

Washington State Financial Management Advisory Council

GASB Update

September 17, 2010

Wesley A. Galloway, Project Manager, GASB. The opinions expressed in this presentation are those of Mr. Galloway. Official positions of the GASB are established only after extensive public due process and deliberation.

Slide 1



Changes at the GASB

- Appointment of New Board Member
 - Michael Granof
- GASB Funding
 - GAO Study—included in financial reform act

Slide 2



Build America Bonds

- Government issues taxable bonds and feds. reimburse 35% of interest paid.
 - Line item federal appropriation
 - Rate could change or terminate
 - See GFOA best practice guidance
- New Q&A—Do not net the interest expense and nonexchange revenue.

Slide 3



Standards' Effective Dates

- Beginning after June 15, 2009 (June 30 '10, Dec. 31 '10)
 - Statement 51, *Intangible Assets*
 - Statement 53, *Derivative Instruments*
 - Statement 58, *Chapter 9 Bankruptcy*
- Beginning after June 15, 2010 (June 30 '11, Dec. 31 '11)
 - Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
 - Statement 59, *Financial Instruments Omnibus*

Slide 4



Standards' Effective Dates

- Part Immediately and Part Beginning after June 15, 2011 (June 30 '12, Dec. 31 '12)
 - Statement 57, *OBEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
- Issued July 2010
 - Suggested Guidelines for Voluntary Reporting, *SEA Performance Information*

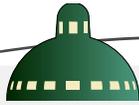
Slide 5



Current Exposure Documents

- *Statement 14 Reexamination*
- *Service Concession Arrangements*
- *Codification of Pre-1989 FASB standards*
- *Pension Accounting and Financial Reporting (Preliminary View in June 2010)*

Slide 6



Statement 51

Accounting and Financial Reporting for Intangible Assets

Slide 7



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

Slide 8



Scope Exceptions

- Intangible assets acquired or created primarily for directly obtaining income or profit
- Capital leases
- Goodwill from a combination transaction

Slide 9



Implementation Issues

- Don't "unbundle" individual rights in the bundle of rights of property ownership
- Guidance may result in capitalization of certain costs previously expensed under FASB Statement No. 2, *Accounting for Research and Development Costs*
- Question 7.12.6 in Comprehensive Implementation Guide discusses determining fair value of donated right-of-way easements for roadways

Slide 10

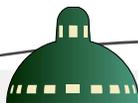


Transition

Intangible Type*	Phase 1	Phase 2	Phase 3
Indefinite useful life as of effective date	Retroactive "permitted." (See Z.51.31)	Retroactive "permitted." (See Z.51.31)	Retroactive "encouraged"
Internally generated (including those in development as of effective date)	Retroactive "permitted" to extent ¶8 can be applied.	Retroactive "permitted" to extent ¶8 can be applied.	Retroactive "encouraged"
All other intangibles within scope	Retroactive "required."	Retroactive "required."	Retroactive "encouraged"

*If determining actual historical cost not practical due to lack of sufficient records, report estimated historical cost for intangibles acquired in fiscal years ending after June 30, 1980.

Slide 11



Statement 53

*Accounting and Financial Reporting
for Derivative Instruments*

Slide 12



What is a Derivative for Financial Reporting Purposes?

A derivative has:

1. One or more reference rates (underlyings) and one or more notional amounts
2. Leverage
3. Net settlement

- Commodity swaps (futures, some forwards)
- Interest rate swaps
- Basis swaps
- Swaptions

Slide 13



Excluded Instruments

- Normal purchases & normal sales contracts
 - Commodity e.g., gas or electricity
 - Government intends to and has practice of taking delivery or selling the commodity
 - Quantity is consistent with volume used
- Traditional insurance contracts
- Traditional financial guarantee contracts
- Non exchange-traded climate contracts, liquidated damages, etc.

Slide 14



Basic Approach Fair Value w/ Hedge Accounting

- Derivative instruments are measured on the statement of net assets at fair value
- Fair value changes are reported on the “change statement” as investment income
- Exception: Hedges! (Effective)
 - Changes in fair value of derivative instruments are reported on the balance sheet as deferrals—either deferred charges or deferred credits
 - Swap asset balanced by deferred inflow of resources
 - Swap liability balanced by deferred outflow of resources

Slide 15



Hedge Terminations

- If hedged transaction occurs, recognize deferral amount as part of the hedged transaction.
- Recognize deferral amount in investment income if:
 - The hedging derivative instrument is no longer effective
 - The government is reexposed to the hedged risk
 - The likelihood of the expected transaction is no longer probable
 - The hedging derivative instrument is terminated
 - Hedged item is sold, retired, or refunded

Slide 16



Presentation

Effective rate hedge terminated in year 2

Year 1	Year 2

Slide 17

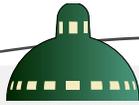


Methods of Evaluating Effectiveness

Effectiveness is determined by using a specified method of evaluating hedges

- **Qualitative method**
 - Consistent critical terms
- **Quantitative methods**
 - Synthetic instrument
 - Linear regression
 - Dollar offset
 - Other methods that meet certain criteria

Slide 18



Statement 58

*Accounting and Financial Reporting
for Chapter 9 Bankruptcies*

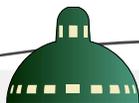
Slide 19



Chapter 9 Bankruptcies

- Chapter 9 (“municipal”) bankruptcies excludes state and tribal governments
- 24 states authorized Chapter 9 filings by their municipal governments as of 2009 (RCW 39.64.040)
- Provides accounting/reporting guidance for:
 - Recognition and display of bankruptcy impact
 - Measurement of obligations
 - Required disclosures (e.g., conditions and events leading to bankruptcy petition, how to obtain government’s Plan of Adjustment, etc.)

