

GASB Update

Implementation Issues and a Look to the Future

The views expressed in this presentation are those of Dr. Smith. Material for this presentation was provided by the GASB Staff; however, I am still responsible for it.

Effective Dates—June 30

- June 30, 2009 – What happened last year
 - Statement 43—Phase III – OPEB plans
 - Statement 45—Phase II – OPEB for employers
 - Statement 49 – pollution remediation
 - Statement 52 – land held as investment by PFS
 - Statement 55 – GAAP hierarchy
 - Statement 56 – rules in 3 areas
- June 30, 2010
 - Statement 45—Phase III – final OPEB implementers
 - Statement 51 – intangibles
 - Statement 53 – derivatives
 - Statement 57 – more OPEB for certain types of plans
 - Statement 58 – government bankruptcies
- June 30, 2011
 - Statement 54 – Fund Balance reporting and definitions
- June 30, 2012
 - Statement 57 – other provisions

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Statement 54

Fund Balance and Governmental Fund Type Definitions

Fund Balance

Reporting and Disclosures

Changes in GASBS 54: Fund Balance Reporting

- What is gone?
 - Reserved and Unreserved Fund Balance
 - Reporting designations
- What is new – 5 classifications of Fund Balance
 - Nonspendable
 - Restricted
 - Committed
 - Assigned
 - Unassigned

Nonspendable Fund Balance

- Represents amounts that cannot be spent because they are either:
 - Not in spendable form
 - Inventory and prepaid items
 - Long-term receivables and loans
 - Property acquired for sale (unless proceeds are restricted, committed, or assigned)
 - Legally or contractually required to be maintained intact – as in the principal of a Permanent Fund
- Amount in this classification should be determined before other classifications – may limit reporting in other classifications

Restricted Fund Balance

Constraints placed on the use of amounts are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- Imposed by law through constitutional provisions or enabling legislation

Committed Fund Balance

- Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance.
- Amounts classified as "committed" are not subject to legal enforceability like restricted resources; however, they cannot be used for any other purpose unless the government removes or changes the commitment by taking the same action it employed to impose the commitment.
- The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable.

Assigned Fund Balance

- Amounts that are *intended* by the government to be used for a particular purpose, but are neither restricted nor committed, should be reported as *assigned fund balance*.
- Intent should be expressed by:
 - the governing body itself or
 - a subordinate high-level body or official possessing the authority to assign resources to be used for specific purposes in accordance with policy established by the governing body.
- Residual category of Fund Balance for classification for any governmental fund other than the General Fund.
- Use in the General Fund indicates intent to use resources in manner that is narrower than general purposes of the government – cannot cause a deficit in the Unassigned category

Unassigned Fund Balance

- Residual classification of the General Fund.
- Positive amounts should only be reported in the General Fund
- Negative amounts can be reported in other funds, but only after assigned amounts have been eliminated.

Stabilization (or Rainy Day) Arrangements

- For the purposes of reporting fund balance, stabilization is considered a *specific purpose*. If criteria is met:
 - Restricted
 - Committed
- If criteria is not met—unassigned (General Fund)
- Rarely reported in a special revenue fund

Displaying Fund Balance Categories and Classifications

- Restricted fund balance may be displayed in a manner that distinguishes between the major restricted purposes, or it may be displayed in the aggregate
- Committed and assigned fund balances may be displayed in sufficient detail so that the purposes of the major limitations and assignments are evident, or each classification may be displayed in the aggregate
- If aggregate disclosure made in financial statements, details **must** be reported in the notes.

Other Disclosures

- **Committed Fund Balance**
 - Government’s highest level of decision-making authority
 - Formal action required to be taken to establish, modify, or rescind a commitment
- **Assigned Fund Balance**
 - Body or official authorized to assign amounts to a specific purpose
 - Policy established by governing body pursuant to which that authority is given

Other Disclosures (continued)

Classifying Fund Balances

- Whether the government considers restricted or unrestricted amounts to have been spent when both are available
- Whether committed, assigned, or unassigned amounts are considered to have been spent when any of those categories could have been used

Other Disclosures (continued)

Reporting encumbrances

- Amounts that are encumbered should not be displayed separately from the categories of Fund Balance on the face of the Balance Sheet
- For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes by major funds and nonmajor funds in the aggregate in conjunction with disclosures about other significant commitments.
- An encumbrance for a specific purpose should not be reported as unassigned but as committed or assigned, as appropriate.

Other Disclosures (continued)

Stabilization arrangements

- The authority to establish the arrangement.
- The requirements for additions to the stabilization amount.
- The conditions under which stabilization amounts may be spent.
- The stabilization balance, if not apparent on the face of the financial statements.

