

Ohio GFOA

GASB Update

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

1

Current Events

2

Know Your Board Members

- | | |
|-------------------------|------|
| • Bob Attmore, Chairman | 2009 |
| • Bill Holder | 2010 |
| • Girard Miller | 2012 |
| • Jan Sylvis | 2012 |
| • Marcia Taylor | 2010 |
| • Dick Tracy | 2009 |
| • Jim Williams | 2012 |

3

Effective Dates—December 31

- December 31, 2007
 - Statement 34, Retroactive infrastructure—Phase II
 - Statement 43—Phase II
 - Statement 45—Phase I
 - Statement 48
- December 31, 2008
 - Statement 43—Phase III
 - Statement 45—Phase II
 - Statement 49
 - Statement 50
- December 31, 2009
 - Statement 45—Phase III

4

Statement 40

A Look Back

5

Deposits and Investments Risks

- Risks were the focus
 - Performance/reward outside the scope
- “Conceptual” project, not in response to a crisis—review of Statement 3
- Set-up to Derivatives and Hedging Project

6

Types of Risk

- Interest rate risk
 - Highly sensitive
- Credit risk
 - Overall
 - Custodial
 - Concentration
- Foreign currency risk
- Legal risk

7

Investment Type Disclosures

- Investments should be organized by investment type, such as:
 - U.S. Treasuries
 - U. S. Agencies
 - Explicit guarantee
 - No explicit guarantee
 - Commercial paper
- Dissimilar investments should not be aggregated.

8

Interest Rate Risk

- The risk that changes in interest rates may adversely affect an investment's fair value
- Five methods identified, must choose one:
 - Specific identification
 - Segmented time distributions
 - Weighted average maturity
 - Duration
 - Simulation model

9

Credit Risk

- Disclose credit quality as of year-end
- Includes corporate debt, state and local government debt, external investment pools
- Exempt: Debt investments with **explicit** guarantee of US government (for example, GNMA)
- If not rated, indicate as much

10

Custodial Credit Risk

- Disclose only "Category 3"
 - Deposits that are uninsured and uncollateralized
 - Uninsured investments that are either held by the:
 - Counterparty, or
 - Counterparty's trust department, but not in the name of the government

11

Concentration of Credit Risk

- Defined as investments of more than 5 percent in any one issuer
- Excluded:
 - U. S. government debt
 - Debt explicitly guaranteed by the U.S. government
 - Pooled investments such as mutual funds or external investment pools

12

Deposit and Investment Policies

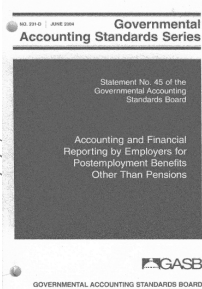
- Disclose only those policies that are relevant to the risks that are disclosed.
- In other words, if there is no risk disclosure, no policy disclosure is required.

13

Other Postemployment Benefits

14

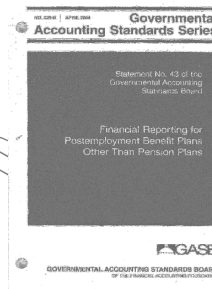
Statement 45 (for Employers)



- Subject: accounting and reporting by **employers** for their **OPEB expenses and obligations (does not require funding)**
- Applies to all employers that provide OPEB (that is, the employer pays all or part of the cost of the benefits, including implicit rate subsidies)
- Requires **accrual-basis accounting** for expense
- Requires measurement and disclosure of **actuarial accrued liabilities and funded status (UAAL)**

15

Related Statement: Statement 43 (for Plans)



- Subject: **reporting on stewardship of plan assets** by (a) a trustee or plan administrator that is a governmental entity (stand-alone plan reporting) or (b) an employer or plan sponsor with a fiduciary responsibility for the plan assets that includes the plan as a trust or agency fund in its own financial report
- Includes provisions for reporting of (a) plans administered as trusts *and* (b) multiple-employer plans that are not administered as trusts

16

Effective Dates

- Staggered implementation based on a government's phase for implementing Statement 34
- For a Phase 1 government (more than \$100 million total revenue as defined in Statement 34):
 - Statement 45 will be effective for the employer's fiscal year ending December 31, 2007
 - Statement 43 will be effective for a plan that includes a Phase 1 employer for the plan's fiscal year ending December 31, 2006
- Earlier implementation is encouraged
- Employers may apply the measurement requirements of Statement 45 prospectively—that is, the employer may report zero beginning net OPEB obligation as of the beginning of the year in which it implements Statement 45

