary government's entity (discrete or blended)
- Specifically mentions school districts where a local general purpose government may approve the school board's budget or levy property taxes
  - <u>They are component units to the local government if there is some form of approval</u>
  - Could occur even if the City doesn't appoint the school board
  - Judgment allowed in most cases

GASB 61 – Modification of GASB 14/39 Component Units

- "Major" Component Unit concept clarified
  - Include as major based on nature & significance to primary government – including:
    - Services provided to citizens
    - Significant transactions with primary government
    - Significant benefit / burden
  - Presentation can be
    - Columns on statement of net assets / activities
    - Combining after fund statements
    - Condensed financials in notes
    - Nonmajors aggregated – combining is OSI

GASB 61 – Modification of GASB 14/39 Component Units

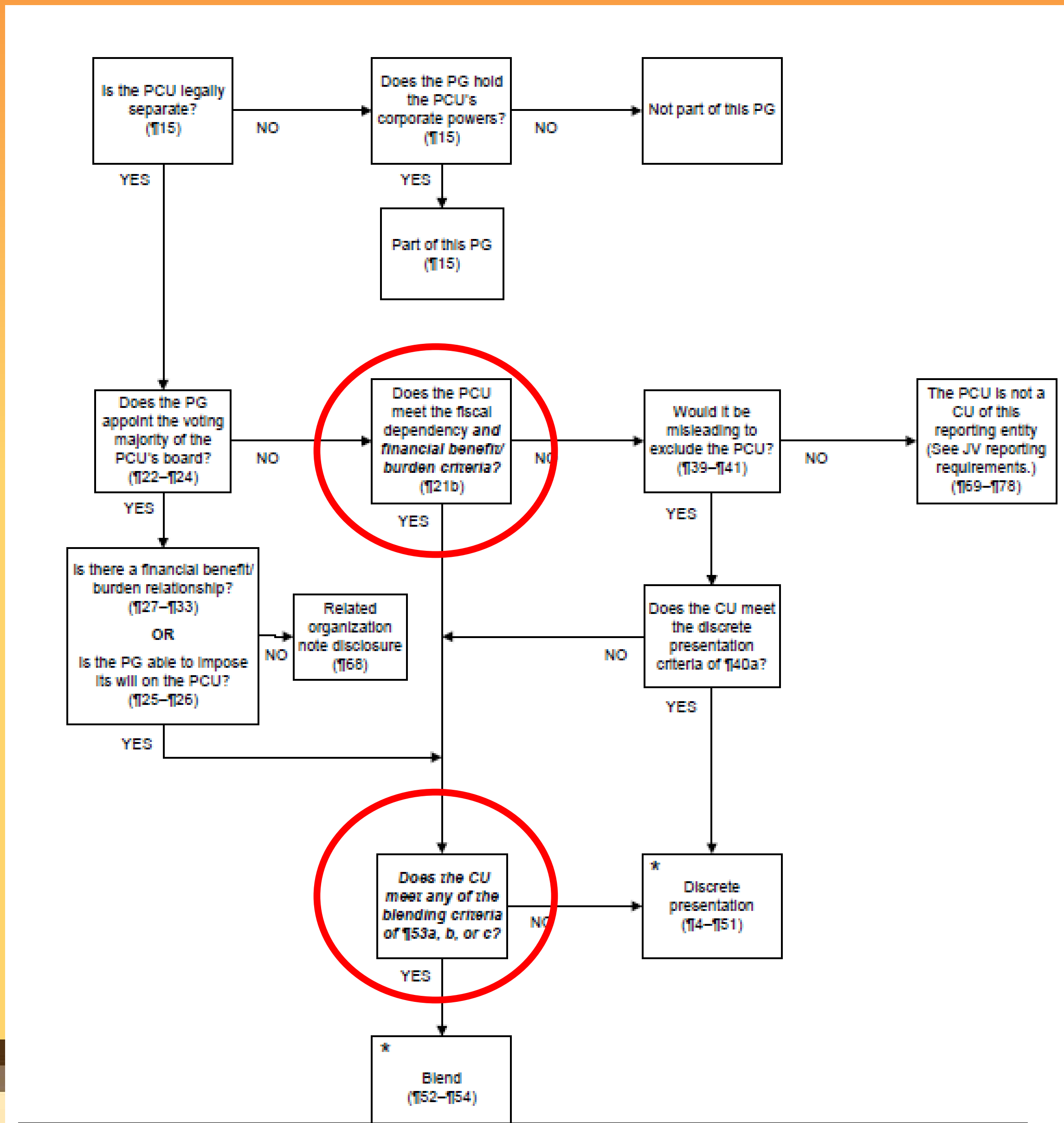
- Blending will now be required if
  - C/U's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government
    - Usually a pledge exists
  - Result – end to "off balance sheet" financing

GASB 61 – Modification of GASB 14/39 Component Units

- If government owns equity interest
  - Government's intent depends on reporting
    - Enhance providing of services – C/U
    - Rate of Return – Investment
- Transition
  - Effective for periods beginning after June 15, 2012
    - Retroactive restatement

Italics = changes by GASB 61

GASB 61 – Modification of GASB 14/39 Component Units– a picture's worth 1,000 words



Example – Public Housing Authority

- **Facts**: A public benefit corporation was created by the city to provide subsidized public housing in accordance with federal legislation. The mayor and city council appoint the five members of the governing board for five-year staggered terms. The members can be removed only for cause. The PHA board elects its own chairperson and recruits and employs its management personnel and other employees.
- The PHA has no taxing or assessment powers, but it can issue bonds, sign contracts, reassign or terminate key personnel, set rents, and select tenants, and is solely responsible for the day-to-day operations of the projects. The PHA adopts its own budget, subject to HUD approval, and has sole title to, and residual interest in, the assets of the authority. The city co-signs the bonds.
- In this case bonds / leases issued by the PHA are special-revenue obligations of the PHA secured by a pledge of the full faith and credit of HUD, and are not moral obligations of the city nor are they included within the city's constitutional or statutory debt limits. HUD provides funds for the required principal and interest payments each year. However, the city has agreed to provide funding to the extent that program revenues and HUD subsidies are insufficient. Historically, the program revenues and HUD subsidies have provided approximately 85 percent of annual operating expenditures. The City provides the remainder.
- **CONCLUSION???**

Example – Public Housing Authority

- Updated facts – assume that HUD de-federalizes the project but the debt is still outstanding. Because of the co-sign on the debt, the City pays for the debt beyond what net operating revenues are able to pay.
- **Conclusion?**

Example 2 – Redevelopment Authority

- **FACTS:** The RDA was established by the city as a separate legal entity in accordance with the state government code. It has the absolute authority (including the right to exercise eminent domain) to acquire, renovate, and resell property within a blighted area legally designated as the redevelopment district. The nine-person governing board of the authority is appointed by the mayor. One of the appointees must also be a member of the city council. The director of the authority is hired by the authority's board and is bound by an employment contract with the authority's board. The employment agreement, however, requires the director to report to the city council, at least monthly, on the authority's activities, functions, operations, and financial condition.

Example 2 – Redevelopment Authority

- The funding for the authority's start-up period was provided by loans from the city on an "as-needed" basis. The loans were repaid in full, with interest at prevailing rates, from proceeds of tax increment revenue bonds issued by the authority. The bonds are to be retired with incremental property and sales taxes from the redevelopment area (legally designated as a tax increment district). Local sales taxes collected within the district, in excess of a base amount (frozen when the authority was created), are required to be remitted to the authority by the city. Incremental property taxes resulting from the improved tax base are required to be remitted to the authority by the city; that is, it is assumed that increases in the assessed valuation of properties within the district, over the base valuation (frozen when the authority was created), resulted from the redevelopment. In effect, as long as the tax increment bonds are outstanding, the authority has its own "layer" of the total tax base within the district but is not empowered to levy a tax against that base. Incremental sales and property taxes and the proceeds from the resale of redeveloped properties in the district are the major sources of revenue for the authority.

Example 2 – RDA

- The city does not have the ability to affect the budget of the authority in any way and has no legal or moral obligation to finance the deficits or honor the debt of the authority. Operating surpluses of the authority may not be paid to the city according to the urban renewal law.
- The city and the authority signed a "cooperation" agreement because it was deemed to be necessary and in the public interest that the city and the authority cooperate to provide start-up services, operating facilities, and funding. The agreement states that nothing in it "shall be interpreted in any manner as establishing the city or its officials as agents of the authority, or the authority or its officials as agents of the city. Each entity shall remain separate."
- The cooperation agreement also states that the city may provide the authority with such services as may be required to perform its public function, including accounting, treasury management, procurement, personnel services, planning services, and engineering services. Alternatively, the authority may obtain any or all of those services from third parties. The authority reimburses the city for all services provided by the city.
- **Conclusion???**

Other Quick Examples

- Library Foundation was established as a legally separate, tax-exempt organization to support ABC Public Library. The foundation has a history of supporting the library with a majority of the financial resources it raises. Throughout the year, the library requests funding from the foundation to support various projects. The resources distributed to the library in any single year may or may not be significant, but the resources held by the foundation are significant to the library.
- **Conclusion?**

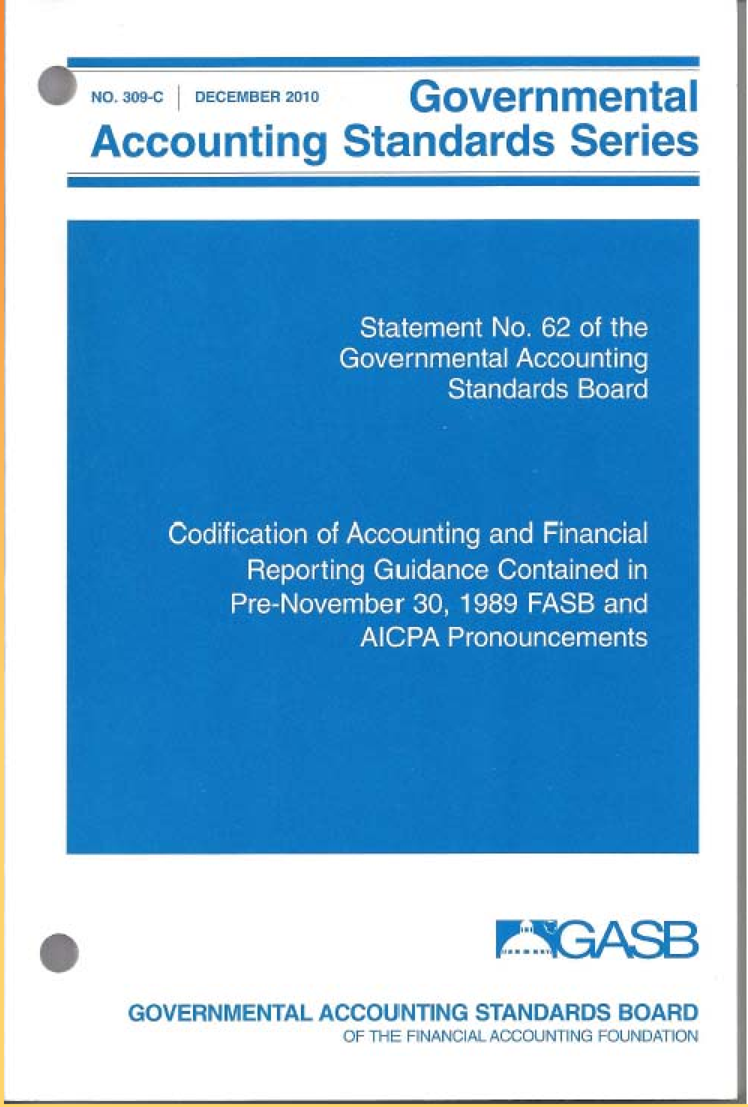
Other Quick Examples

- An Art Foundation was established as a legally separate, tax-exempt organization to support fine arts in the greater Anytown metro area. The foundation has a history of providing substantial financial support to several different entities each year including XYZ Art Museum, Anytown's public museum; community theatre groups; and other organizations with objectives consistent with the foundation's charter. Occasionally, donations received by the foundation are restricted for the benefit of specific organizations, but generally, restricted donations are distributed currently, rather than held. An accumulation of restricted resources would not be significant to any of the designated beneficiaries. The support given to XYZ Art Museum during the current year was significant to the museum. However, depending on the ongoing needs of other qualifying organizations and the foundation's resources available for distribution, this level of support to the museum has varied considerably over the years.
- **Conclusion?**

1 more quick example

- Helena Memorial Hospital Foundation was established as a legally separate, tax-exempt organization to solicit individual and corporate donations and otherwise raise funds to provide financial support to the Memorial Hospital. The foundation operates a gift shop in the hospital and has helped finance several of the hospital's capital projects including the building of a new children's wing. All of the profits from the gift shop are used to buy new furniture for the hospital. The foundation buys the furniture and donates it to the hospital. The foundation's resources, to which the hospital is entitled, are significant to the hospital's financial statements.

GASB 62


NO. 309-C | DECEMBER 2010 Governmental Accounting Standards Series

Statement No. 62 of the Governmental Accounting Standards Board

Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB 62

- Why Was This Issued?
  - FASB Standards applied by governments all the time
    - Election in GASB-20, paragraph 6 used by BTAs
    - Old FASB Standards (e.g. FASB 116) don't exist anymore
  - AICPA standards sometimes in conflict with GASB standards
    - Clarity project of AICPA auditing standards removes direct references to GAAP
  - Removes "urban legends"
- No new GAAP – but items "left on the table"

GASB 62 – Which Bases of Accounting Apply What?

Both Governmental And Business Type OK – subject to reporting distinctions of Governmental Funds	Business Type Activities / Fund Types Only
Special and Extraordinary Items	Capitalization of Interest
Contingencies	Revenue Recognition with a Right of Return
Related Parties	Inventory
Leases	Regulated Operations – as long as: -Rates are established by independent regulator or by governing board with that power -Rates are designed to recover costs -Rates are assumed to be collectible

BROWN ARMSTRONG CERTIFIED PUBLIC ACCOUNTANTS

GASB 62 – Which Bases of Accounting Apply What?