Other Disclosures (continued)

Minimum fund balance policies – if a government formally adopts a minimum fund balance policy, the policy should be described in the notes, including the action taken in adopting the policy.

Fund Type Definitions

General Fund

- **Codification:** to account for all financial resources except those required to be reported in another fund.
- **GASBS 54:** to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds – *Codification*

To account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes. Resources restricted to expenditure for purposes normally financed from the general fund may be accounted for through the general fund provided that applicable legal requirements can be appropriately satisfied; and use of special revenue funds is not required unless they are legally mandated. The general fund of a blended component unit should be reported as a special revenue fund.

Special Revenue Funds – *GASBS 54*

To account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. Those specific restricted or committed revenues may be initially received in another fund and subsequently distributed to a special revenue fund. Those amounts should not be recognized as revenue in the fund initially receiving them, however; those inflows should be recognized as revenue in the special revenue fund in which they will be expended in accordance with the specified purposes. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

Changes in definition

- New definition incorporates new terminology of “restricted or committed”
- Confusing terms of “legally restricted” and “legally mandated” have been removed
- Reporting of blended CU General Fund removed – probably in GASBS 14 reexamination
- Standard requires that SRF be discontinued if substantial portion of the inflows will no longer be derived from restricted or committed revenue sources
- Standard requires that purpose of each major SRF, together with revenues and resources reported in each of those funds, be disclosed in the notes

Proceeds of Specific Revenue Sources

- Establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund
- Restricted or committed proceeds of specific revenue sources should comprise a substantial portion of the inflows reported in the fund

Capital Projects Funds

Codification: to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.

Capital Projects Funds

GASBS 54: to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities or other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

CPF Debate

- Proposed change in definition caused much concern and debate
- Many governments worried by what qualified as “major capital facilities” which would have been reinforced by new definition
- Board modified stance to allow liberal approach to use of CPFs

Debt Service Funds

Codification: to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Debt service funds are required if they are legally mandated and/or if financial resources are being accumulated for principal and interest payments maturing in future years. The debt service transactions of a special assessment issue for which the government is not obligated in any manner should be reported in an agency fund (discussed below) rather than a debt service fund to reflect the fact that the government's duties are limited to acting as an agent for the assessed property owners and the bondholders, as discussed in Section S40, para. 119.

Debt Service Funds

GASBS 54: to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources being accumulated for principal and interest in future years also should be reported in debt service funds.

Debt Service Funds

- Information on special assessment debt removed from definition
- Removed "general long-term debt" from definition which could clear way for DSFs to repay other long-term liabilities

Permanent Funds

Codification: to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry. (Permanent funds do not include private-purpose trust funds, defined in paragraph .113, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.)

Permanent Funds

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Permanent Funds

- Little changed from “old” definition
- Board admits in Basis for Conclusions that it was included in standard only to incorporate minor word changes.

Effective Date and Transition

- Effective for financial statements for periods ending after June 15, 2011
- Effect on Statistical Section
 - Changes to the fund balance information may be made prospectively, although retroactive application is encouraged
 - If the information for previous years is not restated, governments should explain the nature of the differences from the prior information

GASB Statement No. 55

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Background on the Hierarchy

- Governs what constitutes GAAP for all SLGs
- Lists order of priority for looking for guidance
- At one time FASB Standards and Interpretations were included in hierarchy – those were removed in 1989
- Current hierarchy has been in force since then
- This standard is effective upon issuance: March 2009

Governmental GAAP Hierarchy

- a. GASB Statements and Interpretations, which are periodically incorporated into the *Codification*
- b. GASB Technical Bulletins and, if specifically made applicable to SLG entities by the AICPA and cleared by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position

Hierarchy [continued]

- c. AICPA Practice Bulletins if specifically made applicable to SLG entities and cleared by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to SLG entities.
- d. Implementation guides (Q&As) published by the GASB staff, as well as practices that are widely recognized and prevalent in SLG.

Biggest Change from SAS 69

- Level “a” excludes “AICPA and FASB pronouncements specifically made applicable to SLG entities by GASB Statements or Interpretations”.
- Will be replaced by GASB project of pre-1989 FASB Standards.