17

Statement 47

Accounting for Termination Benefits

18

Overview

- Issued June 2005
- Establishes accounting and reporting requirements for *all* forms of termination benefits
- Supersedes guidance in NCGAI 8 for *special termination benefits*

19

Scope

- Voluntary termination benefits
 - Inducements to hasten the termination of services
 - Early-retirement incentives
- Involuntary termination benefits
 - Benefits provided as a consequence of the early termination of services
 - Severance pay
- Includes COBRA
- Excludes unemployment compensation

20

Termination Benefits vs. OPEB

- ED included discussion in BFC; final Statement includes discussion to Standards section and discusses further in BFC
- Determine whether the nature of arrangement is to provide benefits:
 - In exchange for the early termination of services (a termination benefit)
 - As compensation for services (OPEB)
- Consider all relevant factors, including:
 - Employer's intent
 - Employees' view of the benefits
 - Whether conditioned on termination of employment prior to normal retirement age
 - Length of time benefits have been made available

21

Measurement Requirements

- Include:
 - Fringe benefits related to the termination benefits
 - Directly resulting changes in estimated costs of other employee benefits (such as compensated absences), if reliably measurable
- Exclude:
 - Effects of termination benefit on defined benefit pension or OPEB obligations
 - Account for these effects using Statement 27 (pensions) or Statement 45 (OPEB), as appropriate
 - Disclosure requirements of Statement 47 also applicable

22

Measurement Requirements

- Healthcare-related benefits
 - Separate costs for terminated employees from active employees
 - Measured as discounted present value of future benefit payments for terminated employees:
 - ED would have required use of claims costs, or age-adjusted premiums approximating claims costs, for *all* healthcare-related termination benefits
 - In response to comments received about the Exposure Draft, Board narrowed the required application of measurement based on claims costs:
 - If part of large-scale, age-related termination event
 - Expected future benefit payments based on projected total *claims costs*, or age-adjusted premiums approximating claims costs
 - If not part of a large-scale, age-related termination event
 - May use *unadjusted premiums* as basis for projection of expected future benefit payments

23

Measurement Requirements

- Healthcare-related benefits
 - Projection should include assumptions about:
 - Healthcare cost trend rate
 - Discount rate
 - Estimated yield, over period of time benefits are to be provided, on investments expected to be used to finance the payment of benefits
 - Dedicated investments (if those exist)
 - Otherwise, investments that are not committed to other uses

24

Measurement Requirements

- Non-healthcare-related benefits
 - If terms establish obligation to pay specific amounts on fixed or determinable dates:
 - Discounted present value of expected future benefit payments, including assumption about changes in future cost levels
 - Other obligations:
 - Discounted present value of expected future benefit payments, including an assumption about changes in future cost levels OR
 - Undiscounted total of estimated future benefit payments at current cost levels
- Represents a clarification of the ED proposal in response to respondents questions re: whether use of current cost in measurement process was intended to be an acceptable approach

25

Measurement Requirements

- Non-healthcare-related benefits
 - If discounted, discount rate determined as estimated yield, over period of time benefits are to be provided, on investments expected to be used to finance the payment of benefits
 - Dedicated investments (if those exist)
 - Otherwise, investments that are not committed to other uses

26

Recognition Requirements— Accrual Basis

- Voluntary termination benefits
 - Liability and expense recognized when:
 - Employees accept the offer
 - Amounts can be estimated
 - Measurement updated at end of each subsequent reporting period

27

Recognition Requirements— Accrual Basis

- Involuntary termination benefits
 - Generally, liability and expense recognized when:
 - Plan of termination approved and communicated
 - Amounts can be estimated
 - Measurement updated at end of each subsequent reporting period

28

Recognition Requirements— Accrual Basis

- Involuntary termination benefits
 - Plan of involuntary termination
 - Identifies, at a minimum:
 - Number of employees to be terminated
 - Job classification or functions and locations affected
 - When terminations are likely to occur
 - Provides sufficient detail for employees to determine the type and amount of benefits they will receive if they are terminated

29

Recognition Requirements— Modified Accrual Basis

- Liabilities and expenditures recognized to extent the liabilities are normally expected to be liquidated with expendable available financial resources
 - Paragraph 14 of Interpretation 6

30

Note Disclosures

- In period employer becomes obligated:
 - Description of termination benefit arrangement
 - Type(s) of benefits, number of employees affected, period of time benefit are expected to be provided
 - Cost of termination benefits, if not otherwise identifiable
 - If benefits affect a defined benefit pension or OPEB plan, employer should disclose the change in the actuarial accrued liability attributable to the termination benefits