Items That Apply to ALL Fund Types	
Revenue Recognition – Exchange Transactions	Troubled Debt Restructuring
Statement of Net Assets Classification	Foreign Currency Transactions
Comparative Financial Statements	Imputation of Interest
Prior Period Adjustments	Investment in Common Stock
Accounting Changes / Errors	Nonmonetary Transactions
Disclosure of Accounting Policies	Sales of Real Estate
Construction Contracts – Long Term	Research and Development Operations
Extinguishment of Debt	Broadcasters
Cable TV Operations	Lending Activities
Insurance Entities (not risk pools)	Mortgage Banking Activities

GASB 62 – Left on the Cutting Room Floor

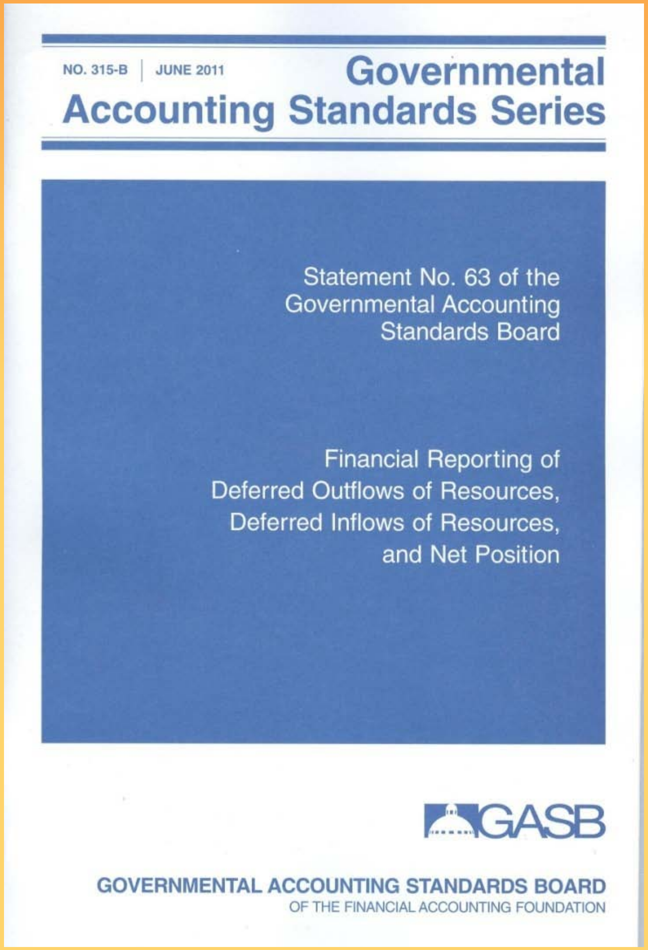
- Items that are in FASB / AICPA GAAP that GASB didn't include in GASB-62 but are being studied
  - Fair Value Measurement (old FASB-157)
    - **Exposure draft maybe by the fall**
  - Asset Retirement Obligations
  - Governmental Combinations (old APBO-18) – **EXPOSURE DRAFT OUT**

GASB 62 – Items in GASB 62 Slated for Reexamination in the Future

- Capitalization of Interest
- Real Estate (Rentals / Sales)
- Extinguishment of Debt
- Inventory
- Leases
- Nonmonetary Transactions
- Prior-Period Adjustments / Changes / Errors
- Regulated Operations
- Research and Development
- Revenue Recognition – Exchange Transactions
- Troubled Debt Restructuring

Statement No. 63

- Issued June 2011
- Effective for periods beginning after December 15, 2011
- Earlier application is encouraged


NO. 315-B | JUNE 2011

Governmental Accounting Standards Series

Statement No. 63 of the Governmental Accounting Standards Board

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

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Background

- 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
- Statements 53 and 60 require deferrals

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

Definitions

- **Net position**
  - The residual of all elements presented in a statement of financial position

Accounting Equations

- Governmental activities in Government-wide statements:
  Statement of Net Position:

  assets + deferred outflows – liabilities – deferred inflows = net position

- Governmental fund format:
  Balance sheet:

  assets + deferred outflows = liabilities + deferred inflows + fund balance

Provisions

- Deferred outflows should be reported in a separate section following assets, with a separate subtotal (but the two may be combined to provide a further subtotal)
- Deferred inflows should be reported in a separate section following liabilities, with a separate subtotal (but the two may be combined to provide a further subtotal)

Provisions

- 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

Statement of Net Position

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
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 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	146,513,065	288,100,800	36,993,547
Total capital assets	170,022,760	152,921,215	322,943,975	37,744,786
Total assets	226,758,185	166,925,131	393,683,316	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	—
NET POSITION				
Net investment in capital assets	103,711,386	79,088,574	182,799,960	15,906,392
Amounts 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 Amounts (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

Statement of Net Position

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
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Total net position	$ 124,205,183	$ 87,356,980	$211,562,163	$ 19,228,627

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CERTIFIED PUBLIC ACCOUNTANTS

STATE OF MONTANA

Disclosures

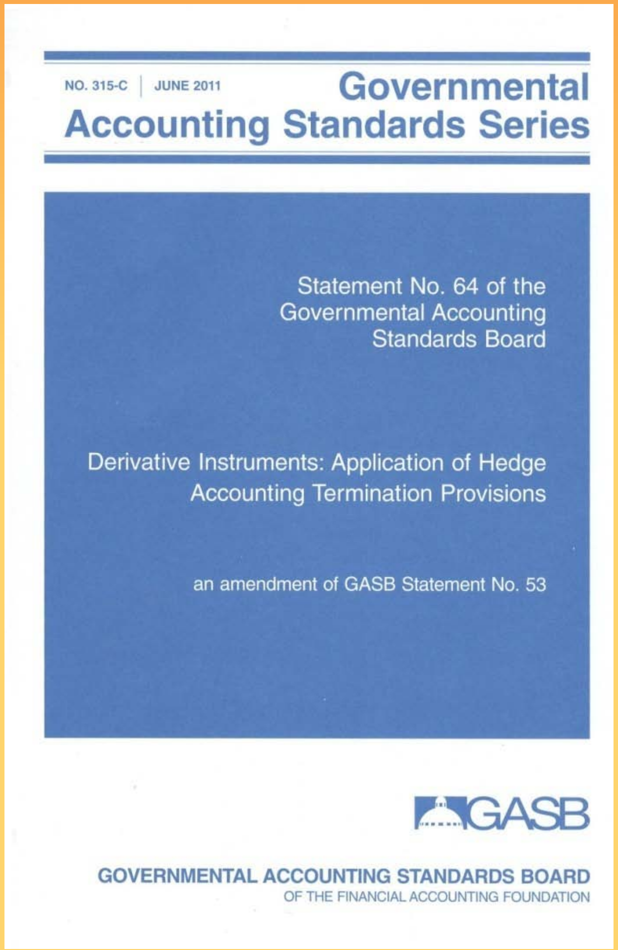
- Governments should provide details of different types of deferred amounts in the notes if significant components of the total deferred amounts are obscured by aggregation on the face of the statements
- If the amount reported for a component of net position is significantly affected by deferred inflows or outflows, governments should disclose an explanation in the notes

Statement No. 64

DERIVATIVE INSTRUMENTS: APPLICATION OF HEDGE ACCOUNTING TERMINATION PROVISIONS

Statement No. 64

- Issued June 2011
- Effective for periods beginning after June 15, 2011
- Earlier application is encouraged


NO. 315-C | JUNE 2011

Governmental Accounting Standards Series

Statement No. 64 of the Governmental Accounting Standards Board

Derivative Instruments: Application of Hedge Accounting Termination Provisions

an amendment of GASB Statement No. 53

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Background

- Developed because of questions regarding application of termination of hedge accounting provisions in Statement 53
- Objective is to improve financial reporting for state and local governments by clarifying what constitutes a termination event for hedge accounting purposes
- Amends Statement 53, subparagraph 22d and paragraph 82

Hedge Accounting

- Annual changes in the fair value of derivatives should be reported in investment income, except for hedging derivative instruments
- A hedging derivative effectively offsets changes in the fair values or cash flows of the underlying item
- Changes in fair value of hedging derivatives are *deferred*

Hedge Accounting

- Deferral of fair value changes ends when:
  - Derivative ends or is terminated
  - Underlying item ceases
  - Expected transaction no longer probable
  - Derivative is no longer an effective hedge

Project Issue

- What happens if a derivative is terminated through no fault of the government and is replaced with an identical derivative?
- Even though the government's position may not have changed economically, Statement 53 still required hedge accounting to end and the accumulated fair value changes to be reported in investment income

Provisions

A hedging relationship is maintained and hedge accounting should continue to be applied when <u>all three</u> of the following criteria are met:

1. Interest rate swap or commodity swap represents a liability of the government
2. Counterparty of interest rate swap or commodity swap, or counterparty's credit support provider, is replaced with **assignment** or **in-substance assignment**

Provisions

A hedging relationship is maintained and hedge accounting should continue to be applied when <u>all three</u> of the following criteria are met:

3. Government enters into assignment or in-substance assignment in response to swap counterparty, or swap counterparty's credit support provider, committing or experiencing an act of default or termination event as described in swap agreement

Assignment

Assignment: Occurs when swap agreement is amended to replace original counterparty, or counterparty's credit support provider, but all other terms of swap agreement remain unchanged

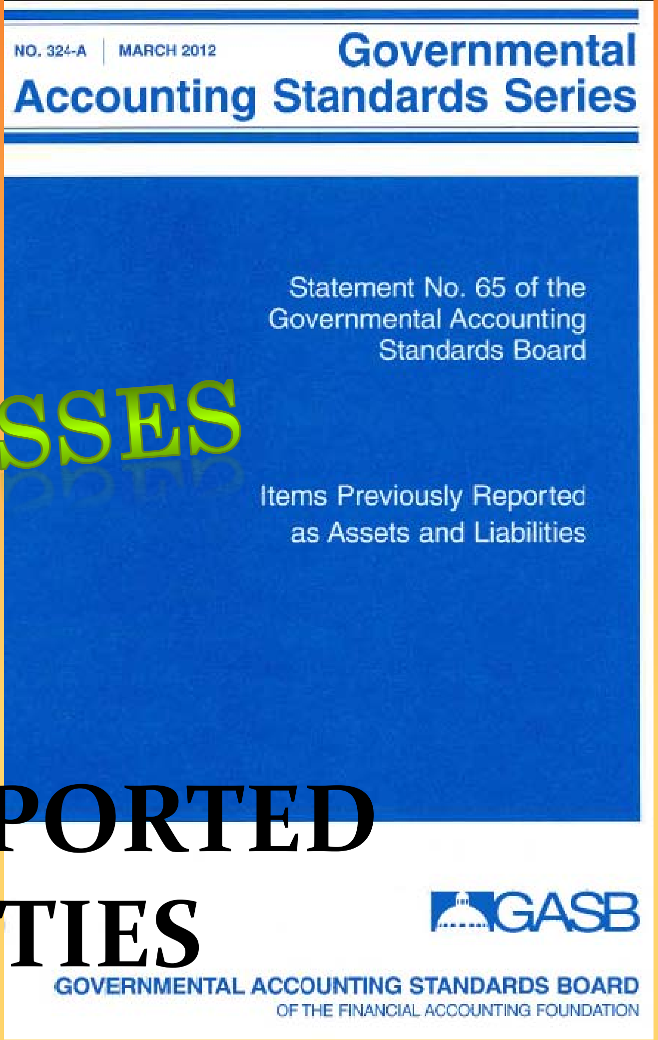
In-substance Assignment

- Original counterparty, or counterparty's credit support provider, is replaced
- Original swap agreement ended and replacement swap agreement entered into on same date
- Terms that affect changes in fair values and cash flows in original and replacement swap agreements are identical

HOT OFF THE PRESSES

Statement No. 65

ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES


NO. 324-A | MARCH 2012

Governmental Accounting Standards Series

Statement No. 65 of the Governmental Accounting Standards Board

Items Previously Reported as Assets and Liabilities

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Statement No. 65

- Approved March 2012
- Effective for periods beginning after December 15, 2012
- Earlier application is encouraged

Objective

- The objective of the Exposure Draft is to examine the classification of certain items previously reported as assets or liabilities to determine whether any of these items should be reported as a deferred outflow of resources or an outflow of resources (expense/expenditure), or a deferred inflow of resources or an inflow of resources (revenue).
  - Paragraph 38 of Concepts Statement 4 **limits recognition of deferred outflows of resources and deferred inflows of resources to those instances identified by the GASB.**

Approach to Development of the Statement

- Hierarchy for applying the definitions of the elements in Concepts Statement 4.
  - Do items meet the definition of an asset or a liability?
  - If not, do they meet the definition of a deferred outflow of resources or a deferred inflow of resources?
  - If not, then the item should be recognized as an outflow of resources or an inflow of resources.

Definitions of the Elements

- *Assets* are resources with present service capacity that the government presently controls
- *Liabilities* are present obligations to sacrifice resources that the government has little or no discretion to avoid
- *Deferred outflows of resources* are a consumption of net assets by the government that is applicable to a future reporting period,
- *Deferred inflows of resources* are an acquisition of net assets by the government that is applicable to a future reporting period,
- *Outflows of resources* are consumptions of net assets by the government that are applicable to the reporting period, and
- *Inflows of resources* are acquisitions of net assets by the government that are applicable to the reporting period.