Other Literature

- Can still be considered if topic not covered in categories a thru d
- Includes
 - GASB Concepts Statements
 - FASB Concepts Statements
 - FASAB Statements, Interpretations, TBs, & Concepts Statements
 - AICPA Issues Papers
 - IPSASB Standards or IFRS
 - Accounting textbooks, handbooks, and articles

GASB Statement No. 56

Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards

Background

- Takes guidance that was previously in AICPA Statements on Auditing Standards
- Objective was to incorporate that guidance into accounting and financial reporting standards
- Areas covered
 - Related party transactions
 - Subsequent events
 - Going concern considerations
- Standard effective upon issuance: March 2009

Related Party Transactions

- Required to disclose certain transactions
- Must consider substance of transaction rather than legal form
- Determining substance of transaction with related party may be difficult if transaction would not have occurred between unrelated parties

Transactions with features that may indicate form-over-substance condition exists

- Borrowing or lending at a rate of interest significantly above or below market rates prevailing at time of transaction
- Selling real estate at a price that differs significantly from appraised value
- Exchanging property for similar property in a nonmonetary transaction
- Making loans with no scheduled terms for when or how loans will be repaid

Subsequent Events

Occur after date of Statement of Net Assets but before financial statements are issued

- ☉ Recognized events require adjustments to financial statements
- ☉ Nonrecognized events require disclosure in notes to financial statements
- ☉ Either way, modification of MD&A may be necessary

Recognized Events

- Provide additional evidence with respect to conditions that existed at statement date and affect estimates inherent in financial statement preparation
- All information available prior to issuance should be evaluated

Nonrecognized Events

- Provide evidence with respect to conditions that did **not** exist at statement date but arose subsequent to that date
- Events should **not** result in adjustment of the financial statements
- Some events may require disclosure in the notes

Going Concern Considerations

- ⦿ Continuation as a going concern is assumed in financial reporting in the absence of significant information to the contrary
- ⦿ Financial statement preparers must evaluate whether substantial doubt exists for 12 months beyond financial statement date
- ⦿ Also have to consider information that may raise doubt shortly thereafter (3 more months)

Information that Contradicts Going Concern Assumption

- Inability to meet obligations as they come due without substantial disposition of assets outside normal course of business
- Restructuring of debt [troubled?]
- Submission to oversight of separate fiscal assistance authority or financial review board

Indicators of Substantial Doubt

- Negative trends
- Other indications of possible financial difficulties
- Internal matters
- External matters

Negative Trends

- Recurring periods where expenses/expenditures exceed revenues
- Recurring unsubsidized losses in BTAs
- Consistent working capital deficiencies
- Continuing negative operating cash flows for BTAs
- Adverse key financial ratios

Other Indications

- Default on bonds, loans, or similar agreements
- Proximity to debt or tax limitations
- Denial of usual trade credit from suppliers
- Restructuring of debt (mentioned already?)
- Noncompliance with statutory capital or reserve requirements
- Need to seek new sources of methods of financing or to dispose of substantial assets

Internal Matters

- Work stoppages or other labor difficulties
- Substantial dependence on the success of a particular project or program
- Uneconomic long-term commitments
- Need to significantly revise operations

External Matters

- ⦿ Legal proceedings, legislation, or similar matters that might jeopardize intergovernmental revenues and fiscal sustainability of key governmental programs
- ⦿ Loss of a critical license or patent for a BTA
- ⦿ Loss of a principal customer, taxpayer, or supplier
- ⦿ Uninsured or underinsured catastrophe

Going Concern Disclosures

- ⦿ Pertinent conditions or events giving rise to the assessment of doubt about going concern
- ⦿ Possible effects of conditions and events
- ⦿ Government officials' evaluation of significance of those conditions and events and any mitigating factors
- ⦿ Possible discontinuance of operations
- ⦿ Government officials' plans
- ⦿ Information about recoverability or classification of recorded asset amounts or amounts or classifications of liabilities
- ⦿ May require modification of MD&A

GASB Statement No. 57

OPEB Measurements by Agent
Employers & Agent Multiple
Employers

Primary Issues

- Use of alternative measurement for smaller plans
- Frequency and timing of measurements by employers that participate in agent employers and agent multiple-employer OPEB plans

Alternate Measurement

- Available to all employers with less than 100 participants
- Amends requirement for actuarial valuation for defined benefit OPEB – satisfied with:
 - Aggregation of results of actuarial valuations of individual employers, or
 - Using alternative measurement for individual employers that are eligible

GASB Statement No. 58

Accounting and Financial Reporting
for Chapter 9 Bankruptcies

Primary Issues

- Provides guidance for governments that petition under Chapter 9 of bankruptcy code
- Requires governments to remeasure liabilities that are adjusted in bankruptcy when court confirms a new payment plan

Major provisions

- Governments remeasure accounts payable, notes, debentures and bonds, and related interest based on new payment plan
- Governments remeasure leases, pollution remediation liabilities, and pension and OPEB liabilities using current guidance (unless benefit plan is rejected and becomes unsecured debt)
- For governments not expected to be going concern, value assets at amounts expected to be received
- Host of new note disclosures

**Other
Postemployment Benefits**

Implementation Is Here

**What Do You Need
To Know About OPEB?**

- What is the substantive plan from the employers/employees perspective?
- Does an implicit rate subsidy exist?
- Has a qualifying trust been established?
- Are the actuarial assumptions reasonable?
- What constitutes a contribution to the plan?
- What is required to be presented in the financial statements?