31

Note Disclosures

- In all periods termination benefit liabilities are reported:
 - Significant methods and assumptions
 - Requirement was implicit in Exposure Draft because other applicable literature applied
 - In response to comments received, Board explicitly identified the requirement in final Statement
 - If a benefit is not recognized because expected benefits are not estimable, disclose that fact

32

Effective Date and Transition

- Generally, effective for periods beginning after June 15, 2005 (June 30, 2006)
- However, those that affect defined benefit OPEB simultaneous implementation with Statement 45
- In initial year, requirements should be applied to any previous commitments of termination benefits that remain unpaid at effective date
 - Not included in ED; added in response to respondents' requests for clarification

33

Statement 48

Sales and Pledges of Receivables and Future Revenues

34

Sales and Pledges

- Scope of the project—Government receives proceeds in exchange for the rights to future cash flows from:
 - Receivables:
 - Delinquent property taxes
 - Uncollected fines
 - Mortgages
 - Student loans
 - Future revenues

35

Sales and Pledges

Sale or Borrowing?

- Borrowing by default, unless specific criteria are met
- Continuing involvement—control
 - Does the transferor government retain control, or is control relinquished?
 - Criteria for receivables
 - Criteria for future revenues

36

Receivables

- Are receivables sold or pledged?
- Transferee's ability to sell or pledge
- Isolation from seller (and its creditors)
 - Legally separate
 - No access to cash
- Source and timing of payments
- Satisfaction of accounts
- Bankruptcy protection
- No option or ability to replace or repurchase accounts

37

Future Revenues

Are **future revenues** sold or pledged?

- Transferee's ability to sell or pledge
- Transferor's continuing *active* involvement in the generation of the revenues
 - Excludes own-source revenues
 - Taxes
 - User charges
 - Grants, entitlements, shared revenues could be sold or pledged, depending on *active* involvement

38

Transfers Within the Entity

- Assets transferred should be reported at the carrying value of transferor
- Difference between amount paid and carrying value of recognized asset should be reported as a gain or loss
- The amount paid by the transferee for a future revenue should be reported as a deferred charge. The transferor should report the amount received as a deferred revenue.

39

Disclosures

- Identification of specific revenue pledged and approximate amount of the pledge
- General purpose of the related debt
- Term of the commitment
- Proportion of the revenue stream (for example, 80%), if it can be estimated
- Pledged revenue (net) recognized compared to related principal and interest

40

Effective Date

- Periods beginning after December 15, 2006

41

Statement 49

Accounting and Financial Reporting for
Pollution Remediation Obligations

42

Types of Remediation Obligations

- Pre-cleanup activities: site assessment, feasibility study, design
- Cleanup activities: neutralization, containment, disposal activities
- Oversight and enforcement costs
- Operation and maintenance of the remedy and monitoring

43

Recognition Threshold

- Determine whether one or more components of a pollution remediation obligation are recognizable as a liability when . . .
 - Government knows or reasonably believes that a site is polluted, and
 - Obligating event occurs

44

Obligating Events

- Compelled to take remediation action because of pollution-caused imminent endangerment
- Violate pollution-prevention permit—for example, RCRA permit
- Named, or evidence indicates govt. will be named, as responsible party or PRP for remediation (or cost sharing)

45

Obligating Events

- Named, or evidence indicates government will be named, in lawsuit to participate in remediation
 - Excludes lawsuits having no merit
- Government commences, or legally obligates self to commence
 - Limited to portion legally required to complete

46

Recognition

- Recognize components of liability as they become reasonably estimable
- Recognition benchmarks
 - Receipt of an administrative order
 - Participation as a responsible party or PRP
 - Completion of corrective measure feasibility study
 - Issuance of authorization to proceed
 - Remediation design and implementation

47

Recognition

- Cost accumulation, not fair value
- Current value, not present value
- Expected cash flow technique would be required
 - Not FASB Statement No. 5, *Accounting for Contingencies*

48

Expected Cash Flow

- FASB introduced this approach in Statement 143 in 2001 (Con. 7)
- Also applied in:
 - Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, including indirect Guarantees of Indebtedness of Others*
 - Interpretation No. 46 (R), *Consolidation of Variable Interest Entities*

49

Two Contingencies Neither is Probable

Potential payment	Probability	(a) x (b)
\$0	60%	\$0
\$200	40%	\$80
		\$80.00

Potential payment	Probability	(a) x (b)
\$0	60%	\$0
\$200	40%	\$80
		\$80.00

50

Two Contingencies— Expected Cash Flows

Permutations of Potential Payments			Joint Probabilities
Contingency 1	Contingency 2	Total	
\$0	\$0	\$0	36.0%
\$0	\$200	\$200	24.0%
\$200	\$0	\$200	24.0%
\$200	\$200	\$400	16.0%
			100.0%

