

2010 Annual Governmental GAAP Update

Government Finance Officers
Association

November 4, 2010

1

Introduction

- Welcome to the GFOA's Annual Governmental GAAP Update
- Fifteenth annual broadcast
 - Second year as a live-streaming event

2

Program Overview

Part 1 Recent Final GASB Standards

3

GASB Statements

- GASB Statement No. 57
 - Other postemployment benefits (OPEB) for agent employers and plans
- GASB Statement No. 58
 - Chapter 9 bankruptcies
- GASB Statement No. 59
 - Financial instruments omnibus

4

GASB Suggested Guidelines

- Service efforts and accomplishments performance information

5

Program Overview

Part 2

GASB Due-Process Documents

6

Exposure Drafts (EDs)

- Service concession arrangements (6/10)
 - Final standard - 4th quarter 2010
- Codification of applicable private-sector standards (1/10)
 - Final standard - 4th quarter 2010
- Financial reporting entity changes (3/10)
 - Final standard - 4th quarter 2010

BREAK

7

Preliminary Views (PV)

- Potential changes in employer accounting and financial reporting for pensions (6/10)
 - ED - 2nd quarter 2011

8

Program Overview

Part 3 Practice Updates

9

GASB

- Implementation Guidance on GASB Statement No. 54

- Update to GASB's *Comprehensive Implementation Guide*

BREAK

- Other changes to the GASB's *Comprehensive Implementation Guide*
- GASB Technical Plan

10

GFOA

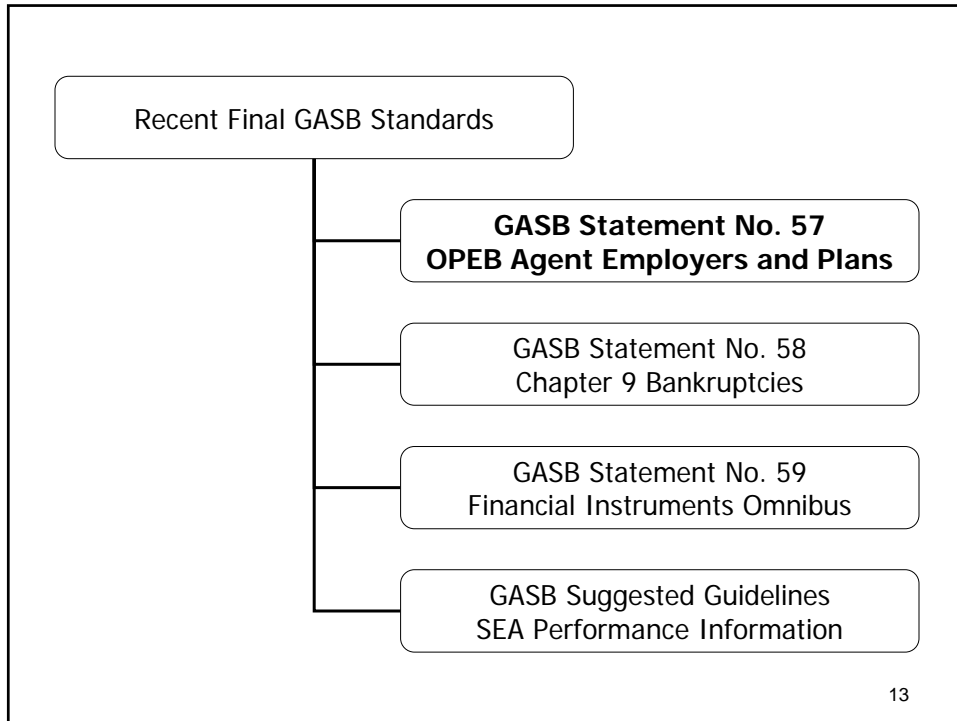
- Common reporting deficiencies
 - Certificate of Achievement for Excellence in Financial Reporting Program
- 2011 “Blue Book”
 - *Governmental Accounting, Auditing, and Financial Reporting (GAAFR)*

11

Part 1

Recent Final GASB Standards

12



- ## Background
- Cost benefit concerns
 - Special provisions for small employers and small plans
 - Alternative measurement method
 - Actuary not required
 - Triennial (v. biennial) valuations
- 14

Practical challenge

- Agent plans
 - Participants may qualify
 - Plan typically will *not* qualify
 - Costs passed on to small participants

15

New guidance

- Small employers in an agent plan
 - May always use the alternative measurement method
 - Are still bound by the plan regarding the required frequency of valuations
 - Biennial v. triennial
- All employers in an agent plan must use the same valuation date

16

Effective date

- Alternative measurement method
 - Immediate effect
- Frequency and timing of valuations
 - “for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011”

17

Recent Final GASB Standards

GASB Statement No. 57
OPEB Agent Employers and Plans

GASB Statement No. 58
Chapter 9 Bankruptcies

GASB Statement No. 59
Financial Instruments Omnibus

GASB Suggested Guidelines
SEA Performance Information

18

Scope

- Chapter 9 bankruptcies (upon filing)
 - Not troubled debt restructurings outside of bankruptcy
- Disclosure requirements
 - Upon filing
- Display requirements
 - When plan adjustment becomes binding
 - Typically when confirmed by court

19

Types of relief

- Modification of a recognized liability
 - Bonds payable
 - Accrued interest payable
- Avoidance of a future cost
 - Reduction in stated rate of interest
- Reduction of amount of future debt service payments
 - Without reference to principal or interest

20

Treatment

- Reduction of recognized liability
 - Gain (extraordinary item)
 - Unamortized issuance costs = expense
 - Bankruptcy-related costs = expense
- Avoidance of future cost
 - No effect (change in terms)
 - Bankruptcy-related costs = expense

21

Treatment (cont.)

- Reduction of amount of debt service payments (without distinction)
 - Gain = Carrying value of debt – present value of adjusted debt service payments
 - Unamortized issuance costs = expense
 - Bankruptcy-related costs = expense

22

Postemployment benefits

- Change normally treated like any other change in pension benefits or OPEB
- If the plan is terminated
 - Eliminate pension-related assets and liabilities
 - Plan obligations as unsecured debt = extraordinary loss/liability

23

Going concern

- If not expected to emerge
 - Revalue assets as of the date of the confirmation of the plan of adjustment
 - Amount expected to be received

24

Disclosure

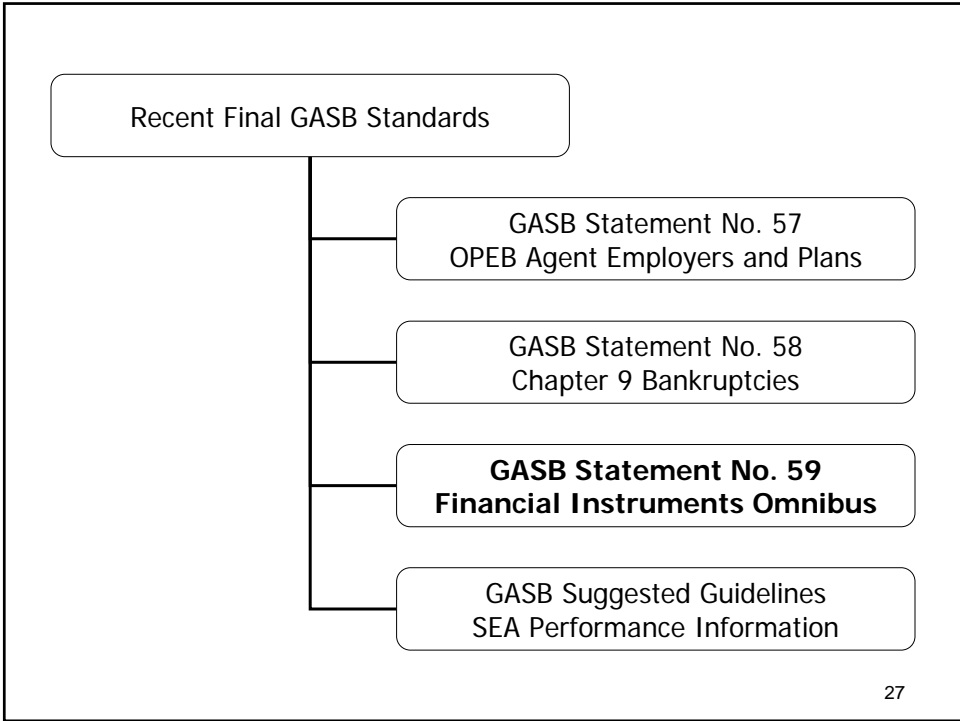
- Pertinent conditions and events
- Expected or known effects
 - Principal categories of claims subject to compromise
 - Principal changes in terms
 - Aggregate gain
 - Contingent claims not subject to reasonable estimation

25

Disclosure (cont.)

- Significance for service levels and operations (along with any mitigating factors)
- Possibility of termination of the government
- How to obtain a copy of the plan of adjustment (or a statement that it is not yet available)

26



Unallocated Insurance
Contracts

GASB Statement No. 25
&
GASB Statement No. 43

28

Background

- Allocated insurance contracts
 - Used by benefit plan to purchase annuity contract for specific member
- Unallocated insurance contracts
 - Placed in a pooled account (held by plan as investments)
- Previous guidance
 - Unallocated insurance contracts reported at contract value (cost-based measure)

29

New guidance

- Interest-earning investment contracts
 - Participating – Fair value
 - Nonparticipating – Cost-based measure (contract value)

30

2a7-Like Pools

GASB Statement No. 31

31

Background

- 2a7-like pools exempt from fair value reporting
 - Money market funds – high quality short maturity
- GASB intent
 - Meet all SEC requirements except filing
 - Stated in *Comprehensive Implementation Guide*
 - In practice – sometimes not the case

32

New guidance (category a)

- The pool should satisfy all SEC requirements of Rule 2a7
 - Including that a group of individuals fulfills the functions of a board of directors
 - Investment policies to be set by group/board
 - The principal executive officer of the pool, who can be an elected official, may have the power to enter into contracts and make personnel decisions
- The pool is *not* required to register with the SEC

33

Interest-Rate Risk

GASB Statement No. 40

34

Disclosure requirement

- Interest-rate risk only applicable to debt
 - Applying disclosure to mix of equity and debt would require “looking through” the fund
- Previous guidance
 - Disclosure required for all mutual funds
- New guidance
 - Not applicable for mix of debt and equity

35

Derivatives

GASB Statement No. 53

36

Nonperformance penalties

- Situation
 - Liquidated damages clauses in purchase and construction contracts
 - Sometimes fixed
 - Sometimes variable
- Not derivatives
 - Net settlement criterion not met
 - Contingent upon default

37

Financial guarantee contracts

- Scope of current derivatives guidance
 - Excludes contracts associated with investments in debt if contingent on default
 - Includes contracts that provide for payment based on decline in credit quality
- Sometimes both elements found in same contract

38

Financial guarantee contracts (cont.)