Overview

- Currently reported as assets:
  - Continue to report as assets
  - Report as deferred outflow of resources
  - Report as current-period outflow of resources
- Currently reported as liabilities:
  - Continue to report as liabilities
  - Report as deferred inflow of resources
  - Report as current-period inflow of resources

Continue to Report as an Asset

- Prepayments (paragraph 73 of NCGA Statement 1)
- Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction *when eligibility requirements other than time requirements have not been met* (paragraph 19 of Statement 33)
- The purchase of future revenues from a government outside the financial reporting entity (paragraphs 13–16 of Statement 48)

Continue to Report as an Asset

- Initial subscriber installation costs in relation to cable television systems (paragraph 398 of Statement 62)
- Capitalized incurred costs related to regulated activities (paragraph 480 of Statement 62)
- Circumstances in which a pension plan's net position exceeds the total pension liability

Report as a Deferred Outflow

- Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction *when time requirements are the only eligibility requirements that have not been met* by the other government (paragraph 19 of Statement 33)
- Deferred debit amounts resulting from the refunding of debt (paragraph 5 of Statement 23)
- The purchase of future revenues within the same financial reporting entity (paragraphs 13–16 of Statement 48)

Report as a Deferred Outflow

- Deferred loss resulting from sale-leaseback transactions (paragraph 242 of Statement 62)
- Net balance (debit) of direct loan origination costs, including any portion related to points, for mortgage loans held for resale prior to the point of sale (paragraph 467 of Statement 62)
- Fees paid to permanent investors to ensure the ultimate sale of loans prior to the point of sale (paragraph 469 of Statement 62)

Report as an Outflow of Resources

- Acquisition costs for insurance entities and public entity risk pools (paragraphs 28–30 of Statement 10 and paragraphs 412–414 of Statement 62)
- Initial direct costs incurred by the lessor for operating leases (paragraph 227 of Statement 62)
- Debt issuance costs (paragraph 12 of Statement 7 and paragraph 187 of Statement 62)
- Net balance (debit) of direct loan origination costs, including any portion related to points, related to lending activities (paragraph 45 of Statement 10 and paragraph 434 of Statement 62)

Report as an Outflow of Resources

- Fees paid related to a purchased loan or a group of loans (paragraph 442 of Statement 62)
- Net balance (debit) of direct loan origination costs, including any portion related to points, for mortgage loans held for investment (paragraph 467 of Statement 62)
- Net balance (debit) of direct loan origination costs, including any portion related to points, for mortgage loans held for resale after the sale occurs (paragraph 467 of Statement 62)
- Fees paid to permanent investors to ensure the ultimate sale of loans after the ultimate sale occurs (paragraph 469 of Statement 62)

Report as a Liability

- Resources received in advance in relation to a derived tax revenue nonexchange transaction (paragraph 16 of Statement 33) (prepaid income, sales taxes, assessments)
- Resources received in advance in relation to a government-mandated nonexchange transaction (e.g. most programmatic grants) or a voluntary nonexchange (e.g. donations) transaction *when eligibility requirements other than time requirements have not been met* (paragraph 19 of Statement 33)
- Resources received in advance of an exchange transaction (paragraph 23 of Statement 62) (deposits)

Report as a Liability

- Excess of initial hookup revenue over of direct selling costs in relation to cable television systems (paragraph 397 of Statement 62).
- Premium revenues for insurance entities and public entity risk pools received in advance (paragraphs 19–21 of Statement 10, and paragraphs 405 and 406 of Statement 62)
- Fees that are received for guaranteeing the funding of mortgage loans (paragraph 469 of Statement 62)

Report as a Liability

- Commitment fees charged for entering into an agreement that obligates the government to make or acquire a loan or to satisfy an obligation of the other party under a specified condition, unless exercise is remote (paragraphs 437 and 438 of Statement 62)
- Fees received for arranging a commitment directly between a permanent investor and a borrower (paragraph 470 of Statement 62)
- Refunds imposed by a regulator (paragraph 482 of Statement 62) (refund of utility charges)

Report as a Deferred Inflow

- Resources received in advance in relation to an *imposed* nonexchange transaction (paragraph 18 of Statement 33) (property taxes)
- Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction ***when time requirements are the only eligibility requirements that have not been met*** by the receiving government (paragraph 19 of Statement 33)
- Deferred credit amounts resulting from the refunding of debt (paragraph 5 of Statement 23, and paragraph 221 of Statement 62) (reacquisition price is > carrying amount of old bonds)

Report as a Deferred Inflow

- Proceeds from the sale of future revenues (paragraphs 13–16 of Statement 48).
- Unavailable revenue related to the application of modified accrual accounting (Statement 6 and Statement 33)
- Net balance (credit) of loan origination fees, excluding any portion related to points, for mortgage loans held for resale prior to the point of sale (paragraph 467 of Statement 62)

Report as a Deferred Inflow

- Deferred gain resulting from sale-leaseback transactions (paragraph 242 of Statement 62)
- Net balance (credit) of loan origination fees related to points for lending activities and mortgage loans held for investment (paragraph 45 of Statement 10 and paragraphs 434 and 467 of Statement 62)
- Resources generated by current rates intended to recover costs that are expected to be incurred in the future (paragraph 482 of Statement 62)
- Gains or other reductions of net allowable costs intended to reduce rates over future periods (paragraph 482 of Statement 62)

Report as Inflows of Resources

- Net balance (credit) of loan origination fees, excluding any portion related to points, related to lending activities (paragraph 45 of Statement 10 and paragraph 434 of Statement 62)
- Commitment fees realized upon exercise or expiration of the commitment (paragraphs 437 and 438 of Statement 62)
- Fees received related to a purchased loan or a group of loans (paragraph 442 of Statement 62)

Report as Inflows of Resources

- Commitment fees charged for entering into an agreement that obligates the government to make or acquire a loan or to satisfy an obligation of the other party under a specified condition when exercise is considered remote (paragraphs 437 and 438 of Statement 62)
- Net balance (credit) of loan origination fees, excluding any portion related to points, for mortgage loans held for investment (paragraph 467 of Statement 62)
- Net balance (credit) of loan origination fees, including any portion related to points, for mortgage loans held for resale after the sale occurs (paragraph 467 of Statement 62)

Report as Inflows of Resources

- Fees that are realized after the funding of mortgage loans has occurred or after the commitment to guarantee the funding of mortgage loans expires (paragraph 469 of Statement 62)
- Fees realized when a commitment is arranged directly between a permanent investor and a borrower (paragraph 470 of Statement 62)

Revenue Recognition in Governmental Funds

- Revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available (NCGA Statement 1, paragraph 62).
- When an asset is recorded in governmental fund financial statements <u>but the revenue is not available</u>, the government should report a deferred inflow of resources until such time as the revenue becomes available.

Use of the Term *Deferred*

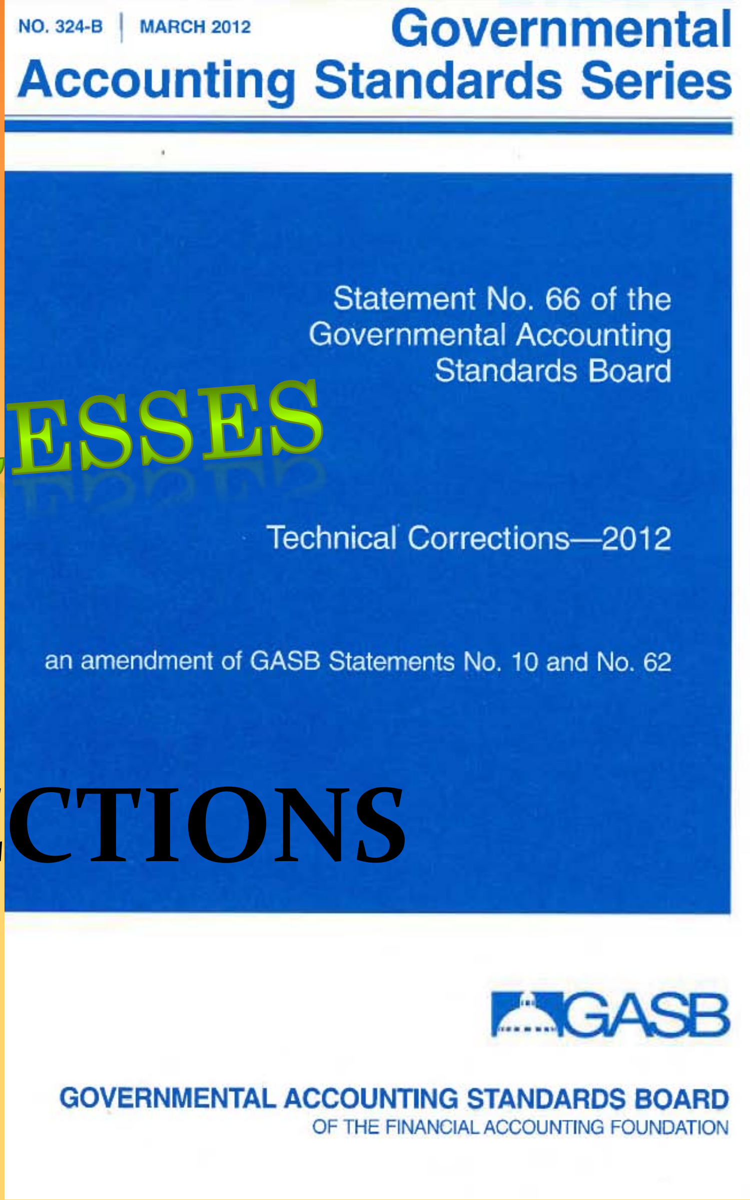
- HUGE CHANGE!!!
- Use of the term *deferred* should be limited to deferred outflows of resources and deferred inflows of resources
- Use of the term *unearned* was never allowable in GAAP except for certain insurance and risk pool revenues

Major Fund Criteria

- Partial Restatement of GASB-34
- Assets should be combined with deferred outflows of resources and liabilities should be combined with deferred inflows of resources for purposes of determining which statements meet the criteria for major fund determination as set forth in paragraph 76 of Statement 34, as amended.

HOT OFF THE PRESSES

Statement No. 66
TECHNICAL CORRECTIONS


NO. 324-B | MARCH 2012

Governmental Accounting Standards Series

Statement No. 66 of the Governmental Accounting Standards Board

Technical Corrections—2012

an amendment of GASB Statements No. 10 and No. 62

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

Statement No. 66

- Approved March 2012
- Effective for periods beginning after December 15, 2012
- Earlier application is encouraged

Objective

- Resolve conflicting guidance that resulted from the issuance of two recent pronouncements
  - Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
  - Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

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STATE of MONTANA

Conflicting Guidance

- Statement 10 required that if a single fund is used to account for risk financing activities that fund should either be the general fund or an internal service fund
- Statement 54 would allow for certain risk financing activities to be reported in a special revenue fund
  - EX: some state statutes that authorize their local governments to assess a dedicated tax levy for tort liabilities, which would constitute a restricted revenue that could serve as the foundation for a special revenue fund
- Guidance in Statement 10 was superseded

Conflicting Guidance

- Statement 13 allows a lessor government that enters into an operating leases with scheduled rent increases to recognize operating lease payments on a straight-line basis over the lease term or based on the estimated fair value of the rental
- Statement 62 includes provisions (paragraphs 222 and 227b) that could be perceived as a potential prohibition against the use of the fair value method
- Guidance in Statement 62 was superseded

Conflicting Guidance

- Statement 48 requires that when there is an exchange in an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments, a transferee government recognizes those receivables acquired at the purchase price
- Statement 62 allows for the difference between the initial investment and the related loan's principal amount to be recognized as an adjustment of yield over the life of the loan
- Guidance in Statement 62 was amended

Conflicting Guidance

- Statement 48 requires that when there is an exchange in an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments, a transferor government recognize a gain or loss on the difference between the proceeds and the carrying value of receivables sold
- Statement 62 requires that when a transferor government retains the servicing rights to mortgage loans that have been sold, the gain or loss on that sale should be adjusted to recognize the difference between a "normal servicing fee" and the fee that is stipulated in the sale agreement
- Guidance in Statement 62 was amended

Preliminary Views

ECONOMIC CONDITION REPORTING: FINANCIAL PROJECTIONS

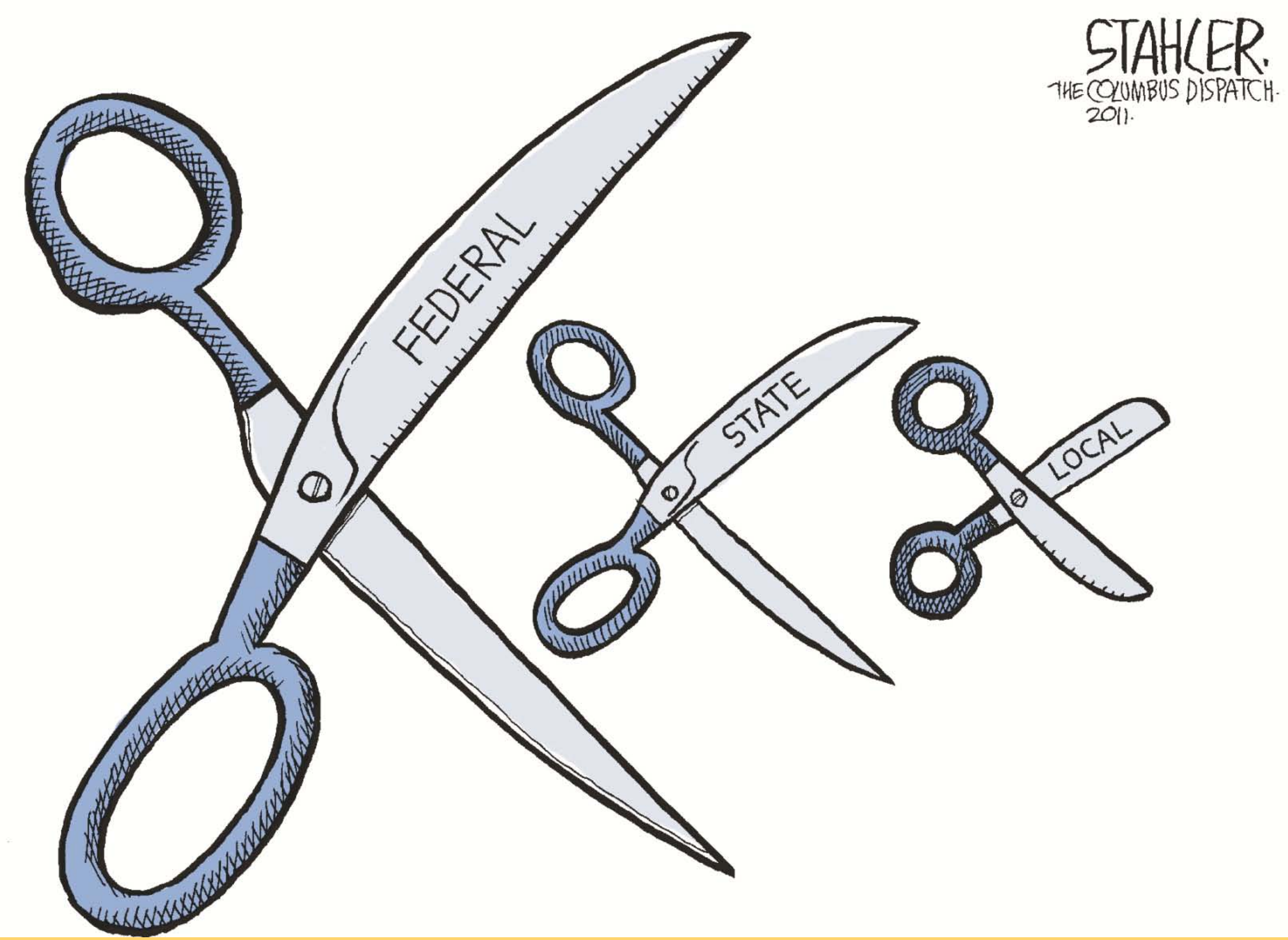
What is Intergovernmental Financial Dependency?