51

Expected Cash Flow

Permutation math
 $\$200 \times .48 = \96
 $\$400 \times .16 = \64
\$160

52

Capitalization Permitted in Limited Circumstances

- Cleanup to prepare property for sale (limited to fair value)
 - Polluted property bought and cleaned for use (limited)
 - Asset impaired and cleanup restores lost service utility (limited)
 - Acquired capital assets have future alternative use. For example, land (limited to future service utility)
- For a. & b.—capitalize only if incurred within reasonable period

53

Expected Recoveries

- Two types
 - Payments expected from other Potential Responsible Parties (PRPs)
 - Expected insurance recoveries
- Measurement—based on expected cash flows and current value

54

Expected Recoveries

- Reduce expense (and expenditure, if available) and . . .
- If not realized or realizable—
 - Net against remediation liabilities
- When realized or realizable
 - Accrete liability and report separate recovery assets (cash or receivable)

55

Expected Recoveries

Expected outlays	\$10,000
Expected recoveries	<u>3,000</u>
Net remediation expense	\$7,000

If recovery not realized or realizable:

- Pollution remediation liability = \$7,000

If recovery realized or realizable:

- Recovery asset (receivable) = \$3,000
- Pollution remediation liability = \$10,000

56

Annual Adjustment

- Adjust liability annually for changes
 - Inflation or deflation
 - Price increases/decreases for specific cost elements
 - Changes in technology
 - Changes in laws or regulations
- Same approach used in Statement 18

57

Disclosures

- For recognized liabilities and recoveries
 - Nature and source of the pollution remediation obligation—for example, federal or state law
 - Liability, if not apparent on statement
 - Methods and assumptions
 - Potential for change in estimate
 - Estimated recoveries reducing the liability

58

Disclosures

- For liabilities (or portions thereof) not yet recognized because not reasonably estimable
 - General description of nature of the pollution remediation obligation
 - Supersedes FASB Statement 5 disclosure of “reasonably possible”

59

Effective Date

- Fiscal periods beginning after December 15, 2007

60

Statement 50

Pension Disclosures

61

Scope

- Resulted from narrowly focused project
- Aligns disclosure requirements for pensions with those for OPEB
- Enhances information in notes and in RSI

62

Amendments for plans and sole and agent employers

- Notes to the financial statements
 - Disclose funded status as of most recent actuarial valuation date
 - Plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation (previously presented in notes to RSI)
 - Include reference linking funded status note disclosure to schedule of funding progress in RSI
 - Describe legal or contractual maximum contribution rates, if any
 - Disclose that the maximum contribution rates have not explicitly been taken into consideration in the projection of pension benefits

63

Amendments for plans and sole and agent employers (cont.)

- If actuarial assumption is different for successive years, disclose initial and ultimate rates
- If aggregate actuarial cost method is used to determine the ARC
 - Present required funded status and funding progress information prepared using the entry age actuarial cost method
 - Disclose that the purpose is to provide surrogate information

64

Additional Statement 25 modifications (plans)

- If fair value of investments based on other than quoted market prices, disclose methods and assumptions used to determine fair value

65

Additional Statement 27 amendments

- Cost-sharing employers
 - Disclose how the contractually required contribution rate is determined
 - If (1) plan does not issue stand-alone plan financial report following the requirements of Statement 25, as amended AND (2) plan not included in financial report of another entity
 - Each cost-sharing employer should
 - Present as RSI a schedule of funding progress and schedule of employer contributions (each for the plan as a whole)
 - Provide information to put scale of information relative to the employer

66

Effective Date

- Generally, effective for periods beginning after June 15, 2007
- Requirements related to the use of the entry age actuarial cost method to report surrogate funded status and funding progress effective for period for which financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later
 - Not in original proposal
 - Added to address concerns raised by respondents to the Exposure Draft
- Early implementation encouraged

67

Transition

- Schedules of funding progress that present surrogate information calculated using the entry age actuarial cost method may be developed prospectively

68

Key Changes from Exposure Draft

- Most provisions of Exposure Draft retained
- Eliminated proposed requirement for pension plans and sole and agent employers to include explanatory narrative disclosures regarding certain aspects of the nature of the actuarial methodology used in the measurement process
- Transition provisions added for presentation of surrogate funded status and funding progress information by plans and employers that use the aggregate cost method

69

Intangible Assets

Statement 51

70

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

71

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

72

Basic Guidance

- All intangible assets subject to Statement 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 modified accrual financial statements
- Scope exceptions:
 - Intangible assets acquired or created primarily for directly obtaining income or profit
 - Capital leases
 - Goodwill from a combination transaction