- New guidance
 - Derivatives guidance applies only to financial guarantee contracts that function as investments
 - Entered into primarily for the purpose of obtaining income or profit

39

Revenue-based contracts

- Derivatives do *not* include contracts based on specific volumes of sales or service revenues
 - Regardless of whether exchange-traded

40

Hybrid instruments

- Hybrid accounting if economic characteristics and risks of embedded derivative and companion instrument not closely related
- Hybrid accounting is required if the initial rate of return on the companion instrument has the *potential* for at least a doubled yield (*leveraged yield* criterion)

41

Recent Final GASB Standards

GASB Statement No. 57
OPEB Agent Employers and Plans

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Financial Instruments Omnibus

**GASB Suggested Guidelines
SEA Performance Information**

42

Four essential components

- Effective SEA reports:
 - State their purpose and scope
 - State the major goals and objectives of the programs and services being reported or what those programs or services are intended to accomplish. They also state the sources of the major goals and objectives and explain the link between the major goals and objectives and the measures being reported

43

Essential components (cont.)

- Focus on key measures, providing a basis for assessing the performance of the programs and services being reported and the achievement of major goals and objectives
- Include a discussion and analysis of results and identify the challenges facing the government in achieving its desired results

44

Qualitative characteristics

- **Relevance**
 - Effective SEA reports include information capable of making a difference in a user's assessment of performance
- **Understandability**
 - Effective SEA reports communicate SEA performance information in a readily understandable manner and include explanations and interpretations to help users comprehend the information

45

Qualitative characteristics (cont.)

- **Comparability**
 - Effective SEA reports help users make comparisons that provide a basis and context for assessing a government's performance
- **Timeliness**
 - Effective SEA reports provide SEA performance information to users before it loses its value for assessing accountability and affecting decisions

46

Qualitative characteristics (cont.)

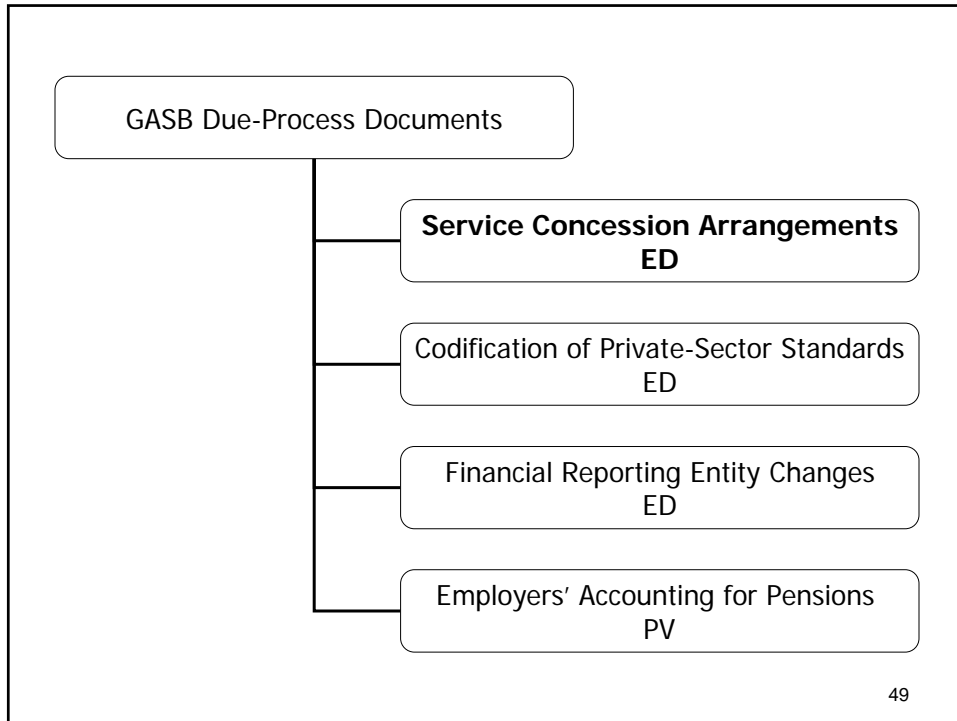
- Consistency
 - Effective SEA reports include measures reported in the same way over time
- Reliability
 - Effective SEA reports contain information that is verifiable, objective, comprehensive in coverage, and faithfully representative

47

Part 2

GASB Due-Process Documents

48



Definition

- Public-private/public partnerships
- Arrangement between a transferor (government) and an operator (government or other) in which
 - The transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or another public asset (*facility*) and
 - The operator collects and is compensated with fees from third parties

Scope

- Transferor has control over facility
 - Significant residual interest in the service utility of the facility at the end of the arrangement
 - Determines or has the ability to modify or approve
 - What services the operator is required to provide,
 - To whom the operator is required to provide the services, and
 - The prices or rates that can be charged

51

Examples

- Build and operate a new facility
 - Compensated by fees from third parties
- Improve and operate an existing facility
 - Compensated by fees from third parties
- Pay to operate an existing facility
 - Compensated by fees from third parties

52

Transferor accounting

- Received
 - Donated facility/improvement
 - Fair value when placed in operation
 - Upfront payment
 - Installment payments (present value)
- Offset
 - Liability
 - Deferred inflow

53

Liabilities (present value)

- Contractual obligations that are *significant and*
 - Directly relate to the facility
 - Related to ownership or responsibility for the fitness of the facility (capital improvements, maintenance, insurance)
 - OR**
 - Involve a commitment to provide service
 - Examples: police and emergency services and maintenance to surrounding areas

54

Deferred inflow

- Amortize as revenue
 - Systematic and rational manner
 - Over the term of the arrangement
 - Start: when facility is placed in operation

55

Donated assets

- Use regular capital asset accounting
- No depreciation if facility must be returned in same or improved condition
- Improvements during the term of the agreement capitalized as made

56

Government as operator

- Intangible asset
 - Not subject to GASB Statement No. 51
 - Not capital
 - Increase amount for improvements that increase capacity or efficiency
- Amortize
 - Systematic and rational manner
 - Term of the agreement

57

Government as operator (cont.)

- Return of asset required in specified condition
 - If *not* in specified condition, expense and liability if
 - Conspicuous or known to the government *and*
 - Restoration cost reasonably estimable

58

Revenue-sharing arrangements

- Treatment
 - Operator
 - Report all revenues and expenses
 - Transferor
 - Report only transferor's share
- Fixed amounts
 - Report present value as installment payments at inception

59

Disclosure (in aggregate for similar facilities and risks)

- General description
 - Include objectives
 - Include status (during construction)
- Assets, deferred inflows, and liabilities
 - Nature
 - Amounts
- Legal
 - Nature and extent of rights retained/granted
 - Guarantees and commitments

60

Effective date

- Fiscal year ending 12/31/12
 - Early application encouraged

61

GASB Due-Process Documents

Service Concession Arrangements
ED

**Codification of Private-Sector
Standards - ED**

Financial Reporting Entity Changes
ED

Employers' Accounting for Pensions
PV

62

Background

- GASB Statement No. 20 – Applicability of private-sector GAAP standards
 - Legacy standards
 - As of cutoff date (11/30/89)
 - Unless contradict or conflict with GASB standards
 - Optional use of subsequent standards
 - Proprietary funds
 - Consistent
 - Unless contradict or conflict with GASB standards

63

Background (cont.)

- GASB Statement No. 34
 - Scope of legacy standards
 - Expand to include government-wide reporting
 - Optional use of subsequent standards
 - Limit to enterprise funds and business-type activities
 - Do not extend option to governmental activities
 - Remove option for internal service funds

64

Background (cont.)

- Practical challenge
 - Legacy standards do *not* include subsequent amendments
 - Introduction of new *FASB Codification* makes it impossible to track subsequent changes

65

Codification Standard

- Incorporates relevant legacy guidance into the GASB's own standards
 - FASB
 - Predecessors
 - Sponsored by the American Institute of CPAs
- Eliminates the need to consult private-sector standards directly

66

Sources

- Committee on Accounting Procedure
 - Accounting Research Bulletins (ARB) 43-51
- Accounting Principles Board (APB)
 - Opinions 1-31
- FASB
 - Statements 1-102
 - Interpretations 1-38

67

Approach

- Adopt "as is"
 - No re-deliberation of issues
- Remove standards or provisions that conflict with or contradict GASB guidance

68

Guidance excluded

- Excludes state and local governments from scope
- Relates to events and transactions that do not occur in the governmental environment
- Is of purely historical interest

69

Guidance excluded (cont.)