The relationship of the three levels of government in the U.S. involve:

- The transfer of significant amounts of revenues and,
- The direct operating activities of one government occurring within the communities of another government

Paraphrased from the "Intergovernmental Financial Dependency Risk Prospectus," presented to the Government Accounting Standards Board by GASB staff, dated March 19, 2007.

The BIG Picture



Jeff Stahler: © Columbus Dispatch / Dist. by United Feature Syndicate, Inc.

Federal Fiscal Sustainability

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Action Forcing Events

1. The U.S. Treasury Department and the U.S. Comptroller General have declared the Federal Government to be fiscally unsustainable.

2. Both Social Security and Medicare programs currently disburse more then they take in and therefore are drawing down on their trust fund balances.

3. Federal programs will be cut $2.1 Trillion over ten years under August 2011 legislation to raise the nation's debt limit.

4. Standard and Poor's has downgraded U.S. Treasury Securities to AA+. Moody's maintains an AAA rating with "negative outlook", while Fitch, maintains an AAA with "stable outlook".

Published Assertions on Sustainability

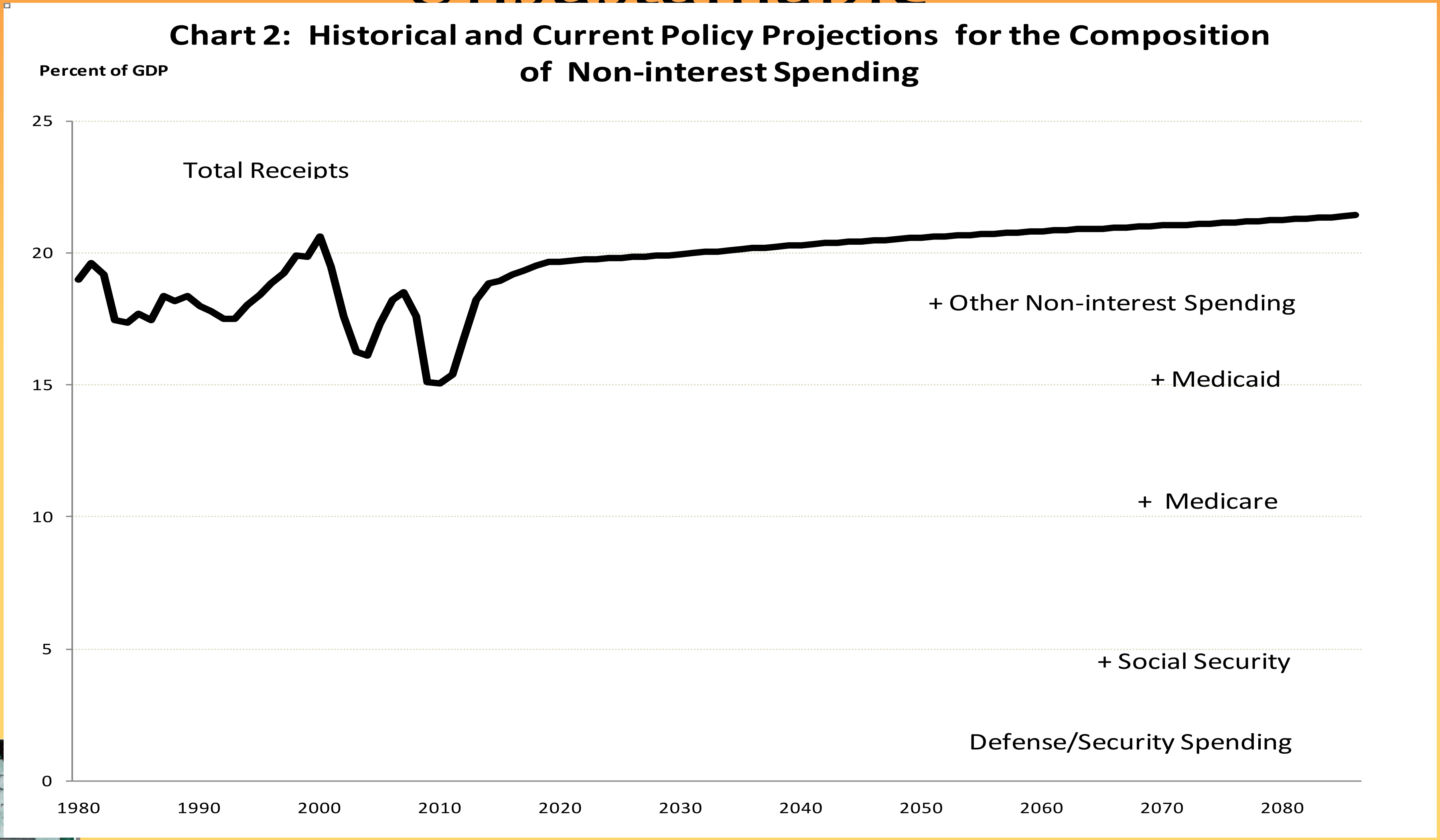
"While this Report's projections of expenditures and receipts under current policies are highly uncertain, there is little question that current policies cannot be sustained indefinitely." –2011 Citizen's Guide, "Conclusion"

"In addition, debt held by the public continues to grow as a share of the economy; this means the current structure of the federal budget is unsustainable over the longer term." - Statement by the Comptroller General of the U.S.

Source: 2011 Financial Report of the United States Government

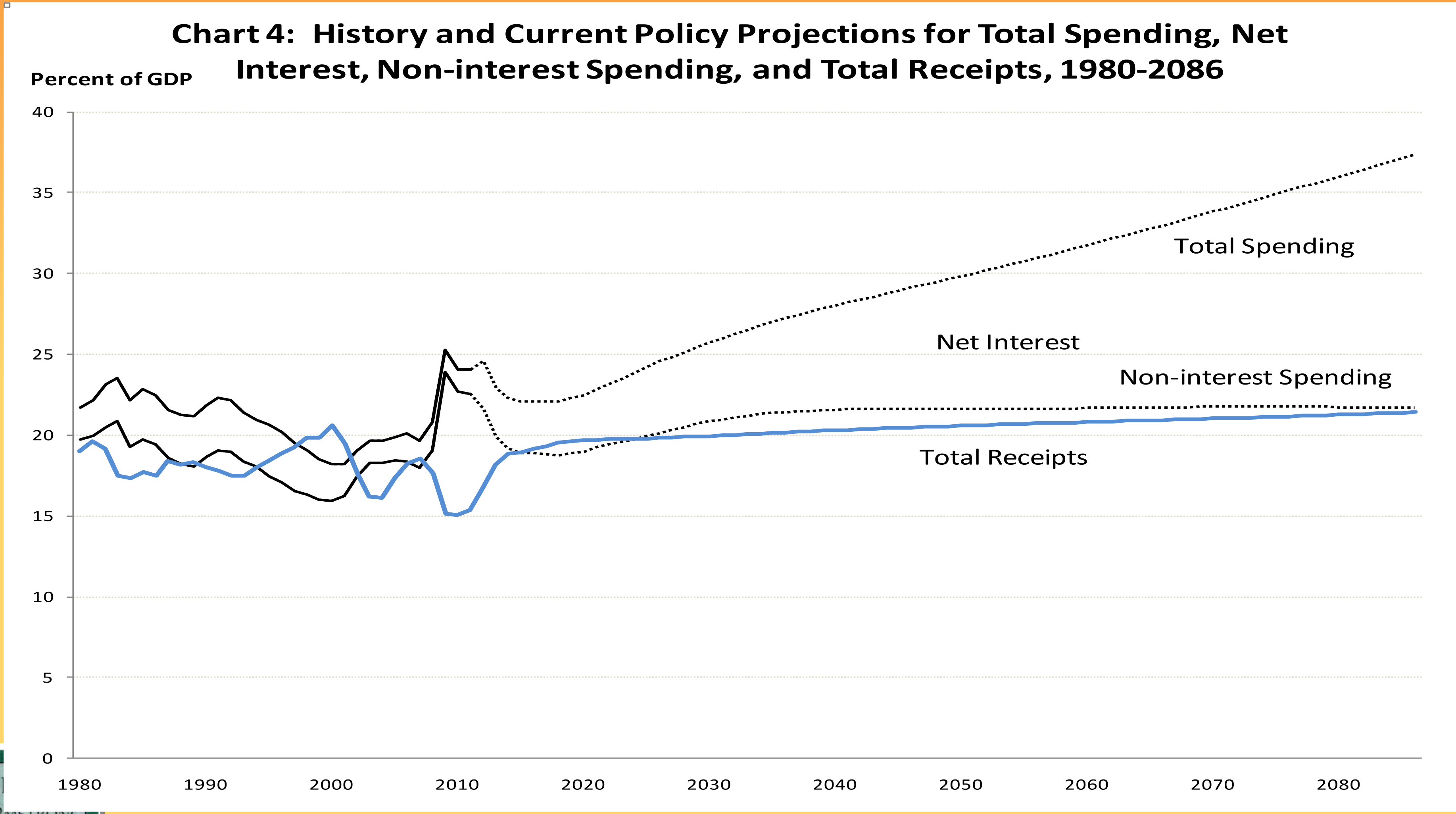
http://www.gao.gov/financial/fy2011financialreport.html

Future Expenditures Are Unsustainable



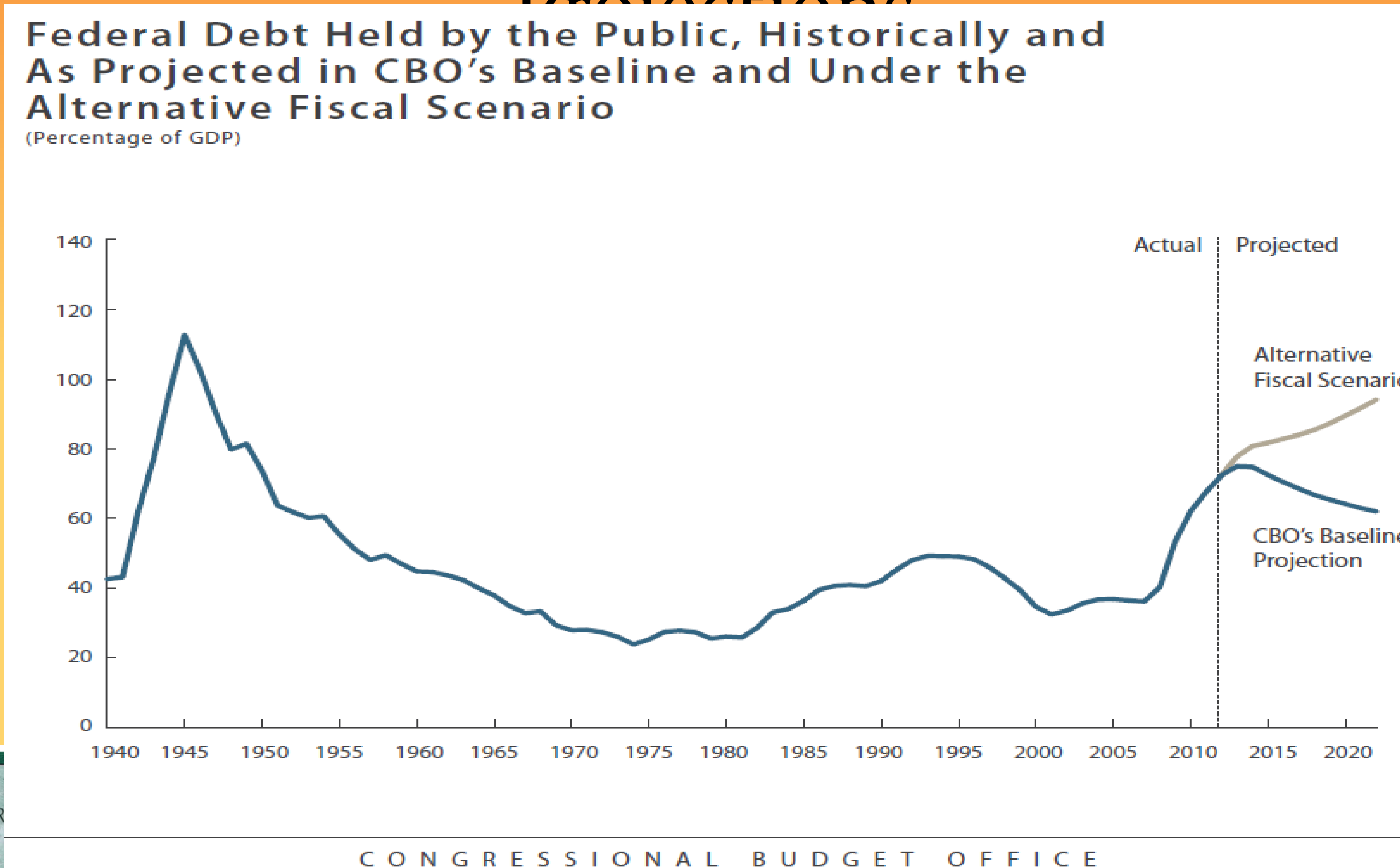
Source: 2011 Financial Report of United States Government, U.S. Treasury Department