Intangible Assets

Statement 51

Description

- An intangible asset is an *asset* that possesses all of the following characteristics:
 - Lack of physical substance
 - Nonfinancial nature
 - Initial useful life extending beyond a single reporting period
- Statement generally does not provide guidance on whether a transaction results in an asset
 - Look to definition of “asset” in Concepts Statement No. 4, *Elements of Financial Statements* for guidance
 - Basis for conclusions does state that powers created through statute or inherent nature of government are not intangible assets

Common Types of Intangible Assets

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

Classification—Basic Guidance

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

Internally Generated Intangible Assets

- Internally generated intangible assets (IGIA) are:
 - Created or produced by the government or an entity contracted by the government; or
 - Acquired from a third party but require more than minimal incremental effort to achieve expected service capacity
- Statement provides a specified-conditions approach to recognizing outlays associated with IGIA
- Guidance may result in capitalization of certain research and development costs previously expensed under FASB Statement 2

Internally Generated Intangible Assets

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

Internally Generated Computer Software

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

Internally Generated Computer Software

- Activities associated with developing IGCS should be categorized in one of three development stages:
 - Preliminary project stage
 - Conceptual formulation and evaluation of alternatives
 - Determination of existence of needed technology
 - Final selection of alternatives
 - Application development stage
 - Design of the chosen path
 - Coding
 - Installation to hardware
 - Testing and parallel processing
 - Post-implementation/operation stage
 - Application user training
 - Software maintenance

Internally Generated Computer Software

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

Internally Generated Computer Software

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

Internally Generated Computer Software

- Reporting costs of internally generated modifications of software should follow development stage approach if the modification results in:
 - An increase in the functionality of the software
 - An increase in the efficiency of the software; or
 - An extension of the estimated useful life of the software
- If modification does not result in one of the above, associated outlays should be expensed as incurred
- Extension of useful life without increased functionality or efficiency expected to rarely occur

Measurement

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

Amortization

- Existing guidance for depreciation of capital assets generally applies to amortizing intangible assets
 - No mandated maximum amortization period
- Exception for intangible assets with indefinite useful lives:
 - No factors currently exist that limit the useful life of the asset
 - A useful life that must be estimated does not mean indefinite useful life
 - Permanent right-of-way easement vs. computer software
 - Intangible assets with indefinite useful lives should not be amortized

Note Disclosures

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

Effective Date and Transition

- Effective date is fiscal periods beginning after June 15, 2009
- Provisions generally should be retroactively applied
- Exception for retroactively reporting IGIA:
 - **Permitted but not required for IGIA**
 - Retroactively report only if specified-conditions approach can be applied
 - May report some, but not all, IGIA developed prior to the effective date
 - Modifications of software not retroactively reported should follow Statement 51 guidance when performed subsequent to the effective date
- Other exceptions for retroactively reporting intangible assets:
 - **Permitted but not required for intangible assets with indefinite useful lives at transition**
 - **Required for all other intangible assets acquired in fiscal years ending after June 30, 1980 by phase 1 or 2 governments**
 - **Encouraged but not required for all other intangible assets of phase 3 governments**

Other Current Projects

- Recognition & Measurement Attributes Concepts Statements
 - DM/PV due in 4th Qtr 2010
 - ED in 3rd Qtr 2011
 - Standard in 2nd Qtr 2012
- Service Efforts and Accomplishments Reporting
 - Voluntary Guidelines (10/30/09)
 - Final document due out in 2nd Qtr 2010
- Pension Accounting and Reporting (7/31/09)
 - Next step is unclear – will probably include radical disclosures
 - Final issuance date up in the air

Other Current Projects

- Pre-November 30, 1989 FASB and AICPA Pronouncements
 - ED available (7/31/10)
 - Final standard by end of the year
- Service Concession Arrangements (9/30/09) – final standard by 2nd Qtr 2010
- Financial Instruments Omnibus (10/30/09) – final standard by end of the year
- Statement 14 Reexamination
 - ED due soon
 - Final standard in 1st Qtr 2011

Research Agenda

- Economic Condition Reporting
- Electronic Financial Reporting
- Fair Value Measurement
- Interpretation 1—Demand Bonds