- Conflicts with or contradicts GASB guidance
- Only rarely applies to state and local governments
- Pertains to business combinations and disposals of a segment of a business
 - GASB guidance pending

70

Guidance included

- Authoritative-referenced by NCGA or GASB standards
- Certain specialized industries

71

Optional use to be eliminated

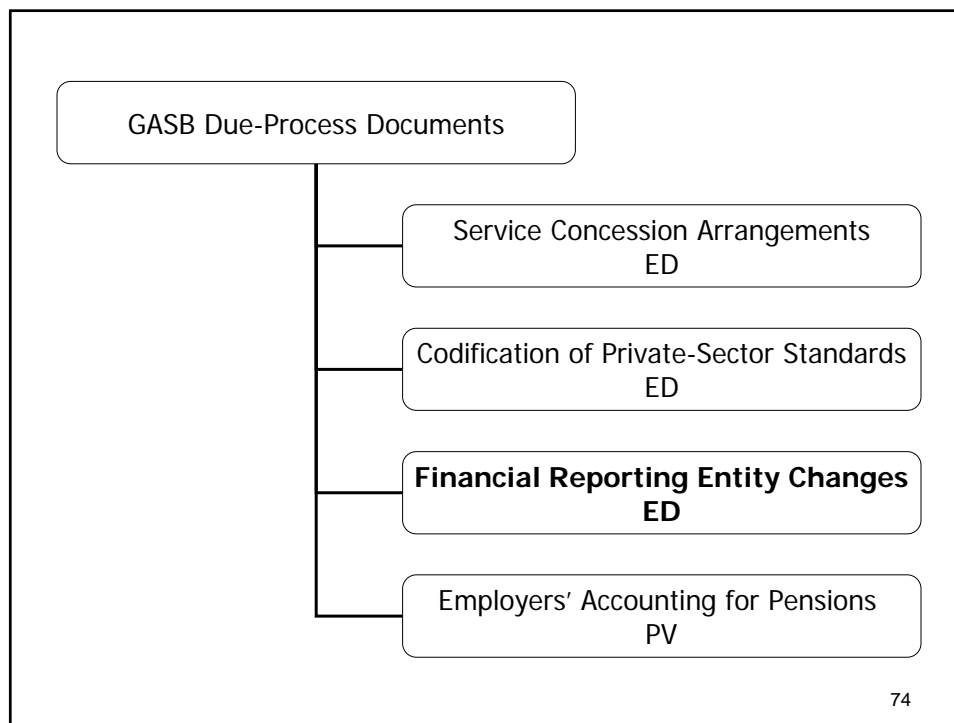
- The optional systematic use of subsequent FASB standards to be eliminated for enterprise funds and business-type activities
 - Little used in practice
 - May still use private-sector standards as *other accounting literature*

72

Clarifications

- Interest should be capitalized on assets acquired for others
- Interest should *not* be capitalized on assets reported in governmental activities
- The operating cycle cannot be the criterion for classifying current assets and liabilities
- Interest does not have to be imputed on low-interest loans that serve a governmental purpose

73



74

Fiscal dependency

- Current guidance
 - Fiscal dependency sufficient for inclusion as component unit
- Proposed change
 - Ongoing relationship of financial benefit or burden also necessary
 - Entitled to or can otherwise access resources
 - Obligated to finance deficits or provide financial support
 - Obligated in some manner for debt

75

Substantively the same governing board

- Current guidance
 - Blending
- Proposed change
 - One of two additional criteria must also be met
 - Ongoing relationship of financial benefit or burden
 - Operational responsibility
 - Management responsible for day-to-day operations (below the board level) also manages the activities of the component unit in essentially the same manner

76

Obligation to repay debt from own resource stream

- Current criteria for blending
 - Substantively similar governing boards
 - Exclusive or almost exclusive benefit
- Proposal to add third criterion
 - An (other than secondary) obligation to repay a component unit's debt entirely, or almost entirely, from a resource stream of the primary government

77

Equity interest in component units

- Current guidance
 - Asset for explicit, measurable equity interest in a joint venture
 - No comparable asset for equivalent equity interest in a component unit
- Proposed change
 - An asset should be reported in both situations
 - If the component unit is blended, this asset would be eliminated and replaced by the statement of net assets of the component unit

78

Minority interests

- Current guidance
 - Joint ventures included as component units by sponsor
 - Portion of equity *reserved for minority interest*
- Proposed change
 - Classify as *restricted net assets*
 - Even though it does not meet the definition of GASB Statement No. 34

79

Note disclosure

- Clarify that the disclosure for component units should specify the criteria for inclusion that were applied to *individual* component units

80

Treatment of blended component units

- Clarify that the funds of blended component units are treated just like funds of the primary government
 - Example: tests for determining a major fund

81

Potentially misleading to exclude

- Current guidance
 - Both "incomplete" or "misleading"
- Proposed change
 - Drop "incomplete" (which is inherently misleading)
 - Clarify that the relationships envisaged are financial in nature

82

Identifying major component units

- Current criteria
 - Nature and significance of the component unit's relationship to the primary government
 - Significance relative to total discretely presented component units
- Proposed change
 - Retain only first criterion

83

Blending for single-column business-type activities

- Two options
 - Consolidate the component unit data into the single column presentation, while including combining information in the notes to the financial statements
 - Display the blended component unit as a separate column and then provide a combined primary government total column

84

Exercises

85

Question 1

Which of the following would *always* be an option for an employer that offered OPEB through a multiple-employer agent plan?

- A. Use of the alternative measurement method
- B. Triennial valuation
- C. Choice of actuarial valuation date
- D. All of the above

86

Question 2

In which of the following cases would a government in a Chapter 9 bankruptcy recognize a gain?

- A. Court ordered reduction of principal
- B. Court ordered reduction of the amount of individual debt service payments
- C. Court ordered reduction of the rate of interest
- D. All of the above
- E. Both (A) and (B)

87

Question 3

How should a pension plan value an unallocated insurance contract?

- A. Fair value
- B. Contract value (based on cost)
- C. Either (A) or (B)

88

Question 4

How should the transferor in a service concession arrangement account for the upfront receipt of cash?

- A. Asset and liability
- B. Asset and deferred inflow
- C. Both (A) and (B)

89

Question 5

The transferor in a service concession arrangement has the right to 20 percent of the revenues collected by the operator. During the current period, the operator generated \$100 in revenue. How much should be reported as revenue by the transferor? By the operator?

- A. Transferor \$20/Operator \$100
- B. Transferor \$20/Operator \$80
- C. Either (A) or (B)

90

Question 6

Which of the following statements would be true regarding the optional use of private-sector standards issued subsequent to 11/30/89 if the GASB issues its proposed codification guidance?

- A. The option is available for government-wide and proprietary fund financial statements
- B. The option is available for business-type activities and enterprise funds
- C. The option is eliminated

91

Question 7

If the GASB issues its proposed codification guidance, governments will be precluded from using future FASB standards.

- A. True
- B. False

92

Question 8

For which capital assets should interest be capitalized?

- A. Capital assets reported in governmental activities
- B. Capital assets reported in enterprise funds
- C. Capital assets reported in internal service funds
- D. All of the above

93

Question 9

The GASB is proposing to eliminate fiscal dependency as a criterion for the inclusion of a potential component unit.

- A. True
- B. False

94

Question 10

The GASB is proposing to limit blending for component units with substantively the same governing board as the primary government to those units that also have an ongoing relationship of financial benefit or burden.

- A. True
- B. False

95

Question 11

Which of the following is the GASB proposing to add as a third basic criterion for blending component units?

- A. Operational responsibility
- B. Obligation to repay debt from primary government revenue stream
- C. Financial benefit or burden
- D. All of the above
- E. Both (A) and (B)

96

Question 12

Which of the following best describes the required disclosure for component units?

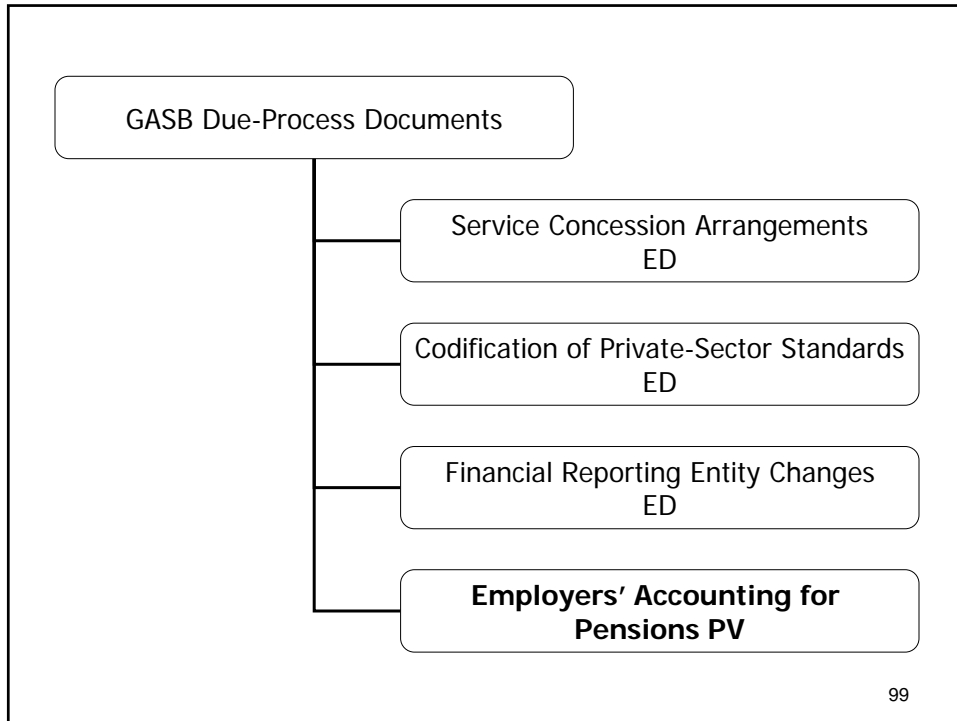
- A. Description of the criteria used to identify and present component units
- B. Description of how the criteria were applied to component units in the aggregate
- C. Description of how the criteria were applied to individual component units

97

Break

15 Minutes

98



- ## Scope
- Employers in defined benefit plans
 - Sole-employer and agent plans
 - Cost-sharing plans
- 100

Employers in Sole-Employer and Agent Multiple-Employer Plans

101

Employer's obligation for benefits

- Current accounting
 - Employer does not report obligation for benefits, as such
- GASB proposal
 - Employer is obligated for benefits in excess of plan assets
 - Unfunded benefit obligation

102

Employer obligation as liability

- GASB proposal
 - Report employer obligation as liability
 - Meets definition of a liability
 - Sufficiently measurable
 - Formula
 - Total pension liability (projected benefit payments)
 - Less: Net pension plan assets as of the reporting date
 - Net pension liability

103

Measurement of total obligation

- GASB proposal
 - Include the effect of all of the following:
 - Automatic cost-of-living adjustments (COLAs)
 - Future ad hoc COLAs in circumstances in which such COLAs are not substantively different from automatic COLAs
 - Future salary increases
 - Future service credits
 - May provide more guidance on ad hoc COLAs

104

Discount rate

- Current guidance
 - Long-term rate of return on plan investments
- GASB proposal
 - A single rate that produces a present value equivalent to that obtained by discounting using
 - The long-term expected rate of return on plan investments to the extent that current and expected future plan net assets projected to be sufficient to make benefit payments
 - A high-quality municipal bond index rate for payments projected beyond the point at which plan net assets are projected to be fully depleted

105

Actuarial cost method

- Current guidance
 - Choice among six acceptable methods
- GASB proposal
 - Entry age based on level percentage of payroll

106

Changes in the net pension liability

- Expected remaining service life
 - Differences between expected and actual experience with regard to economic and demographic factors
 - Changes of assumptions regarding the future behavior of those factors
 - Changes of plan terms

107

Investment earnings

- Amounts above/below projected earnings
 - Cumulative corridor of 15 percent of fair value of investments
 - Within corridor – deferred inflow/outflow
 - Beyond corridor – included in expense

108

Employers in Cost-Sharing Plans

109

Basic approach

- Current practice
 - Employers report participation much like insurance
- GASB proposal
 - Report like employers in sole-employer and agent multiple-employer plan
 - Assign proportionate share of net plan liability and expense to each employer

110

Possible application

- Employer's proportionate share of total required contributions

111

Frequency and timing of valuations

- The valuation must take place at least once every two years (i.e., no change proposed)
- The valuation must occur no more than two years prior to the *end of the employer's fiscal year*
- If the valuation occurs as of a date other than fiscal year end, the *measurement needs to be updated* to that point

112

Exercises

113

Question 1

What amount does the GASB believe an employer should report as a liability for its pension obligations in a sole-employer or agent-defined benefit plan?