Unsustainable Total Costs



Source: 2011 Financial Report of United States Government, U.S. Treasury Department

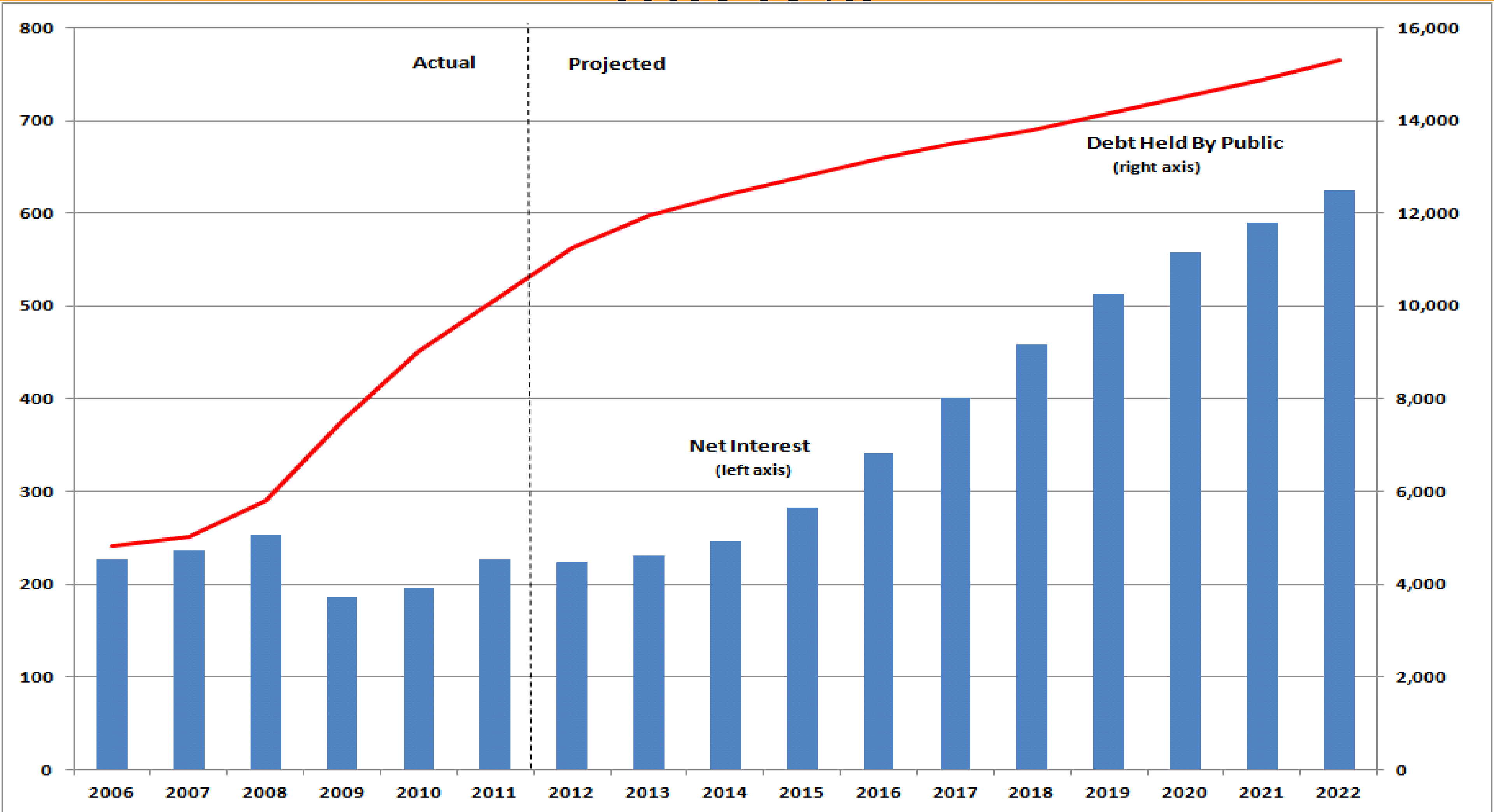
Congressional Budget Office Projections



Source: http://158.219.33.254/doc.cfm?index=12713

STATE of MONTANA

Debt Held by the Public and Net-Interest



Source: Congressional Budget Office, The Budget and Economic Outlook Fiscal Years 2012-2022, January 2012

Under Baseline Assumptions

Analysis of Federal Liabilities, Intragovernmental Debt, and Social Insurance Obligations

$ Billions

	2011	2010
Federal Liabilities:		
Publicly-held Debt	$10,174*	$9,060**
Federal Employee & VA Benefits	5,792	5,720
Other	1,526	1,576
Intragovernmental Debt—Owed to Social Security, Medicare/Other Trust Funds	4,711	4,577
Federal Social Insurance Obligations		
Social Security	9,157	7,947
Medicare—Parts A, B & D	24,572	22,813
Other	101	97
Total Liabilities, Intragovernmental Debt & SI Obligations	$56,033	$51,790
Current-dollar GDP 3rd qtr 2011, 4th qtr 2010 (Source: BEA)	$15,176	$14,755
Liabilities and Obligations as % GDP	369%	351%

*67% of 2011 GDP **62% of 2010 GDP

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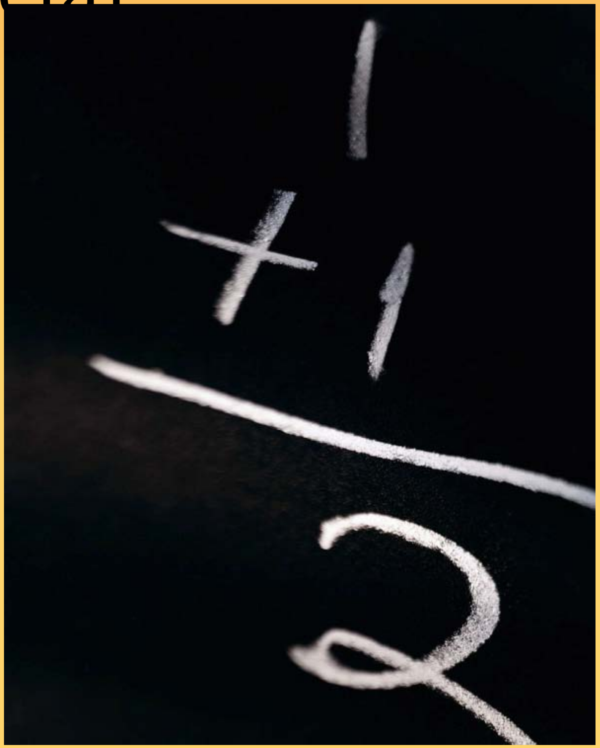
Source of Data: 2011 Financial Report of U.S. Government

STATE of MONTANA

Key Measures of State and Local Government Intergovernmental Financial Dependency



Key Dependency Measures

States by Percentage of Revenue

State (Top 5)	Direct Federal Revenues to State (billions)	Percentage of Total State Revenues – All Sources
1- South Dakota	$2.5	55.2%
2- Rhode Island	$5.8	54.7%
3- Louisiana	$18.2	54.2%
4- Arizona	$16.3	51.7%
5- Georgia	$25.3	49.6%
State (Median)		
25- Florida	$40.4	41.0%
26- California	**$97.7**	**39.9%**
State (Lowest)		
50- Wyoming	$1.1	15.6%

Average 50 States = 39.7%

Key Dependency Measures

States by Percentage of State GDP

State (Top 5)	Total Direct and Indirect Federal Flows (billions)	Real GDP by State (billions)	Direct and Indirect Federal Flows as Percentage of GDP
1- Kentucky	$58.7	$144.6	40.6%
2- West Virginia	$21.7	$56.0	38.8%
3- Alabama	$57.6	$154.1	37.4%
State (Median)			
25- Kansas	$30.2	$114.0	26.5%
26- Ohio	$110.2	$426.1	25.9%
State (Lowest)			
50- Delaware	$8.1	$56.2	14.5%

50 State Average = 26.5%

STATE of MONTANA

Other Key Dependency Measures

Top 5 States per Category

State	Military Facilities
1- California	**349**
2- Montana	252
3- Virginia	232
4- North Dakota	200
5- Florida	182

State	Military Personnel
1- California	**267,475**
2- Virginia	221,279
3- Texas	219,534
4- Georgia	166,264
5- North Carolina	164,706

State	Federal Leased/Owned Buildings (Sq. Ft)
1- Maryland	29,239,031
2- Virginia	28,617,619
3- California	**25,734,634**
4- Texas	21,667,759
5- New York	17,033,000

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Risks of Intergovernmental Financial Dependency

For State and Local Governments:

- Significant fluctuations in direct intergovernmental revenue flows and indirect flows which impact economic activity and tax revenues?

- Potential fluctuations to income and asset values associated with U.S. Treasury Securities, considering changes in Federal Reserve policy and levels of holdings by foreign governments?

Risks of Intergovernmental Financial Dependency (cont'd)

For Selected Federal Departments and Agencies:

- Adjusting to $2.1 Trillion in reductions over 10 years, beginning January 1, 2013.
- Likely reductions in staffing complements, with a related potential negative impact on:
  - Grants management reporting and controls
  - The timing and scope of IG and GAO audits and investigations
  - The timing of modifications to systems and controls

Top 15 Discretionary Cuts, Consolidations, and Savings- FY 12 & 13

Dollars in Millions

Program	Department / Agency	2012 Cut	% of Total	2013 Cut	% of Total
Low-Priority Construction Projects	Corps of Engineers	$ 5,002	17.5%	$ 4,731	23.5%
Low Income Home Energy Assistance Program	Dept. HHS	3,472	12.1%	3,020	15.0%
Grants-in-Aid for Airports	DOT	3,350	11.7%	2,424	12.0%
Clean Water and Drinking Water State Revolving Funds	EPA	2,384	8.3%	2,025	10.1%
Job Corps	DOL	1,703	5.9%	1,650	8.2%
Impact Aid - Payments for Federal Property	Dept. Education	1,291	4.5%	1,224	6.1%
Pest and Disease Programs	Dept. Agriculture	816	2.8%	762	3.8%
Forest Service Integrated Resource Restoration	Dept. Agriculture	806	2.8%	793	3.9%
Community Services Block Grant	Dept. HHS	679	2.4%	350	1.7%
Assistance for Europe, Eurasia, and Central Asia	Dept. State	627	2.2%	514	2.6%
Robotic Exploration of Mars	NASA	587	2.0%	361	1.8%
Cruiser Modernization Program	DOD	573	2.0%	101	0.5%
Superfund Remedial	EPA	565	2.0%	532	2.6%
Fossil Energy Research and Development	Dept. Energy	534	1.9%	421	2.1%
C-27 Joint Cargo Aircraft	DOD	480	1.7%	-	0.0%
All other Programs	All other Agencies	5,769	20.1%	1,226	6.1%
Total Discretionary Cuts, Consolidations, and Savings		$ 28,638	100%	$ 20,134	100%

Source: FY13 President's Budget, Cuts Consolidations, and Savings
http://www.whitehouse.gov/omb/budget/CCS

Mandatory Cuts, Consolidations, & Savings – FY13-22

Dollars in Millions

Fiscal Year	Mandatory Cuts	Mandatory Savings	Total Mandatory Cuts & Savings
2013	$ 8,384	$ 5,966	$ 14,350
2014	8,927	14,488	23,415
2015	7,755	19,900	27,655
2016	6,547	24,616	31,163
2017	6,507	32,339	38,846
Total: 2013-2017	$ 38,120	$ 97,308	$ 135,428
Total: 2013-2022	$ 79,193	$ 339,581	$ 418,774

Source: FY13 President's Budget, Cuts Consolidations, and Savings
http://www.whitehouse.gov/omb/budget/CCS

GAO- Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue- March 2011

Section 1- GAO Identified Areas of Potential Duplication, Overlap, and Fragmentation

- Identifies 34 areas, which, if effectively addressed, could provide financial and other benefits.
- e.g. The federal approach to surface transportation infrastructure is fragmented, lacks clear goals, and is not accountable for results.

Section 2- Other GAO Identified Cost-Savings and Revenue Enhancing Areas

- Identifies 47 areas, where cost saving or revenue enhancing opportunities may exist.
- e.g. Preventing billions in Medicaid improper payments requires sustained attention and action by CMS.