73

Recognition

- An intangible asset should be recognized only if it is identifiable:
 - Asset is separable, i.e. capable of being separated and sold, transferred, licensed, etc.
- OR-
- Asset arises from contractual or other legal rights, regardless of whether rights are separable

74

Internally Generated

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

75

Internally Generated

- 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 criteria should be expensed as incurred

76

Internally Generated

- Specific guidance on applying the specified-conditions approach for recognition of internally generated computer software is provided
- Guidance generally based on development stages similar to AICPA SOP 98-1

77

Amortization

- Existing guidance for depreciation of capital assets generally applies to amortizing intangible assets
- Exception for intangible assets with indefinite useful lives:
 - No factors currently exist that limit the useful life of the asset
 - Intangible assets with indefinite useful lives should not be amortized

78

Effective Date and Transition

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

79

Other Projects

- Fund balance
- Derivatives
- Concepts
- SEA
- Intergovernmental financial dependency risk
- Research projects

80

Fund Balance and Governmental Fund Definitions

Preliminary Views

81

Fund Balance Reporting

- Net Assets/Fund Balance project
- Statement 46 issued on Restricted Net Assets
- Separate project to reexamine fund balance reporting
 - User interviews and surveys
 - What are the needs?
 - What are the problems?

82

Clarify Fund Type Definitions

- Special revenue—tentative Board decision—no significant changes at this time
- Capital projects
 - Financial resources to be used for. . .
- Debt service
 - Accumulation of resources for. . .
 - Paragraph 30 requirements highlighted

83

Fund Balance Alternatives

- Current classifications—clarify definitions
- Restricted and unrestricted
- Amounts that are not available for appropriation and amounts that are available for appropriation

84

Tentative Decisions

- Format based primarily on use of resources versus availability for appropriation
- Format (still be debated):
 - Nonspendable—Inventory, long-term receivables
 - Spendable
 - Restricted—Statement 34/36 definition
 - Limited—Formal action of governing body
 - Assigned—Similar to designations
 - Unassigned

85

Project Timetable

- Invitation to Comment—October 2006
- Roundtable—February 2007
- Exposure Draft—January 2008
- Final Statement—December 2008

86

Derivatives

Exposure Draft

87

Examples of Derivatives

- Interest rate swap
 - Variable-rate to fixed-rate
 - Fixed-rate to variable-rate
- Basis swap
 - Exchange payments based on the changes of two variable rates
- Swaption
 - Gives the purchaser of the option the right, but not the obligation, to enter into an interest rate swap
- Commodity swap
 - Reduce exposure to a commodity's price risk

88

Proposal

- Fair value with hedge accounting
 - Changes in fair value of derivative are deferred for qualifying transactions
 - Changes in fair value of derivative would not be deferred if the related asset (for example, investment) is reported at fair value
- How is that operationalized?

89

Hedge Effectiveness

- Consistent critical terms
- Quantitative techniques
 - Synthetic instrument
 - Dollar offset
 - Regression
 - Other qualifying quantitative methods

90

Disclosures

- Application of TB-2003 disclosures to all derivatives
- Summary of derivative activities by type
 - Beginning fair values
 - Fair value of derivatives acquired during the period (at time of acquisition)
 - Fair value of derivatives that matured or terminated
 - Changes in fair value during the period
 - Ending fair values
 - Ending notional amount

91

Project Timetable

- Exposure Draft—June 2007
- Final statement—May 2008

92

Other Current Projects

- Concepts Statements
 - Recognition and Measurement Attributes
 - Deliberations to begin later this year
- Intergovernmental Financial Dependency Risk
- Service Efforts and Accomplishments Reporting
 - Guidelines—due process document (Part A)
 - Concepts 2 update (Part B)

93

SEA—Scope

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

94

SEA Project—Timetable

- Part A—due process document scheduled in to be issued in the first quarter of 2008
- Part B—exposure draft of proposed amendments to Concepts Statement 2 is scheduled to be issued in the first quarter of 2008

95

Other Projects

96

Research Agenda

- AICPA Omnibus—accounting guidance currently presented only in the SASs
- Economic Condition Reporting
- Electronic Financial Reporting
- Investment Omnibus
- Pension Accounting and Reporting
- Public and Private Partnerships
- Reporting Units/Statement 14 Revisited

97

Calling All Issues

- Agenda is full; however, emerging issues still need to be addressed
- If you have identified that warrants the GASB's attention, please submit that issue via email to director@gasb.org
- Agenda reviewed three times a year the GASB

98

Questions?



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99