- A. Unfunded contributions (i.e., NPO)
- B. Unfunded obligation
- C. Total obligation
- D. None of the above

114

Question 2

What discount rate does the GASB propose for an employer's pension obligation?

- A. Risk-free rate of return
- B. Short-term rate of return
- C. Long-term rate of return
- D. Municipal bond index rate
- E. Both (C) and (D)

115

Question 3

Which of the following actuarial cost methods would be acceptable for accounting and financial reporting purposes under the GASB's proposals for pensions ?

- A. Projected unit credit
- B. Aggregate
- C. Entry age
- D. Attained age
- E. All of the above

116

Question 4

An employer changes the pension formula to enhance benefits for retirees. When should the employer recognize the related expense under the GASB's proposed guidance for pensions?

- A. Immediately
- B. Estimate average remaining service life of active employees
- C. 20 years
- D. 30 years

117

Question 5

Under the GASB's proposed pension guidance, which of the following employers would *not* report a liability ?

- A. An employer in a sole-employer plan
- B. An employer in an agent multiple-employer plan
- C. An employer in an cost-sharing multiple-employer plan
- D. None of the above

118

Question 6

Which of the following, if any, is the GASB proposing to change in regard to the timing and frequency of actuarial valuations for pensions ?

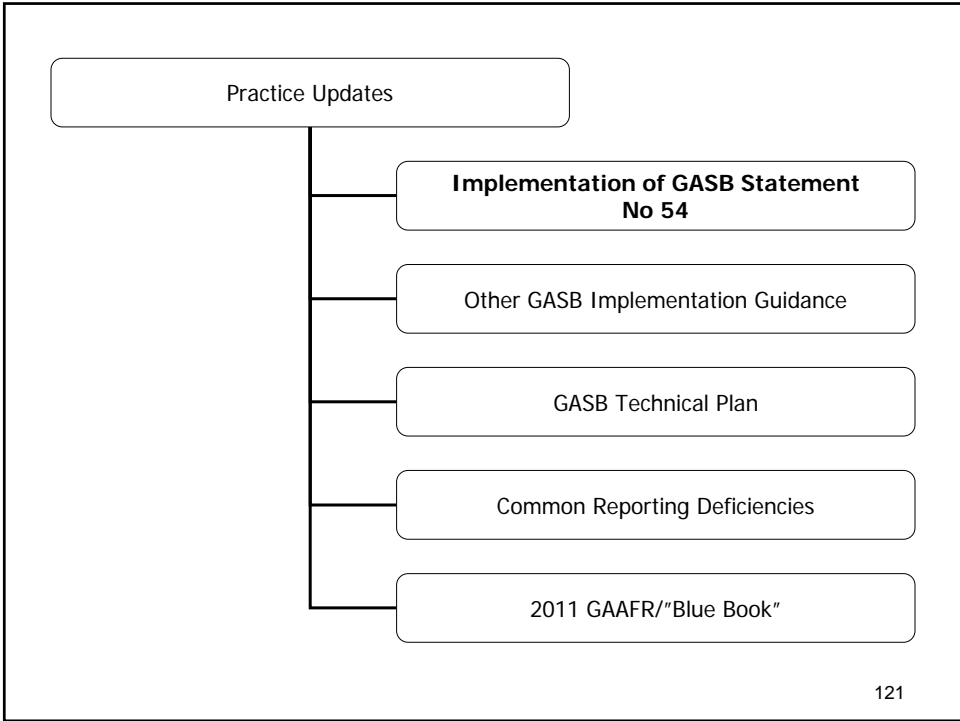
- A. Range of potential dates
- B. Use of actuarial data obtained prior to the reporting date
- C. Requirement for biennial valuations
- D. All of the above
- E. None of the above
- F. Both (A) and (B)

119

Part 3

Practice Updates

120



Review of GASB Statement No. 54

122

Scope and effective date

- Scope
 - Changes how fund balance is presented
 - Clarifies use of governmental fund types
- Effective date
 - Fiscal period ending 6/30/11

123

Focus of fund balance classification

- Constraints on the use of resources
- Source of constraint

124

Components of fund balance

- Five potential categories
 - Nonspendable fund balance
 - Restricted fund balance
 - Committed fund balance
 - Assigned fund balance
 - Unassigned fund balance

125

Nonspendable fund balance

- Not spendable in form
 - Cannot ever be spent
 - Cannot currently be spent
 - Assuming no constraint on use of proceeds
- Legal requirement to maintain intact

126

Categories representing spending constraints

- Restricted fund balance
 - Externally enforceable legal restrictions
- Committed fund balance
 - Constraint formally imposed at highest level
 - Action taken by end of reporting period
- Assigned fund balance
 - Authority may be designated/less formal
 - Action may be taken after reporting date

127

Unassigned fund balance

- Positive balance only in general fund

128

Stabilization arrangements

- Limits on the circumstances of spending (rather than the purpose of spending)
 - Restricted or committed fund balance
 - Circumstances must be sufficiently specific
 - Circumstances must be nonroutine
 - Otherwise *unassigned* fund balance
 - Never assigned fund balance

129

Appropriated fund balance

- Use a portion of existing fund balance to bridge an anticipated gap between appropriations and estimated revenues in the next budget period
 - Assigned fund balance
 - Limited to amount of gap

130

Special Revenue Funds

- Foundation = restricted or committed revenue
- Additional resources may be added
 - Revenue source must remain a substantial portion of inflows

131

Capital Project Funds

- Capital outlays
 - Acquisition or construction of capital facilities
 - Acquisition or construction of other capital assets

132

New Guidance

GASB Comprehensive Implementation Guide

133

Fund balance v. net assets (Z.54.1)

- Three classifications of *unrestricted fund balance*
 - Committed
 - Assigned
 - Unassigned
- *Not applicable to unrestricted net assets*

134

Inventories and prepaids (Z.54.2)

- General rule on long-term receivables and property held for resale
 - Treatment dependent on use of proceeds
 - Restricted, committed, or assigned
 - Otherwise nonspendable
- Not relevant to inventories and prepaids
 - Normally no anticipated proceeds

135

Unrealized gains (Z.54.3)

- Do *not* report as *nonspendable fund balance*
 - Increase in fair value is *available* per GASB Statement No. 31
- Same classification as investment principal

136

Interfund balances (Z.54.4)

- General rule on long-term loans and notes receivable
 - *Nonspendable* unless restricted, committed, or assigned
- Same rule applies to interfund balances
 - *Nonspendable* only in general fund
 - By definition, amounts reported in other funds would be restricted, committed, or assigned

137

Sequencing of classification (Z.54.5)

- GASB Statement No. 54
 - Paragraph 6 – *Restricted, committed, assigned* take precedence over *nonspendable*
 - Paragraph 19 – *Nonspendable* determined first
- Application to long-term receivables and properties held for resale
 - Presume *nonspendable*
 - Reclassify as needed

138

Components of nonspendable fund balance (Z.54.6)

- Separate display/disclosure required for
 - Not in spendable form
 - Contractually or legally required to be maintained intact
- The separate amounts must be *discernable*
 - Terminology may be different
 - *Inventories and prepaid amounts v. Resources not in spendable form*

139

Number of classifications (Z.54.7)

- Not all governments will report all five classifications
 - May not have ability to commit/assign
 - Ability may not have been exercised

140

Government match (Z.54.8)

- Situation
 - Grant proceeds reported in separate special revenue fund
 - 20 percent match from government
- Both = Restricted fund balance
 - Both bound by same external constraints

141

Earnings on grant proceeds (Z.54.9)

- Proceeds will be spent only for grant purposes
 - Grantor requirement?
 - Restricted
 - No grantor requirement?
 - Assigned

142

Restricted fund balance v. restricted net assets (Z.54.10)

- Amounts will be different for three reasons:
 - Permanent fund corpus
 - Nonspendable fund balance (governmental funds)
 - Restricted net assets (governmental activities)
 - Basis of accounting
 - Net assets of internal service funds

143

Contractual obligations and committed fund balance (Z.54.11)

- A government's commitment to pay an amount *not* reported as a governmental fund liability
 - Capital lease
 - Out-of-court settlement
- Existing resources v. future revenues
 - Committed fund balance limited to existing resources

144

Commitment carry over (Z.54.12)

- An assignment of resources to a special revenue fund automatically carries forward to subsequent years
 - Unless reassigned

145

Effect of legal budget and appropriations (Z.54.13)

- Budget normally does *not* affect classification
 - *Authorization* to spend *future* resources
 - Not a *constraint* on the use of *existing* resources
- Budgeted (appropriated) fund balance
 - Assigned
 - *Not* committed (expires automatically)
 - Only amount needed to eliminate budgeted excess of expenditures over revenues

146

Budgeted fund balance (Z.54.14)

- Budgeted fund balance does *not* carry forward automatically
 - Compare assignment of resources to a special revenue fund (Z.54.12)