Source: www.gao.gov/assets/320/315920.pdf

3 Bipartisan Debt-Reduction Proposals

Dollars in Billions

Deficit Reduction Categories	Simpson & Bowles	Rivlin & Domenici
Spending Cuts	$ 2,200	$ 2,700
Tax Increases	960	2,300
Savings on Interest	673	877
Deficit Reduction through 2020	$ 3,833	$ 5,877

Source: Washington Post "Common Threads in Bipartisan Plans to Reduce the Deficit" Nov. 24, 2010

Based on:

Simpson & Bowles- Co-chairs, National Commission on Fiscal Responsibility and Reform

Rivlin & Domenici- Co-chairs, Bipartisan Policy Center

Background of GASB Project

- Continuation of GASB project on economic (formerly financial) condition reporting, which last resulted in Statement 44
- Preliminary Views issued in December 2011
- Comment deadline was March 16, 2012
- Public hearing held in Los Angeles on March 29
- Second public hearing in NYC on April 17

Definitions

- <u>Economic Condition</u> is a composite of a government's financial position, fiscal capacity, and service capacity.
  - <u>Financial Position</u> is the status of a government's assets, deferred outflows, liabilities, deferred inflows, and net position, as displayed in the basic financial statements.
  - <u>Fiscal Capacity</u> is a government's ability and willingness to meet its financial obligations as they come due on an ongoing basis.
  - <u>Service Capacity</u> is a government's ability and willingness to meet its commitments to provide services on an ongoing basis.

Definitions

- Fiscal Sustainability is a government's ability and willingness to generate inflows of resources necessary to honor current service commitments and to meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits.
- Five types of forward-looking information are necessary to evaluating fiscal sustainability

Financial Projections

1. Projections of the major individual inflows of resources in dollars and as a percentage of total inflows of resources along with explanations of the known causes of resource fluctuations
2. Projections of the major individual outflows of resources in dollars and as a percentage of total outflows of resources along with explanations of the known causes of resource fluctuations

Financial Projections

3. Projections of major individual financial obligations and total financial obligations including bonds, pensions, OPEB, and long-term contracts
4. Projections of annual debt service payments (principle and interest)
5. Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies

Projection Methodology

- Based on current policy with known changes that are effective in future periods
- Informed by historical information and known future events or conditions

Projections

- GASB would not specifically identify assumptions necessary for projecting, but should be:
  - consistent with each other and the information used as the basis for the assumptions
  - informed by relevant historical information and known events and conditions
  - comprehensive by including significant trends, events, and conditions
- Annual projections for minimum of next 5 years

Communication Method

- The 5 types of financial projections are essential for placing the basic financial statements and notes to basic financial statements in an operational or economic context.
- Consequently, they should be required and communicated as required supplementary information.

Alternative View

- Two members stated a preference for reporting financial projections as supplementary information, rather than RSI
- Suggested reporting certain financial trends schedules in statistical section as RSI
- Did not dispute that the project is within the scope of the GASB's mission

HOT OFF THE PRESSES

Exposure Draft

GOVERNMENT COMBINATIONS AND DISPOSALS OF OPERATIONS

Exposure Draft

- Approved March 2012
- Comment period through June 15, 2012

Background

Applicable guidance after issuance of Statement 62:

- APB 16 and 17 (Pre-89)
- FASB 141(and revisions)
- FASB 164
- APB 30 (Pre-89)

Scope

- Combinations in which insignificant or no consideration is provided
  - Government mergers
  - Transfers of operations
- Combinations in which significant consideration is provided
  - Government acquisitions
- Disposal of government operations

Terminology

- Government combinations are identified by the continuance of the provision of services involved
- **Government merger**—two or more separate legal entities combine to form a new entity, and one or more of the prior entities cease to exist
  – Insignificant or no consideration exchanged

Terminology

- **Government acquisition**—one government acquires another entity (or its operations) in exchange for significant consideration
- Operations are integrated set of activities conducted and managed for the purpose of providing identifiable services with associated assets or liabilities
- Disposals of operations involve less than a legally separate entity and insignificant or no consideration`

Mergers—New Government A + B = C

- Merger date is the date the combination becomes effective and the beginning of the reporting period when a new government is created
- Assets, liabilities and deferrals at carrying values
  - Presumption of GAAP
- Adjustments
  - Accounting principles, policies, and estimates
  - Capital asset impairment
  - Transaction eliminations

Mergers—Continuing Government
A+B = A

- Merger date is the beginning of the reporting period of the continuing government in which the combination occurs, regardless of the date the merger takes place
- Assets, liabilities and deferrals at carrying values
  - Presumption of GAAP
- Adjustments
  - Accounting principles, policies, and estimates
  - Capital asset impairment
  - Transaction eliminations

Acquisitions

- Acquisition date is the date on which the acquiring government gains control of the assets and becomes obligated for the liabilities of the acquired government
- Assets, liabilities and deferrals measured at *acquisition value*—a market-based entry price
- Exceptions to acquisition value—employment benefit arrangements

Acquisitions

- Measure consideration as the value of assets conveyed or liabilities incurred to the former owner
- Accounting for the difference between acquisition value and consideration:
  - Consideration > AV ➔ deferred outflow of resources
  - AV > consideration ➔ reduction of noncurrent assets or contribution received
- Recognize acquisition costs as expenses

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Intra-Entity Acquisitions

- Recognize assets, liabilities, and deferrals at carrying value
- Difference between acquisition price and carrying value:
  - Special items in acquirer's own statements
  - Transfer or subsidy, as appropriate, in statements of the reporting entity

Disposals of Operations – sales / spinoffs – new governments

- Transferee should measure assets, liabilities and deferrals at carrying value
- Transferor reports a gain or loss as a special item—should consider all costs directly associated with disposals of operations
- Disclosure
  - Description of the circumstances leading to the discontinuation
  - Operations revenues, expense, and non-operating items

Disclosures

- *All* combinations
  - Brief description of the combination and identification of the entities involved
  - Date of the combination
  - Primary reasons for the combination
- Mergers and transfers of operations
  - Carrying values recognized as of the merger date
  - Description of significant adjustments
  - Amounts recognized

Disclosures

- Acquisitions
  - Brief description of consideration provided
  - Total amount of net position acquired
  - Brief description of contingent consideration arrangements

Effective Date

- Effective for periods beginning after December 15, 2013

- Reminder: Comment deadline is June 15, 2012

UPDATED AS OF May 14, 2012

PENSION ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS AND PLANS – AS MUCH AS WE KNOW AS OF TODAY

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Project Timeline

- Research from 2006-2008
- Invitation to Comment issued in 2009
- Preliminary Views issued in 2010
- Exposure Draft(s) issued end of June 2011
- Comment deadline ended October 14, 2011 – hearings in 3 locations
- Final Statements expected end of June

Fundamental Approach

- Pensions viewed in the context of an ongoing, career-long employment relationship
- Focus on the cost to taxpayers over time of providing governmental services
- Accounting-based versus funding-based approach to measurement
- Defined pension benefits originate from exchanges between the employer and employees of salaries and benefits for employee services and are part of the total compensation for employee services

Scope: Criteria for Trusts

- Pensions provided through plans administered through trusts, or equivalent arrangements, in which:
  - Employer contributions (and related earnings) irrevocable
  - Plan assets dedicated to pensions
  - Plan assets legally protected from creditors

Implications: Criteria for Trusts

- Most pension trusts already meet all of the criteria
- **Governments with pension benefits administered through trusts that *do not* meet all of the criteria would continue to apply GASB Statement 27**
- **GASB expects to address pensions that do not meet the criteria in Phase 2 of the project**

Liability Recognition

- The difference between the total pension obligation and plan assets held in trust for for pension benefits would be reported as a *net pension liability* in the financial statements of the employer government

Measurement Steps

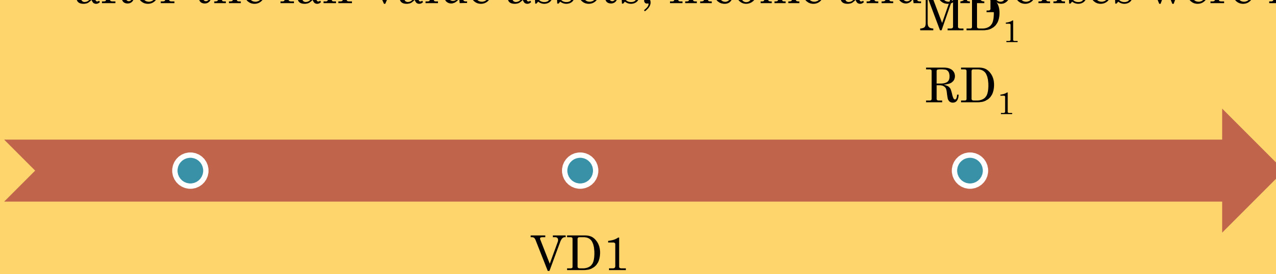
1. Projecting benefit payments based on terms of the plan and certain assumptions
2. Discounting the projected benefit payments to their actuarial present value
3. Attributing the present value of projected benefit payments to past and future years during which employees have worked or are expected to work.

Total Pension Liability (TPL): Timing and Frequency

- Measured as of a date no earlier than the employer's prior fiscal year-end (the measurement date)
- Actuarial valuation at least biennially
- Measurement of TPL can be from:
  - Actuarial valuation as of the measurement date
  - Update - **procedures rolling-forward amounts from an actuarial valuation as of a date no more than 30 months plus 1 day prior to the measurement date**
- Must reflect significant changes up to the measurement date

Timing and Frequency What does this mean? NEW

- Original Proposal Under the ED –
  - The Measurement Date (MD) for the NPL was required to be the same as the Reporting Date (RD) (the RD is the employer's FYE)
  - Liability-side: The Valuation Date (VD) could have been earlier than the MD=RD with a roll-forward of the TPL to the MD=RD
  - Asset-side: But the PNP (fair value of assets) was required to be as of the MD=RD
  - A lot of the work would have had to be done after the RD
    - after the fair value assets, income and expenses were known



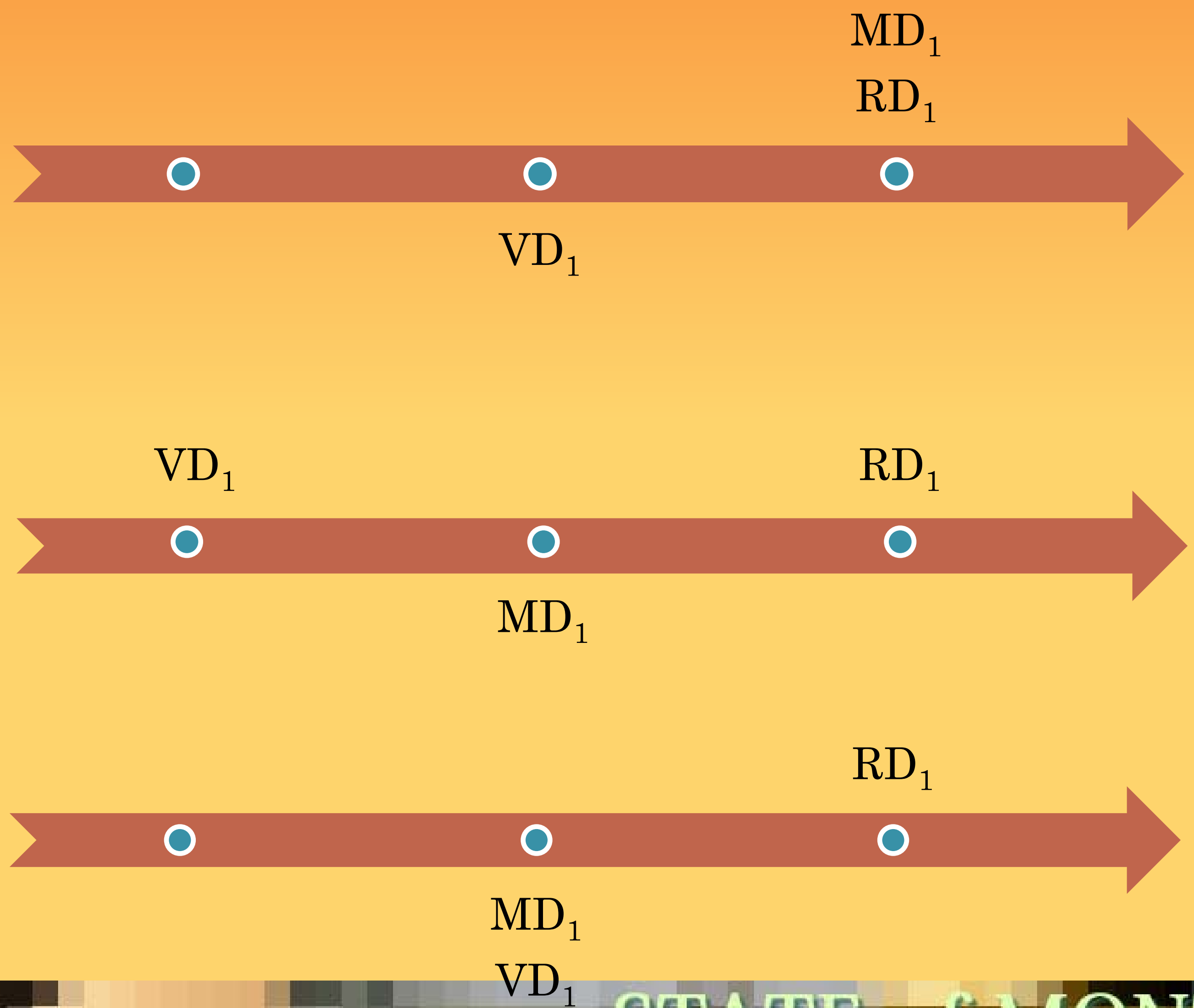
Timing and Frequency What Does This Mean? NEW

- The GASB made the timing more flexible (they listened)
- Timing of the MD
  - MD may be the same as the RD (as under the ED) *or earlier*
  - But MD must not be earlier than the previous fiscal year end
- NPL amount is determined as of the MD and reported as of the RD
  - NPL amount (as of the MD) is recognized in employer's financial statement (FS) as if a liability at the fiscal year end, i.e., the RD
    - without further adjustment (no roll forward from MD to RD)