147

Timing requirements: assignments v. commitments (Z.54.15)

- Commitments *must* be made *before* the end of the reporting period
 - Purpose
 - Amount (formula sufficient)
- Assignments *may* be made *after* the end of the reporting period
 - Purpose
 - Amount

148

Expenditures in advance of restricted resources (Z.54.16)

- Situation
 - General fund advances resources to capital projects fund in anticipation of bond proceeds
- Negative unassigned fund balance
 - Restricted, committed, and assigned fund balance can never be negative

149

Expenditures in advance of restricted resources (Z.54.17)

- Situation:
 - Same as earlier, except capital projects fund reports resources that have been committed or assigned to other purposes
- First eliminate assigned fund balance
 - Excess reported as negative unassigned fund balance
 - No effect on committed fund balance

150

Nonspendable fund balance in excess of total fund balance (Z.54.18)

- Situation:
 - Cash - \$200
 - Inventories - \$110
 - Interfund payable – \$275
 - Fund balance – \$35
- Classification
 - Nonspendable = \$110
 - Unassigned fund balance = -\$75

151

No policy on unrestricted fund balance (Z.54.19)

- Assumed spending order:
 - Committed
 - Assigned
 - Unassigned (general fund only)
- Special revenue fund example
 - Signage and lighting - \$4,654 spending
 - Road maintenance - \$10,000 spending
 - Bridge repair - \$11,223 spending

152

Illustration

| | | | | |
|-----------------------------|------------|------------------|----------------|------------------|
| Signage and lighting | | | | |
| Beginning balances | \$2,000 | \$2,616 | \$1,080 | \$5,696 |
| Additions | | | | |
| Expenditures incurred | (2,000) | (2,616) | (38) | (4,654) |
| Ending balances | \$0 | \$0 | \$1,042 | \$1,042 |
| Road maintenance | | | | |
| Beginning balances | \$8,871 | \$0 | \$0 | \$8,871 |
| Additions | | | \$1,500 | \$1,500 |
| Expenditures incurred | (8,871) | | (1,129) | (10,000) |
| Ending balances | \$0 | \$0 | \$371 | \$371 |
| Bridge repair | | | | |
| Beginning balances | \$0 | \$0 | \$8,040 | \$8,040 |
| Additions | | \$120,000 | | \$120,000 |
| Expenditures incurred | | (11,223) | | (11,223) |
| Ending balances | \$0 | \$108,777 | \$8,040 | \$116,817 |
| Fund totals | \$0 | \$108,777 | \$9,453 | \$118,230 |

153

Policy: first spend assigned, then committed (Z.54.20)

- Assumed spending order:
 - Assigned
 - Committed
 - Unassigned (general fund only)
- Special revenue fund example
 - Signage and lighting - \$4,654 spending
 - Road maintenance - \$10,000 spending
 - Bridge repair - \$11,223 spending

154

Policy: Spend Assigned Then Committed (Z.54.20)

| | | | | |
|-----------------------------|---------|-----------|---------|-----------|
| Signage and lighting | | | | |
| Beginning balances | \$2,000 | \$2,616 | \$1,080 | \$5,696 |
| Additions | | | | |
| Expenditures incurred | (2,000) | (1,574) | (1,080) | (4,654) |
| Ending balances | \$0 | \$1,042 | \$0 | \$1,042 |
| Road maintenance | | | | |
| Beginning balances | \$8,871 | \$0 | \$0 | \$8,871 |
| Additions | | | \$1,500 | \$1,500 |
| Expenditures incurred | (8,871) | | (1,129) | (10,000) |
| Ending Balances | \$0 | \$0 | \$371 | \$371 |
| Bridge repair | | | | |
| Beginning balances | \$0 | \$0 | \$8,040 | \$8,040 |
| Additions | | \$120,000 | | \$120,000 |
| Expenditures incurred | | (3,183) | (8,040) | (11,223) |
| Ending Balances | \$0 | \$116,817 | \$0 | \$116,817 |
| Fund totals | \$0 | \$117,859 | \$371 | \$118,230 |

155

No policy/overspending (Z.54.21)

- Assumed spending order:
 - Committed
 - Assigned
 - Unassigned (general fund only)
- Special revenue fund example
 - Signage and lighting - \$7,654 spending
 - Road maintenance - \$10,000 spending
 - Bridge repair - \$11,223 spending

156

Illustration

| | | | | | | |
|-----------------------------|---------|-----------|----------|---------|----------|-----------|
| Signage and lighting | \$2,000 | \$2,616 | \$1,080 | | \$1,080 | \$5,696 |
| Beginning balances | | | | | | |
| Additions | | | | | | |
| Expenditures incurred | (2,000) | (2,616) | (3,038) | \$1,958 | (1,080) | -\$5,696 |
| Ending balances | \$0 | \$0 | -\$1,958 | \$1,958 | \$0 | \$0 |
| Road maintenance | | | | | | |
| Beginning balances | \$8,871 | \$0 | \$0 | | \$0 | \$8,871 |
| Additions | | | \$1,500 | | \$1,500 | \$1,500 |
| Expenditures incurred | (8,871) | | (1,129) | | -\$1,129 | -\$10,000 |
| Ending balances | \$0 | \$0 | \$371 | | \$371 | \$371 |
| Bridge repair | | | | | | |
| Beginning balances | \$0 | \$0 | \$8,040 | | \$8,040 | \$8,040 |
| Additions | | \$120,000 | | | | |
| Expenditures incurred | | (11,223) | | | | |
| Elimination of deficit | | | | (1,958) | -\$1,958 | -\$1,958 |
| Ending balances | \$0 | \$108,777 | \$8,040 | (1,958) | \$6,082 | \$6,082 |
| Fund totals | \$0 | \$108,777 | \$6,453 | \$0 | \$6,453 | \$6,453 |

157

Overspending for specific purpose: general fund (Z.54.22)

- Overspending first charged to unassigned fund balance
 - Only reduce amounts assigned to other purposes after *unassigned fund balance* is depleted

158

Stabilization v. minimum fund balance (Z.54.23)

- Stabilization arrangement
 - Spending permitted only in specified, non-routine circumstances or conditions
- Minimum fund balance policy
 - Target amount
 - No provision for spending

159

Stabilization resources: committed (Z.54.24)

- Two criteria for assessing whether the conditions for spending stabilization resources permit their classification as committed fund balance
 - Specific
 - Non-routine
- Note disclosure always required

160

State minimum fund balance requirement (Z.54.25)

- Not a stabilization arrangement
 - No specific conditions for spending
- No minimum fund balance policy disclosure
 - Imposed rather than adopted

161

Stabilization arrangement in special revenue fund (Z.54.26)

- Revenue source committed for stabilization can be reported in a special revenue fund
 - Revenues must be reported directly in the fund

162

Encumbrances (Z.54.27)

- No display on the face of the financial statements
 - Already included in restricted, committed, and assigned fund balance.

163

Encumbrances and unassigned fund balance (Z.54.28)

- Executing a purchase order is tantamount to an assignment of resources
 - Use of unassigned fund balance inappropriate
 - Classify as restricted or committed if the purchase relates to restricted or committed resources

164

Fund balance falls below prescribed minimum (Z.54.29)

- No disclosure required of
 - Reason below minimum level
 - Anticipated corrective action
- May need to discuss change in management's discussion and analysis (MD&A)

165

Required use of special revenue funds (Z.54.30)

- Only required for the general fund of a blended component unit

166

Assigned resources and special revenue funds (Z.54.31)

- Cannot be the foundation for a special revenue fund
- May be added to an existing special revenue fund
 - Foundation = substantial restricted or committed revenues

167

Substantial portion of special revenue fund revenues (Z.54.32)

- Restricted or committed revenues must comprise a substantial portion of *inflows*
 - *Inflows* include transfers and assigned revenues

168

Special revenue fund at termination of revenue stream (Z.54.33)

- Restricted revenue with limited life expectancy
 - Separate fund may continue after restricted revenues cease
 - No other continuing inflows permitted

169

Annual transfers as foundation for special revenue fund (Z.54.34)

- Decision at highest level to make annual transfers for a specified purpose is *not a* sufficient foundation for a special revenue fund
 - Transfers are *not* revenues

170

Lottery transfers (Z.54.35)

- Mandatory transfers of net lottery proceeds to other funds cannot be the foundation of a special revenue fund
 - Transfers do not qualify as restricted/committed revenue

171

Dedicated property taxes (Z.54.36)

- Separate dedicated property tax levies can be reported in a special revenue fund
 - Even if collected by the general fund
 - Report as revenue in the special revenue fund

172

Taxes intended for a specific purpose (Z.54.37)

- A portion of the corporate tax levy that the government intends to use for one of the specific purposes underlying the levy does *not* qualify as restricted revenue
 - The taxes cannot be the foundation for a special revenue fund

173

Budgeted transfers and special revenue funds (Z.54.38)

- Situation:
 - 20 percent of an existing revenue source is committed to a specific program
 - Revenue is budgeted in the general fund and then transferred to a separate fund
- Special revenue fund may be used
 - Budgeted "transfers" would need to be reported as revenue of the separate fund

174

Resources of disqualified special revenue funds (Z.54.39)

- Two options
 - General fund (paragraph 31)
 - Another special revenue fund with a similar purpose

175

Resource accumulation (Z.54.40)

- Decision at highest level to accumulate resources for future property revaluations
 - Transfer to separate fund each year
- Not a special revenue fund
 - Transfers not restricted/committed revenue
- Not a capital projects fund
- General fund or special revenue fund with similar purpose

176

Budgetary reporting: perspective differences (Z.54.41)

- Some budgetary special revenue funds do *not* qualify as such for financial reporting
 - Include in general fund or other special revenue fund with similar purpose
- Use legally adopted budget of host funds
 - Additional revenues/expenditures = perspective difference
 - Part of reconciliation

177

Noncapitalized items in capital projects funds (Z.54.42)

- Purchases of items that are capital in nature, but that fall below the capitalization threshold, may be reported in a capital projects fund

178

Capital reserve fund (Z.54.43)

- Situation
 - State law allows for school district capital reserve fund
 - Unused appropriations and unassigned fund balance may be transferred to that fund
- Not a special revenue fund
 - Transfers are not restricted revenues
- May use capital projects fund

179

Required use of debt service fund (Z.54.44)

- When use is legally mandated
- For accumulations for principal and interest maturing in future years
 - Reserve accounts
 - Sinking funds
 - *Not* annual receipts for next principal and interest payment

180

Change in presentation for nonmajor funds

- GASB Statement No. 34
 - Report unreserved fund balance by fund type
- GASB Statement No. 54
 - Effectively eliminates that requirement

181

C-1

Sample City
Balance Sheet
Governmental Funds
December 31, 2002

| | General | HUD Programs | Community Redevelopment | Route 7 Construction | Other Governmental Funds (See H-1) | Total Governmental Funds |
|--|---------------------|---------------------|-------------------------|----------------------|------------------------------------|--------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 3,418,485 | \$ 1,236,523 | \$ — | \$ — | \$ 5,606,792 | \$ 10,261,800 |
| Investments | — | — | 13,262,695 | 10,467,037 | 3,485,252 | 27,214,984 |
| Receivables, net | 3,644,561 | 2,953,438 | 353,340 | 11,000 | 10,221 | 6,972,560 |
| Due from other funds | 1,370,757 | — | — | — | — | 1,370,757 |
| Receivables from other governments | — | 119,059 | — | — | 1,596,038 | 1,715,097 |
| Liens receivable | 791,926 | 3,195,745 | — | — | — | 3,987,671 |
| Inventories | 182,821 | — | — | — | — | 182,821 |
| Total assets | \$ 9,408,550 | \$ 7,504,765 | \$ 13,616,035 | \$ 10,478,037 | \$ 10,698,303 | \$ 51,705,690 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 3,408,680 | \$ 129,975 | \$ 190,548 | \$ 1,104,632 | \$ 1,074,831 | \$ 5,908,666 |
| Due to other funds | — | 25,369 | — | — | — | 25,369 |
| Payable to other governments | 94,074 | — | — | — | — | 94,074 |
| Deferred revenue | 4,250,430 | 6,273,045 | 250,000 | 11,000 | — | 10,784,475 |
| Total liabilities (Note 2) | 7,753,184 | 6,428,389 | 440,548 | 1,115,632 | 1,074,831 | 16,812,584 |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Inventories | 182,821 | — | — | — | — | 182,821 |
| Liens receivable | 791,926 | — | — | — | — | 791,926 |
| Encumbrances | 40,292 | 41,034 | 119,314 | 5,792,587 | 1,814,122 | 7,807,349 |
| Debt service | — | — | — | — | 3,832,062 | 3,832,062 |
| Other purposes | — | — | — | — | 1,405,300 | 1,405,300 |
| Unreserved, reported in: | | | | | | |
| General fund | 640,327 | — | — | — | — | 640,327 |
| Special revenue funds | — | 1,035,342 | — | — | 1,330,718 | 2,366,060 |
| Capital projects funds | — | — | 13,056,173 | 3,569,818 | 1,241,270 | 17,867,261 |
| Total fund balances | 1,655,366 | 1,076,376 | 13,175,487 | 9,362,405 | 9,623,472 | 34,893,106 |
| Total liabilities and fund balances | \$ 9,408,550 | \$ 7,504,765 | \$ 13,616,035 | \$ 10,478,037 | \$ 10,698,303 | |

Amounts reported for governmental activities in the statement of

182

Sample City
Balance Sheet
Governmental Funds
December 31, 2002

Exhibit C-1

| | General | HUD Programs | Community Redevelopment | Route 7 Construction | Other Governmental Funds (See H-1) | Total Governmental Funds |
|--|---------------------|---------------------|----------------------------|-------------------------|---|--------------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 3,418,485 | \$ 1,236,523 | \$ — | \$ — | \$ 5,606,792 | \$ 10,261,800 |
| Investments | — | — | 13,262,695 | 10,467,037 | 3,485,252 | 27,214,984 |
| Receivables, net | 3,644,561 | 2,953,438 | 353,340 | 11,000 | 10,221 | 6,972,560 |
| Due from other funds | 1,370,757 | — | — | — | — | 1,370,757 |
| Receivables from other governments | — | 119,059 | — | — | 1,596,038 | 1,715,097 |
| Liens receivable | 791,926 | 3,195,745 | — | — | — | 3,987,671 |
| Inventories | 182,821 | — | — | — | — | 182,821 |
| Total assets | \$ 9,408,550 | \$ 7,504,765 | \$ 13,616,035 | \$ 10,478,037 | \$ 10,698,303 | \$ 51,705,690 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 3,408,680 | \$ 129,975 | \$ 190,548 | \$ 1,104,632 | \$ 1,074,831 | \$ 5,908,666 |
| Due to other funds | — | 25,369 | — | — | — | 25,369 |
| Payable to other governments | 94,074 | — | — | — | — | 94,074 |
| Deferred revenue | 4,250,430 | 6,273,045 | 250,000 | 11,000 | — | 10,784,475 |
| Total liabilities (Note 2) | 7,753,184 | 6,428,389 | 440,548 | 1,115,632 | 1,074,831 | 16,812,584 |
| Fund balances: | | | | | | |
| Nonspendable: | | | | | | |
| Inventories and noncurrent receivables | 223,113 | — | — | — | — | 223,113 |
| Permanent fund principal | — | — | — | — | 654,321 | 654,321 |
| Restricted for: | | | | | | |
| Public safety programs | 78,087 | — | — | — | — | 78,087 |
| Housing and community redevelopment | — | 1,035,342 | 13,175,487 | — | — | 14,210,829 |
| Debt service | — | — | — | — | 3,832,062 | 3,832,062 |
| Transportation and public works | 966,168 | — | — | 5,792,587 | 3,885,982 | 10,644,737 |
| Cemetery and public works | — | — | — | — | 750,979 | 750,979 |
| Committed for: | | | | | | |
| Transportation and public works | 99,799 | 41,034 | — | 3,569,818 | 310,248 | 4,020,899 |
| Culture and recreation | 33,400 | — | — | — | 12,880 | 46,280 |
| Assigned to: | | | | | | |
| Culture and recreation | — | — | — | — | 177,000 | 177,000 |
| Unassigned: | | | | | | |
| General fund | 254,799 | — | — | — | — | 254,799 |
| Total fund balances | 1,655,365 | 1,076,376 | 13,175,487 | 9,362,405 | 9,623,472 | 34,893,106 |
| Total liabilities and fund balances | \$ 9,408,550 | \$ 7,504,765 | \$ 13,616,035 | \$ 10,478,037 | \$ 10,698,303 | |

183

Exercises

184

Question 1

In which of the following funds could a long-term interfund loan receivable be classified as nonspendable fund balance?

- A. General fund
- B. Special revenue fund
- C. Both (A) and (B)
- D. None of the above

185

Question 2

How would a government's match of grant funds be classified?

- A. Nonspendable fund balance
- B. Restricted fund balance
- C. Committed fund balance
- D. Assigned fund balance

186

Question 3

How should amounts appropriated in the annual (biennial) budget be classified?

- A. Restricted fund balance
- B. Committed fund balance
- C. Assigned fund balance
- D. Unassigned fund balance

187

Question 4

Which of the following classifications can report a negative balance?

- A. Restricted fund balance
- B. Committed fund balance
- C. Assigned fund balance
- D. None of the above
- E. Both (A) and (B)

188

Question 5

If a government does *not* have a policy setting a flow assumption for the use of unrestricted resources, what would the appropriate flow assumption be?

- A. Committed, assigned, unassigned
- B. Unassigned, assigned, committed
- C. Unassigned, committed, assigned
- D. Either (A), (B), or (C)

189

Question 6

If a government has a minimum fund balance policy, how should the target amount be classified?

- A. Committed
- B. Assigned
- C. Unassigned
- D. Either (A) or (B)
- E. None of the above

190

Question 7

Note disclosure for stabilization arrangements applies only if the conditions for spending are both specific and non-routine.

- A. True
- B. False

191

Question 8

How would a state mandated minimum fund balance amount be reported?

- A. Restricted fund balance
- B. Committed fund balance
- C. Minimum fund balance policy disclosure
- D. None of the above

192

Question 9

Which of the following classifications, if any, could *not* include an amount related to encumbrances?

- A. Restricted fund balance
- B. Committed fund balance
- C. Assigned fund balance
- D. Unassigned fund balance
- E. None of the above

193

Question 10

Transfers *cannot* be reported in special revenue funds.

- A. True
- B. False

194

Question 11

The purchase of items that ultimately are *not* capitalized may *not* be reported in a capital projects fund.

- A. True
- B. False

195

Question 12

The use of a debt service fund is required anytime there are resources available at the end of the period for the first debt service payment of the following period.

- A. True
- B. False

196

Break

15 Minutes

197

Practice Updates

Implementation of GASB Statement
No 54

Other GASB Implementation Guidance

GASB Technical Plan

Common Reporting Deficiencies

2011 GAAFR/"Blue Book"

198

New questions v. changes

- Asterisked question (*) = amendment

199

Investments v. investment securities*

- Clarification
 - Background:
 - Not all investments are evidenced by securities
 - Only investments evidenced by securities are exposed to custodial credit risk
 - Change:
 - Replace *investment with investment security* when discussing custodial credit risk

200

Money market funds (1.10.4)

- Not subject to custodial credit risk
 - Really an open-end mutual fund
 - Not evidenced by securities

201

Fiduciary-type component units*

- Technically neither *blended* nor *discretely presented*
 - Not included in the government-wide financial statements
- New terminology: *included in the fiduciary fund financial statements*

202

2a7-like pools (6.39.2*)

- Definition
 - Includes ongoing SEC regulatory guidance on specific issues that affect money market funds

203

Capitalized interest (7.10.6)

- Capitalization of interest always is applicable to enterprise funds, even when their use is voluntary

204

Unamortized debt issuance costs (7.23.3*)

- Exclude from *net assets invested in capital assets, net of related debt*
 - Not used to “acquire, construct, or improve capital assets”
- Reporting
 - Include in *unrestricted net assets*
 - *If paid from bond proceeds, that portion of the bonds as well*

205

Retainage (7.23.13-14)

- Include in *net assets invested in capital assets, net of related debt*
 - Used to “acquire, construct, or improve capital assets”
- Attributable to *construction in progress*
 - For purposes of calculating unspent bond proceeds
 - *Restricted net assets*