Timing and Frequency - NEW

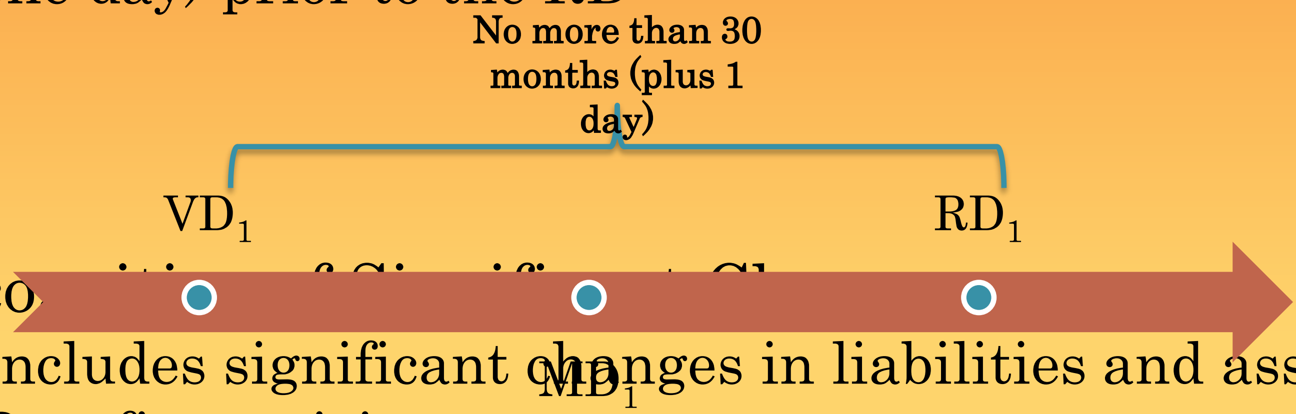
- Liability side:
  - Start with actuarial accrued liability (aka TPL) as of the VD
  - VD may be same as MD, or it may be earlier
    - VD a can be up to 30 months (+ 1 day) before RD
  - TPL is rolled forward from VD to MD (if VD is earlier than MD)
- Asset side:
  - PNP is fair value of plan assets as of the MD
  - No rolling forward of assets
- NPL as of the MD = TPL – PNP
- Here are some timeline examples:

Timing and Frequency



Timing and Frequency - NEW

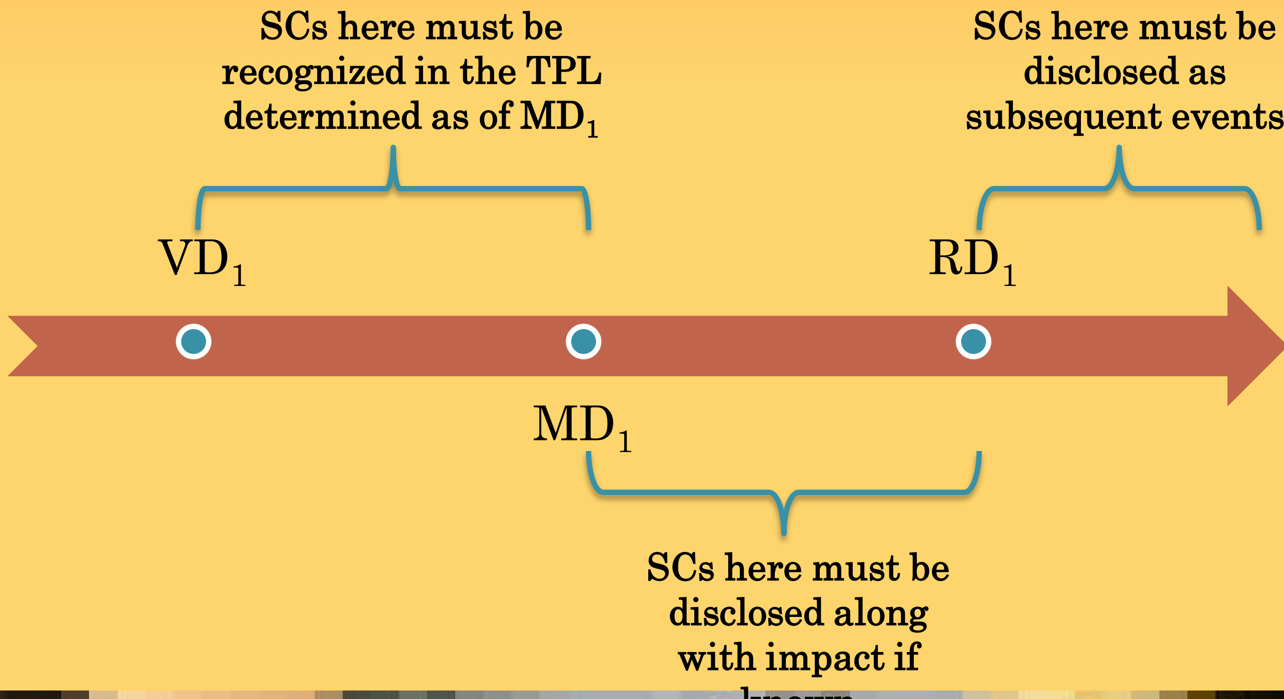
- Actuarial valuations must be at least biennial
  - That's why VD is allowed to be up to 30 months (plus one day) prior to the RD



- Reco
  - Includes significant changes in liabilities and assets
  - Benefit provisions
  - Size or composition of covered population
  - Change in the municipal bond rate component of the discount rate
  - Other factors or assumptions that affect the results of the valuation

Timing and Frequency - NEW

- Recognition of Significant Changes (SCs) continued
  - NPL must reflect all Significant Changes <u>between VD and MD</u>
  - For Significant Changes <u>between MD and RD</u>
    - Disclose the nature of SC
    - If known, disclose financial impact of the SC



Projections

- All assumptions should conform to Actuarial Standards of Practice, unless otherwise stated by the GASB
- The projection of pension benefit payments should include the effects of projected future salary increases and future service credits
- Ad hoc COLAs would be incorporated into projections of pension benefit payments if an employer's practice indicates that the COLAs are substantively automatic
  - "Substantively" being defined

Discounting

- To determine the discount rate, governments will compare projected outflows for benefit payments with available plan assets (including projected inflows related to current plan members)

Discounting

- Discount rate would be based on the long-term expected rate of return for projected benefit payments that will be exceeded by current and expected plan assets
- Projected benefit payments that exceed current and expected plan assets would be discounted using a AA or higher **tax exempt 20-year municipal bond index rate**
  - *Means using general obligation* bonds an *average* rating of AA/Aa or higher.

Discounting

- **Projection of expected plan assets available for paying benefits would be based on a government's actual contribution history**
  - **Board will provide additional guidance (essentially, most recent five-year contribution history)**
- Governments would disclose the rate(s) used, and the single discount rate resulting from the use of both a long-term rate and high-quality bond rate **(essentially a weighted average)**

TPL: Attribution

- Single method based on 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 of attribution period should be first period in which employee's service accrues benefits
  - All benefits should be attributed through all assumed exit age(s) through retirement
  - Service costs determined on same benefit provisions reflected in employee's actuarial present value of benefit payments

Recognition of Changes in the Net Pension Liability (NPL) – NPL = TPL - Assets

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 (e.g. change in expectancy, other actuarial changes beyond assumptions)	Single-period piece	Both active & inactive portion (with piece expensed) **amortized over average expected remaining service life of active & inactive using closed end periods**
TPL-related changes in assumptions	Single-period piece	Both active & inactive portion (with piece expensed) **Same**

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Recognition of Changes in the NPL
(cont.)

Change in the NPL	Expense	Deferred Outflow or Inflow of Resources
Projected earnings on investments	X (reduction)	
Difference between projected and actual investment earnings	Single-period piece	X (with piece expensed over five years – closed period) Present on a net basis on the statement of plan net position / statement of net position
Other sources	X	

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Cost-Sharing Employers: General Approach

- **Recognize proportionate share of the collective:**
  - **Net pension liability**
  - **Pension expense**
  - **Deferred outflows of resources**
  - **Deferred inflows of resources**
- Proportion would be 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

Cost-Sharing Employers: General Approach

- Most recent updates
  - GASB has affirmed that the employer members of the cost sharing plan have collective (all together) primary responsibility for the unfunded obligation as a result of the employer / employee exchange
  - If a special funding situation exists, any non-employer that contributes (e.g. a State) will have a portion of the liability and that portion will also drive the contributor's expense unless law is different
  - Obligations are indeed liabilities

Cost-Sharing Employers: General Approach

- Most recent updates
  - Liability measurement will be the same as single and agent multiple employer plans
  - Employer / Sponsor's net pension liability – 2 different approaches ok:
    - DIRECT APPROACH
      - Present value of the portions of projected future individual-employer contributions that are projected to satisfy the collective net pension liability
      - Contributions into the plan will satisfy current period service cost first then past service cost
      - Assumptions to determine individual employer net pension liability will be the same as determining the plan's NPL

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Cost-Sharing Employers: General Approach

- Most recent updates
  - Employer / Sponsor's net pension liability – 2 different approaches ok:
    - ALTERNATIVE APPROACH
      - » Calculate the employer's proportion in relation to all employers using an approach that is associated with the manner in which contributions are assessed to satisfy the net pension liability
      - » Multiply collective NPL by that proportion
  - Proportionate share needs to be adjusted for different classes of employees (e.g. peace officers vs. administrative)

Cost-Sharing Employers: General Approach

- Most recent updates
  - No change in GAAP between sole / agent / cost sharing employers with regard to measurement of assets, liabilities etc.
  - If proportionate share changes of a sponsor OR if there is a difference between actual contributions and projected proportionate share of contributions, deferred outflow or deferred inflow of resources
    - Amortization over similar periods as other (weighted average service life, but also include retirees?)

Cost-Sharing Employers: General Approach

- Most recent updates
  - Timing measures the same as agent / sole employer
  - If employer's proportionate share changes *significantly* between valuation and financials – do not adjust proportional share

Cost-Sharing Employers: General Approach

- Reporting
  - New tiers will not mean new plans
  - Investments in life insurance still at cash surrender value
    - GASB is working on fair value project (come back next year for full discussion)
  - For plan employees, *their portion* of plan liability / expense can be estimated
    - Guidance coming in an implementation guide post issuance

Notes to Financial Statements: All Employers

- Description of benefits
- Assumptions used to measure TPL (including discount rate)
- NPL using discount rate of +/- 1 percentage point
  - **CALPERS has said that 0.25%± = 2% of pay**
- Information about the elements of the plan's basic financial statements (plan net position)—**can refer to plan report**

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Notes to Financial Statements: Single and Agent Employers

- Changes in components of net pension liability by source
  - Date of the actuarial valuation
  - Description of changes in assumptions and benefit terms
  - Basis for employer's actual contributions
  - Information about allocated insurance contracts purchased in the period
- Components of pension expense
- Components of changes in deferred outflows of resources/deferred inflows of resources related to pensions

Notes to Financial Statements: Cost-Sharing Employers

- Basis for employer's actual contributions
- NPL, deferred outflows/inflows of resources related to pensions, and pension expense/expenditures recognized, with separate identification of
  - Amounts associated with current-period individual-employer items and periods over which those items are being recognized as expense
  - Amounts related to beginning deferred outflows of resources/deferred inflows of resources
- Date of the actuarial valuation
- Description of changes in assumptions and benefit terms

Required Supplementary Information (RSI): All Employers

- Changes in the components of the net pension liability by source
- 10 years of information
- **Cost-sharing at collective level only**

Illustration: Changes in NPL

	20X9	20X8	20X7	20X6	20X5
Total pension liability					
Service cost	$ 101,695	$ 100,317	$ 103,471	$ 98,685	$ 81,657
Interest	231,141	219,193	200,491	185,434	171,179
Benefit changes	-	-	-	-	-
Differences between expected and actual experience	(69,638)	(41,374)	(9,387)	17,438	29,183
Changes of assumptions	-	-	63,375	-	-
Benefit payments	(124,083)	(118,311)	(109,281)	(99,654)	(91,558)
Refunds of contributions	(2,780)	(2,764)	(2,927)	(2,684)	(2,251)
Net change in total pension liability	136,335	157,061	245,742	199,219	188,210
Total pension liability—beginning	3,045,893	2,888,832	2,643,090	2,443,871	2,255,661
Total pension liability—ending (a)	$3,182,228	$3,045,893	$2,888,832	$2,643,090	$2,443,871
Plan net position					
Contributions—employer	$ 109,544	$ 107,028	$ 105,755	$ 103,089	$ 89,054
Contributions—member	51,119	50,344	54,949	51,926	41,411
Net investment income	199,273	83,235	(30,957)	131,629	236,486
Benefit payments	(124,083)	(118,311)	(109,281)	(99,654)	(91,558)
Administrative expense	(3,427)	(3,333)	(3,046)	(2,684)	(2,349)
Refunds of contributions	(2,780)	(2,764)	(2,927)	(2,684)	(2,251)
Other	8	(34)	37	9	(88)
Net change in plan net position	229,654	116,165	14,530	181,631	270,705
Plan net position—beginning	2,283,333	2,167,168	2,152,638	1,971,007	1,700,302
Plan net position—ending (b)	$2,512,987	$2,283,333	$2,167,168	$2,152,638	$1,971,007
Net pension liability—ending (a) – (b)	$ 669,241	$ 762,560	$ 721,664	$ 490,452	$ 472,864

Note: Only 5 years are presented here; 10 years of information would be required

RSI: All Employers (cont.)

- NPL components and ratios
  - TPL
  - Plan net position
  - NPL
  - Ratio of plan net position to TPL
  - Covered-employee payroll
  - Ratio of NPL to covered-employee payroll
- 10 years of information
- **Cost-sharing at both collective level and employer level with employer proportionate share percentage**

Illustration: NPL Components/Ratios

	20X9	20X8	20X7	20X6	20X5
Total pension liability	$ 3,182,228	$ 3,045,893	$ 2,888,832	$ 2,643,090	$ 2,443,871
Plan net position	(2,512,987)	(2,283,333)	(2,167,168)	(2,152,638)	(1,971,007)
Net pension liability	$ 669,241	$ 762,560	$ 721,664	$ 490,452	$ 472,864
Ratio of plan net position to total pension liability	78.97%	74.96%	75.02%	81.44%	80.65%
Covered-employee payroll	$ 435,373	$ 432,256	$ 426,939	$ 412,280	$ 387,055
Net pension liability as a percentage of covered-employee payroll	153.72%	176.41%	169.03%	118.96%	122.17%

Note: Only 5 years are presented here; 10 years of information would be required

RSI: All Employers (cont.)