206

Restricted net assets (7.24.4* and 7.24.28)

- Always consistent with fund statements
 - Governmental activities
 - Restricted = purpose narrower than *governmental activities*
 - Not necessarily narrower than the purpose of the fund
 - Business-type activities
 - Restricted = purpose narrower than the purpose of the individual fund
 - Business-type activities do *not* have an aggregate purpose

207

Reversing indirect costs (7.28.5*)

- Significant indirect costs allocated under federal grants
 - Significant indirect costs must be disallocated in the expense column
 - Allocation allowed, but separate column must be used
 - Negative amount in general fund
 - Positive amounts in other funds
 - Total indirect expense column = \$0

208

Major classes of capital assets (7.85.2*)

- Add *intangible assets*
 - Consider Z51.29
 - If the types of intangible assets reported by a government differ in nature and usage, then they should not be reported collectively as a single major class of capital assets
 - Patents v. right-of-way easements

209

Netting derivatives (10.13.8)

- Some derivatives are assets and others are liabilities
 - No netting, absent the right of offset

210

Effective hedging instrument: debt (10.13.9)

- Derivative instrument treated separately from hedged debt
 - Unlike unamortized premiums and discounts
 - Does not “follow the debt”

211

Evaluation of hedge effectiveness (10.17.1*)

- Situation:
 - Manager 1 – foreign currency swap
 - Manager 2 – expected purchase of debt
 - Practical effect – hedging prior to purchase
- Issue: Evaluate for effectiveness?
- Two considerations
 - Only future purchase is hedgeable (not reported at fair value)
 - Association between the two needs to be established

212

Commodities hedge forward price (10.31.4)

- Situation:
 - Contract to purchase December heating oil
 - New Jersey/Maryland price point
 - Hedging contract
 - Based on New York Harbor price point
- Issue: Determining hedge effectiveness
 - Need to calculate forward price for purchase

213

Commodities hedge forward price (cont.)

- Two possibilities
 - Commodity exchange
 - Futures contract indexed to New Jersey/Maryland price point
 - Price difference
 - Known forward price = New York Harbor

214

Illustration

| | 30-May | 30-Jun | Difference |
|-------------------------------------|--------|--------|------------|
| Current Physical Prices | | | |
| New Jersey/Maryland | \$0.60 | \$0.59 | \$0.01 |
| New York Harbor | (0.53) | (0.50) | (0.03) |
| | \$0.07 | \$0.09 | (\$0.02) |
| Expected Forward Price | | | |
| December New York Harbor | \$0.57 | \$0.54 | |
| Difference | 0.07 | 0.09 | |
| December New Jersey/Maryland | \$0.64 | \$0.63 | |

215

Amortization period – refundings (Z.23.2)

- Amortize difference over shorter:
 - Remaining life of old debt
 - Life of new debt
- Remaining life of old debt = normal maturity date
 - Not call date

216

Federal reimbursement of interest (Z.33.25)

- Federal reimbursement of a portion of the interest on taxable bonds
 - Build America Bonds
 - Recovery Zone Economic Development Bonds
- Reporting
 - Do *not* reduce interest expense (no netting)
 - Report as separate nonexchange transaction

217

Early retiree reinsurance (Z.33.26)

- Federal government to partially reimburse the cost of early retiree healthcare
 - Age 55+
 - Not yet eligible for Medicare
- Treat like Medicare Part D (TB 2006-1)
 - Separate transaction
 - Not to be considered in estimating future cost

218

Gains from impairments (Z.42.14)

- Reporting net gain from an impairment losing that is insured
 - Special item/extraordinary item
 - Same as net loss
 - Program or operating expense (had the event been uninsured)
 - Program revenue (charges for services)/operating revenue
 - *Not* negative expense

219

Intra-entity purchases of capital assets (Z.48.15)

- General government capital asset purchased at fair value by enterprise fund
 - Carrying value - \$100,000/fair value \$300,000
- General fund
 - \$100,000 proceeds of sale (OFS)
 - \$200,000 transfer in (OFS)
- Enterprise fund
 - \$100,000 asset
 - \$200,000 transfer out

220

Internally generated software at transition (Z.51.36)

- *Must* capitalize costs incurred in the year that GASB Statement No. 51 takes effect
- *May* capitalize qualifying costs incurred previously
 - Transition policy must be consistent

221

Emissions credits (Z.51.37)

- Used in operations
 - No increase in service capacity/no asset
- Held for sale
 - Intangible assets held for income or profit
 - Carrying value of \$0 (no initial cost)
 - Recognize gain when sold

222

Demand bonds (Z.11.1)

- Nature
 - Right to demand redemption within a short period (e.g., 12 months)
 - Tender option/put option
- Examples
 - Tender option bonds/puttable bonds
 - Extendible maturity commercial paper/bonds
 - Variable rate demand obligations

223

Debt service from dedicated revenue (Z.12.1)

- Situation:
 - County issues debt for convention center
 - Issued in the county's name
 - Payable from county hotel and motel tax
 - Center to be owned/operated by discretely presented component unit
- *Not* conduit debt (secured debt)
 - Proceeds must go outside the reporting entity

224

Question 1

Which of the following may be part of the calculation of *net assets invested in capital assets, net of related debt*?

- A. Interfund liability
- B. Retainage payable
- C. Both (A) and (B)
- D. None of the above

225

Question 2

Items reported as *unrestricted net assets* in enterprise fund financial statements may need to be reclassified as *restricted net assets* when reported in business-type activities.

- A. True
- B. False

226

Question 3

How should derivative instruments used to hedge debt be reported?

- A. Like premiums or discounts in all cases
- B. Like premiums or discounts if the hedge is effective
- C. Separate from the debt

227

Question 4

What amortization period should be used for deferred charges resulting from refundings?

- A. Duration of new debt
- B. Original maturity of old debt
- C. Period until call date of old debt
- D. Either (A) or (B)
- E. Either (A) or (C)
- F. Either (B) or (C)

228

Question 5

Which of the following should be netted against expense?

- A. Federal reimbursement of interest
- B. Federal reimbursement of the cost of Medicare Part D
- C. Federal reimbursement of cost of early retiree healthcare
- D. All of the above
- E. None of the above

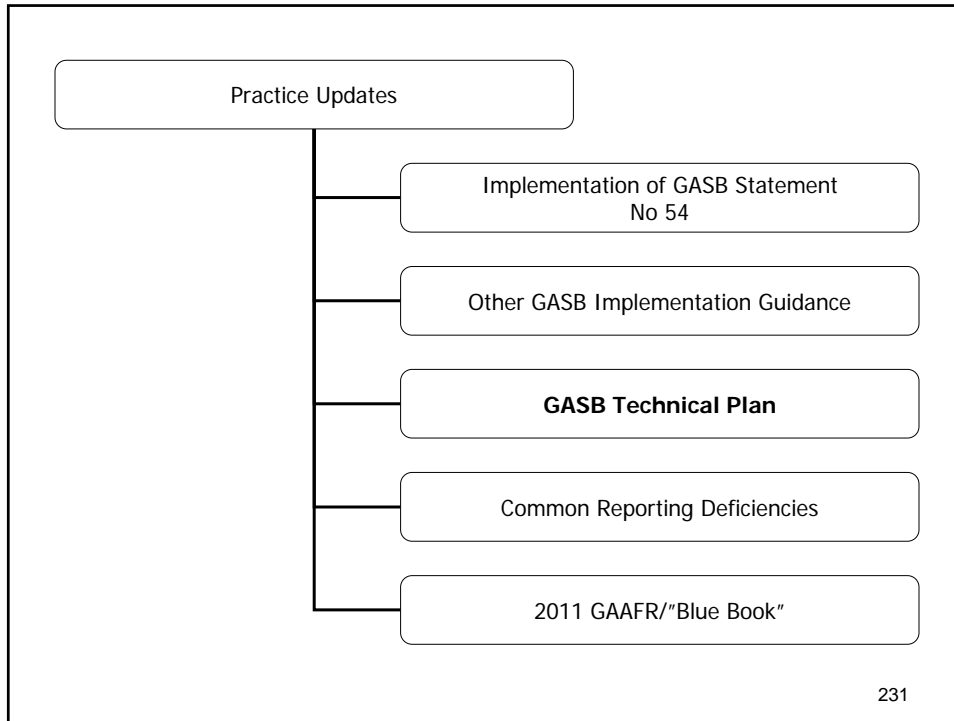
229

Question 6

A blended component unit enterprise fund purchases a capital asset with a book value of \$100 from the primary government at its fair value of \$150. How should the blended component unit report the \$50 difference?

- A. Include in the cost of the capital asset
- B. Expense
- C. Transfer

230



- ## Current agenda: major projects
- Conceptual framework
 - Recognition and measurement attributes
 - Economic condition reporting
 - Fiscal sustainability
- 232

Recognition and measurement attributes

- Objectives
 - Recognition criteria for *whether* information should be reported and *when* that information should be reported
 - Measurement attribute(s)
 - Fair value v. historical cost
- Ultimate product – concepts statement
 - Preliminary views – early 2011

233

Fiscal sustainability

- Consider whether guidance or guidelines should be provided for additional information about economic condition, particularly fiscal sustainability, as part of general purpose external financial reporting (GPEFR)
 - Include consideration of the information necessary to assess the risks associated with a government's intergovernmental financial dependencies

234

Fiscal sustainability (cont.)

- Another major issue the board will consider is whether or not governments should project fiscal information into the future and, if so, should the board consider providing guidance on the assumptions used to execute those projections (for example, current policy, reasonable assumptions, or specific alternative scenarios). A related issue is determining the general length of time for reporting forward projected information

235

Current agenda: practice issues

- Derivatives: application of termination provisions
- Statement of net position

236

Derivatives: application of termination provisions

- Clarify when termination provisions apply in situations where the counterparty for an interest rate swap is bankrupt
 - Interest rate swap counterparty bankruptcy events when there is no retirement or redemption of the hedged debt
 - Should deferred inflows and outflows continue to be deferred if a new counterparty assumes essentially the same terms and conditions?

237

Statement of net position

- Practical implementation of *deferred inflows* and *deferred outflows*
 - Reclassify *deferred revenues* and *deferred charges*?
 - Report separately?
 - In what order?
 - Term for net amount(s)?
 - Name of statement?