- Contribution-related information
  - 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
  - Employer contributions as percentage of covered-employee payroll
  - Required only if actuarially calculated employer contribution is determined
- 10 years of information
- **Cost-sharing at both collective level and employer level with employer proportionate share percentage**

Illustration: Contribution-related Information

	20X9	20X8	20X7	20X6	20X5
Actuarially calculated employer contribution	$ 109,544	$ 107,028	$ 105,755	$ 103,089	$ 89,054
Actual employer contributions	(109,544)	(107,028)	(105,755)	(103,089)	(89,054)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 435,373	$ 432,256	$ 426,939	$ 412,280	$ 387,055
Actual contributions as a percentage of covered-employee payroll	25.16%	24.76%	24.77%	25.00%	23.01%

Note: Only 5 years are presented here; 10 years of information would be required

Special Funding Situations (SFSs) (i.e. *Most* State Teachers Retirement Systems)

- Nonemployer entity is legally responsible for contributions to a pension plan used to provide pensions to government employees
- A form of on-behalf payment
- Guidance proposed related to both defined benefit and defined contribution SFSs

Types of SFSs

- Conditional on one or more events or circumstances unrelated to the pensions
  - Example: requirement to contribute a portion of a given revenue source
- Unconditional
  - Example: Requirement to contribute a specified proportion of payroll
  - Example: Requirement to contribute a defined portion of the employer's required contributions

Conditional SFS

- Governmental nonemployer contributing entity (GNCE) (i.e. State) recognizes its contributions in accordance with Statement 24 (grant expense/expenditure)
- *Employer* recognizes *grant revenue* in amount of NCE contribution and follows all other requirements of the Exposure Draft for pension expense/liability
- Employer notes/RSI identify employer contributions by source (direct vs. on behalf)

Unconditional SFS: Defined Benefit – GNCE (i.e. State)

- Recognize proportionate share of:
  - NPL, pension expense, deferred outflows of resources, and deferred inflows of resources
  - Share of employer pension expense is classified as grant expense
- Proportion determined in same way as cost-sharing employer proportion
- Same entity-specific accounting as for cost-sharing employers

Unconditional SFS: Defined Benefit—Employer

- NPL, deferred outflows of resources, and deferred inflows of resources reduced by Non-contributory employer (NCE)'s proportionate share
- Pension expense recognized without reduction
- Grant revenue recognized in amount of NCE's grant expense

Effective Date

2013

- Periods beginning after 6-15-12, for sole employers that participate in a defined benefit plan with plan net assets of $1 billion or more in the first fiscal year ending after 6-15-10, and that do not:
  1. Also participate in an agent or a cost-sharing plan
  2. Have an unconditional special funding situation

Effective Date

3. Have a net pension liability (asset) for a pension arrangement that is provided through a pension plan that is reported in the financial report of an entity that also reports an agent plan, a cost-sharing plan, or a single-employer plan that has an unconditional special funding situation
4. Include as a pension trust fund in its own financial report a single-employer plan in which the employer has an unconditional special funding situation

Effective Dates

- The GASB delayed the effective date for employers (they listened)
- ED said new rules effective FY 2012-2013 for certain large plans, FY 2013-2014 for all others
- New decision: employer implementation delayed
  - Trust reporting: Trust year beginning after 6/15/2013 (FYE July 1, 2013 – June 30 2014)
  - Employer reporting: Fiscal Year beg after 6/15/2014 (FYE July 1, 2014 – June 30, 2015)
- Comment: This could allow time for GASB staff to issue the "Implementation Guide"

Effective Date

2014

- ~~Periods beginning after 6-15-13 for all other employers.~~
- ~~Earlier application encouraged for all employers.~~
- 10 year schedules – similar to GASB-54 – need to do as far back as possible
  - Prior period adjustments if practical
  - If deferred inflow / outflow information not available – start at $0
    - But you'll have market valuation adjustment

Additional Items

- Defined contribution plans when coupled with a defined benefit plan in a set of financial statements
  - If employers contributions > pension liability = pension asset
  - Pension liabilities for benefits provided through different plans may be displayed in the aggregate in the financial statements
  - Pension assets for benefits provided through different plans may be displayed in the aggregate, with (aggregate) assets and (aggregate) liabilities separately displayed.
  - Tentative display requirements would be applied separately to defined benefit pension and defined contribution pensions.
  - Current defined contribution provisions in GASB-26 will largely carry forward into new standard

Additional Items

- Deferred Retirement Option Programs (DROPS)
    - *Examples – some states, large cities*
  - For financial reporting purposes, retirement begins upon participation in a DROP
    - Guidance will be included in the final Statements to clarify
  - Amounts in DROP accounts should not be recognized by the pension plan as a liability until the amounts are due and payable to the employee.
    - Those amounts related to DROPs should be reported as net position restricted for pensions until a liability is recognized or benefits have been paid.
    - Plans will be required to disclose information about amounts held in DROP accounts.

The Road Ahead

- ~~May 7th~~, May 30th, June 1st Meetings
  - Final issues resolved
  - Pre-Ballot Draft of Final Standards
- June 18th Meeting (Seattle) –
  - GASAC Meeting – Final Votes
- **June 19th – 30th – Print & Distribute**
- July – November – start to deliberate OPEB and Non-Trust conforming changes
  - Exposure Drafts Expected August / September 2013

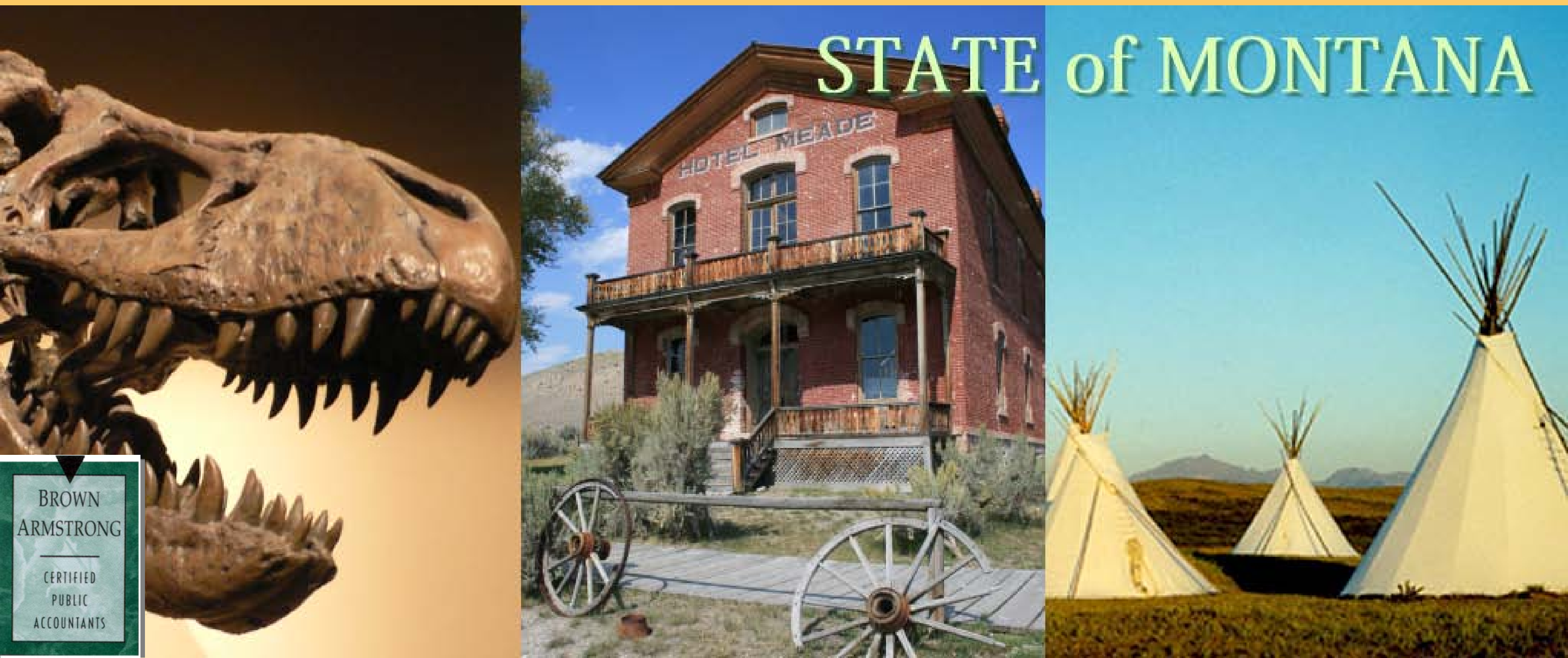
Other Projects in Process

- Recognition and Measurement Concepts (PV)
- Financial Guarantees—ED scheduled to be released in June
- Fair Value—Measurement and Application
- Other Postemployment Benefits
- GAAP Hierarchy **BRAND NEW**

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

STATE of MONTANA

GASB's Conceptual Framework Project Recognition and Measurement



Recognition and Measurement Approaches Concepts Statement—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 approaches that conceptually should be used in government financial statements
  - Initial values
  - Re-measured values

Financial Guarantees

- Goal
  - Establish additional guidance regarding the recognition and disclosure of financial guarantees made and received by state and local governments
    - ED perhaps in June

Fair Value Measurement and Application

- Goal
  - Review and consider alternatives for the further development of the definition of fair value,
  - Review the methods used to measure fair value, and potential disclosures about fair value measurements.
  - **KEY** - Measurement of alternative investments
    - ED perhaps in March 2013

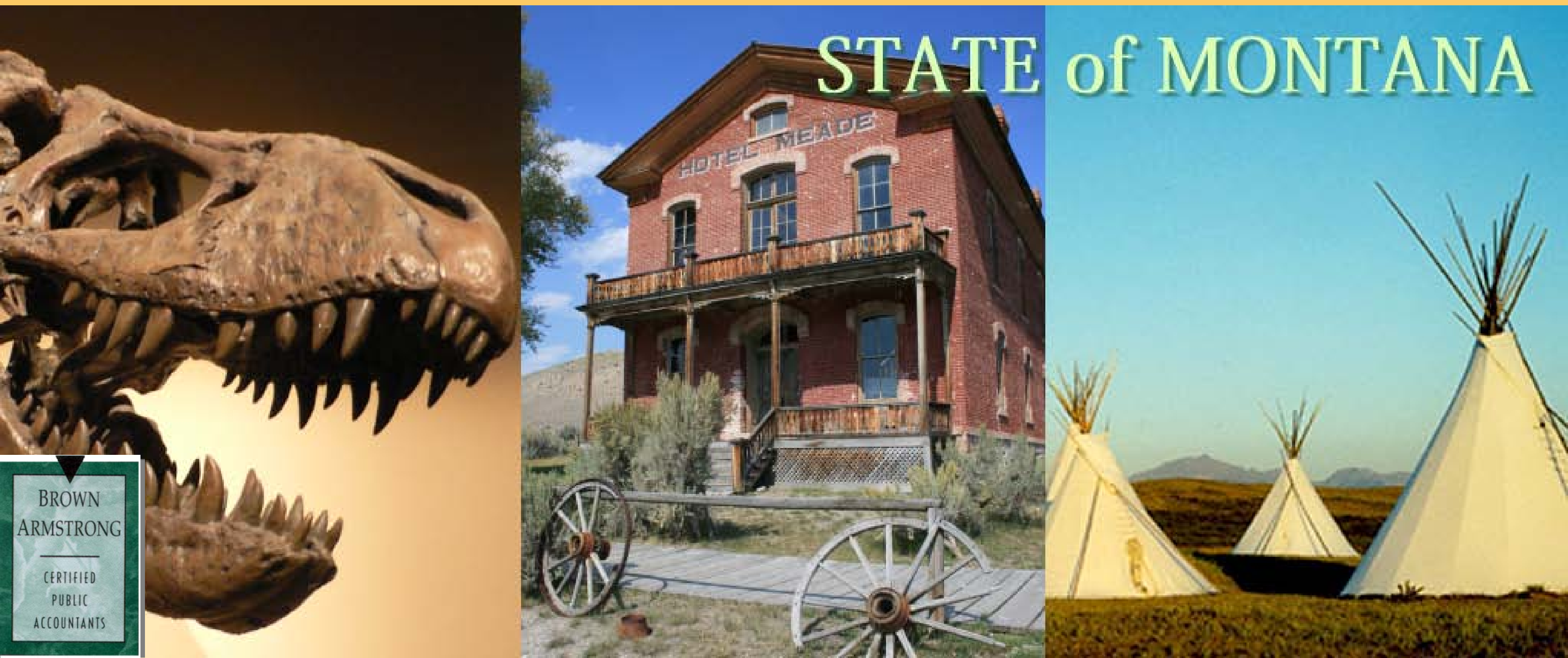
OPEB Alignment

- Alignment project with whatever comes from pensions
  - Deliberations starting in July 2012
  - ED by September 2013

GAAP Hierarchy Adjust

- KEY QUESTION
  - Should *Comprehensive Implementation Guide* be elevated to level 1 or 2 GAAP?
    - If so – full due process annually
    - BUT – many practitioners call it "GAAP."
  - ED expected January 2013

That's a good transition to tomorrow – see you tomorrow AM



QUESTIONS

To the right are our offices in Pasadena, California. Please feel free to visit us at the corner of Colorado and Hudson, on the Rose Parade route which is also historical US Route 66.

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