238

Research projects

- Electronic financial reporting
- Fair value measurement project
- Fiduciary responsibilities
- Financial guarantees
- Government combinations

239

Electronic financial reporting

- Monitor the effect of the electronic media on information delivery and user needs as a basis for evaluating the need to develop standards for financial reports intended for this medium.

240

Fair value measurement

- Objectives
 - Alternatives for the further development of the definition of fair value
 - Methods used to measure fair value
 - Potential disclosures
- Specific issue
 - Alternative investments

241

Fiduciary responsibilities

- Issues
 - User needs
 - Different guidance for different activities?
 - Stand-alone business-type activities
 - Agency funds
 - Disclosure

242

Financial guarantees

- Recognition and disclosure of financial guarantees

243

Government combinations

- Financial reporting requirements for government combinations that are accomplished through annexation, consolidation, acquisition, shared service arrangements, or by other means
 - Also certain devolution (spin-off) issues

244

Potential projects

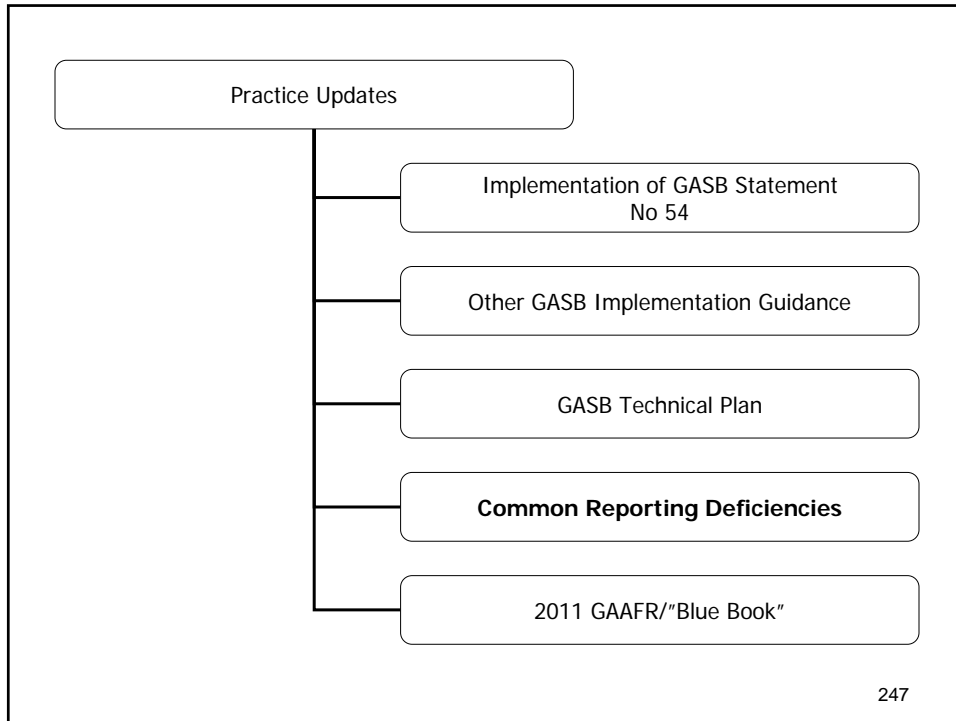
- Exchange-like revenues
- Financial performance measurements
- Financial transactions with characteristics of both loans and grants
- GAAP hierarchy
- In-kind contributions
- Irrevocable charitable trusts
- Popular reporting
- Present value
- Preservation method
- Tax abatement disclosures

245

Potential reexamination projects

- Compensated absences
- Conduit debt
- Debt refundings
- Deferred compensation plans
- Escheat property
- Landfills
- Lease accounting
- Nonexchange transactions
- Reverse repurchase agreements
- Risk financing
- Securities lending transactions

246



Letter of transmittal

- Date no earlier than the date of the independent auditor's report

248

Independent auditor's report

- Opinion needed on the fair presentation of budgetary comparison presented as a basic financial statement

249

Management's discussion and analysis (MD&A)

- Needs to be comprehensive
 - Governmental activities *and business-type activities*
 - The general fund *and other major funds*
 - Variances between the final amended budget and actual *and variances between the original budget and the final amended budget*

250

MD&A (cont.)

- Provide analysis (reasons), not just description
- Provide three years of comparative data for comparative financial statements
- Discuss capital asset and long-term debt activity
 - Reference to note insufficient

251

Government-wide statement of net assets

- Treat direct payments to beneficiaries as postemployment benefit contributions
- Treat postemployment liabilities as long-term/due in more than one year
- Report net number for debt
 - Separate elements insufficient

252

Statement of net assets (cont.)

- Calculate net assets invested in capital assets, net of related debt correctly
 - Exclude unexpended bond proceeds
 - Exclude bond issuance costs
 - Exclude internal borrowings
 - Include intangible capital assets
 - Include refunding bonds
- Provide detail on major categories of restricted net assets (note disclosure not a substitute)

253

Government-wide statement of activity

- Properly classified shared taxes
- Report intergovernmental expenses in the appropriate function or program
- Report only significant amounts as *special items*

254

Fund financial statements

- Reassess major fund classification each year
 - Base on final numbers
 - When internal funds combined for financial reporting, base on combined fund as reported
- Report certain accrued liabilities in governmental funds only when due and payable (e.g., compensated absences and claims and judgments)

255

Fund financial statements (cont.)

- Report an other financing source equal to face value of debt
 - Do not net in a refunding
 - Do not combine with discounts or premiums
- Limit the use of *other financing sources and uses* to specified items

256

Fund financial statements (cont.)

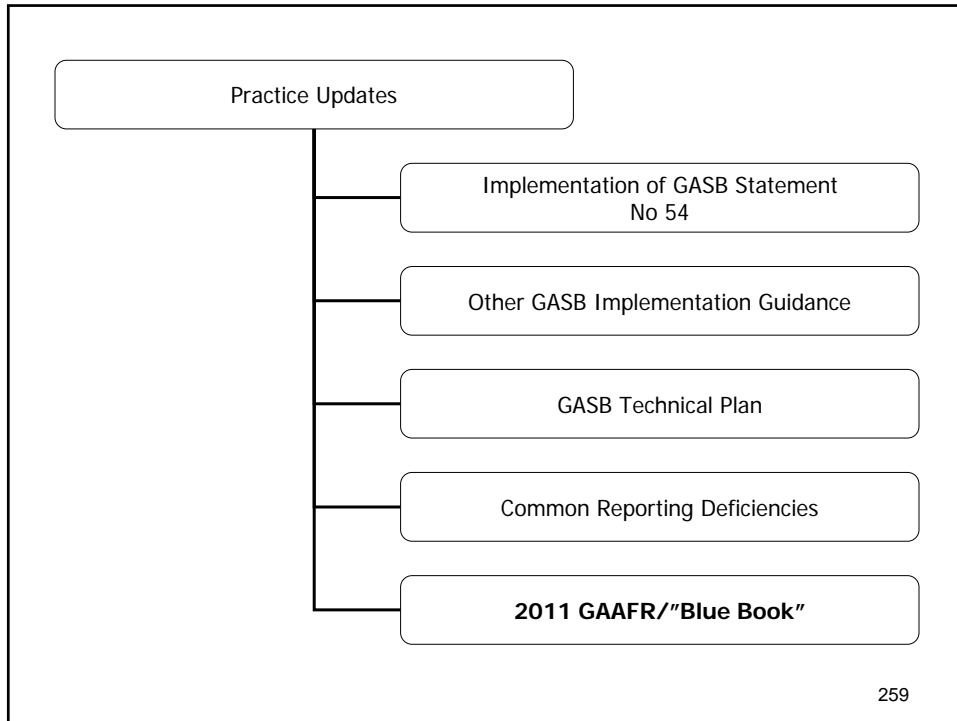
- Proprietary funds
 - Make sure long-term liabilities tie to *amount due in more than one year*
 - Provide detail on major categories of net assets
 - Report capital contributions consistently with government-wide financial statements
 - Provide information on noncash items
 - Commodities and donations of existing assets

257

Deficiencies (cont.)

- Fiduciary funds
 - Report pension plans and OPEB plans in separate funds
- Notes
 - Disclose investment risk policies
 - Report gross changes in long-term liabilities
 - Update pension disclosures for GASB Statement No. 50 (funding progress)

258



- ## 2011 GAAFR (“Blue Book”)
- Basic
 - Complete rewrite
 - Through GASB Statement No. 59
 - Chapters
 - Shorter
 - More (from 19 to 47)
 - Summary and exercises
- 260

Five parts

- Background and framework
- Fund accounting and the basic financial statements
- Specialized accounting applications
- Reporting beyond the basic financial statements
- Internal control, auditing, and analysis

261

Background and framework

- Basic background
 - Overview/environment/sources of GAAP
- The governmental financial reporting model
 - Funds and fund types/government-wide financial reporting/reporting entity
- Basic recognition principles
 - Measurement focus and basis of accounting/categories of transactions and events

262

Fund accounting and the basic financial statements

- Governmental funds
 - Revenue recognition/expenditure recognition/other financing sources and uses/asset and liability recognition/financial statements
- Proprietary funds
 - Enterprise funds/internal service funds/financial statements
- Fiduciary funds
 - Trust and agency funds/financial statements
- Government-wide financial statements
 - Converting and consolidating fund data/financial reporting
- Disclosure
 - Summary of significant accounting policies/detailed notes

263

Specialized accounting applications

- Benefits
- Budgetary integration
- Capital assets
- Debt
- Derivatives
- Landfills and pollution remediation
- Risk financing and insurance
- Other specialized applications

264

Reporting beyond the basic financial statements

- Required supplementary information
 - MD&A/budgetary reporting/other RSI
- The comprehensive annual financial report
 - Structure and contents/statistical section
- Specialized entities
 - Postemployment benefit plans/risk pools/school districts/states, investment pools & stand-alone business-type activities
- Other reporting
 - Popular reporting
 - Performance measurement

265

Internal control, auditing, and analysis

- Internal control
 - Framework of internal control/evaluating internal control
- Auditing
 - Financial statement audit/Single Audit/other types of auditing
- Analysis

266

Other changes

- New format
- Diskette of illustrative financial statements

267

Thank you!

2011 Governmental GAAP Update
November 3, 2011

268