Slide 20



Statement 59

Financial Instruments Omnibus

Slide 21

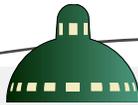


Financial Instruments Omnibus

Covers issues in four Statements:

- Statement 25—Removes fair value exemption for unallocated insurance contracts
- Statement 31—Clarifies what is a “2a7-like” investment pool
- Statement 40—Clarifies that the interest rate risk disclosure requirement only applies to bonds and certain bond mutual funds
- Statement 53—Clarifies four practice issues

Slide 22



Statement 54

Fund Balance Reporting and Governmental Fund Type Definitions

Slide 23



Effect of the Columns

- Under previous standard, amounts were classified from the perspective of the column
- Under GASB 54, amounts constrained to specific purposes are reported in the same classifications *regardless of the fund they are in*

Slide 24



New Fund Balance Classifications



Slide 25



Nonspendable Fund Balance

- Not in spendable form, such as
 - Inventory
 - Long-term receivables (unless the proceeds are restricted, committed, or assigned)
- Legally or contractually required to be maintained intact
 - Corpus of a permanent fund

Slide 26



Restricted Fund Balance

- Same definition as for net assets in Statement 34 (as amended by Statement 46)—amounts constrained to being used for a specific purpose by
 - External parties
 - Constitutional provisions
 - Enabling legislation

Slide 27



Committed Fund Balance

- Constraint on use imposed by the government itself, using its *highest level of decision making authority*
- Constraint can be removed or changed only by taking the same action
- Action to constrain resources should occur prior to end of fiscal year, though the exact amount may be determined subsequently

Slide 28



Assigned Fund Balance

- Amounts *intended* to be used for specific purposes
- Intent is expressed by
 - The governing body
 - A body (budget or finance committee) or official authorized by the governing body
- Residual amounts in governmental funds other than the general fund are assigned
- Appropriation of existing fund balance

Slide 29



Unassigned Fund Balance

- Available for any purpose
- Reported only in the general fund, except in cases of negative fund balance
 - Negative balances in other governmental funds are reported as unassigned

Slide 30

Under the new standard

The amounts constrained to specific purposes are reported in the same classifications regardless of the fund they are in.

	GF	SRF	DSF	CPF	Non-major Funds	Total
Restricted for: Debt service	\$100					\$100
Committed for: Capital projects	\$100					\$100
Unassigned	\$100					\$100

The funds have changed, but the fund balance classifications have not



Stabilization (Rainy Day) Amounts— Prior Standards

- Generally should be reported as unreserved-undesignated, not as reserved
 - Many stabilization amounts are not constrained in a manner that qualifies as reserved
 - More importantly, stabilization was not previously considered a specific purpose—it is a circumstance
- Under almost no circumstances should stabilization amounts be reported in special revenue funds under prior standards
 - Stabilization amounts generally are not restricted
 - Stabilization amounts generally do not derive from a specific revenue source

Slide 32



Stabilization (Rainy Day) Amounts— Under Statement 54

- Stabilization arrangements considered a specific purpose if:
 - Constraints on stabilization amounts meet the criteria to be reported as *restricted* or *committed*
 - The formal action imposing the constraint on spending identifies and describes in sufficient detail the specific circumstances under which a need for stabilization arises
 - The circumstances are not expected to occur routinely—needs to be uncommon

Slide 33



Stabilization (Rainy Day) Amounts— Under Statement 54

- If “assigned” for stabilization in general fund, report as *unassigned* fund balance
- Can report as separate special revenue fund only if the stabilization arrangement resources derive from a specific restricted or committed *revenue* source.

Slide 34



Stabilization Example #1

- Using its highest level of decision making authority, a government constrains \$1 million to stabilization, to be used only in an emergency. Can this amount be reported as committed for stabilization?
- NO. There is not sufficient detail regarding what constitutes an emergency. Furthermore, without such detail, one cannot determine if the circumstances are routine or not.

Slide 35



Stabilization Example #2

- Using its highest level of decision making authority, a government constrains \$1 million to stabilization, to be used only in the event of a revenue shortfall. Can this amount be reported as committed for stabilization?
- NO. Revenue shortfalls occur routinely. However, it might be okay if specific parameters were identified that described a shortfall of a magnitude that is not expected to occur routinely.

Slide 36



Stabilization Example #3

- Using its highest level of decision making authority, a government constrains \$1 million to stabilization, to be used only if annual growth in certain economic indicators falls below a specified level that is close to no growth at all. Can this amount be reported as committed for stabilization?
- Probably. Professional judgment should be applied to determine if the circumstances do not occur routinely. What is important here is the level of specificity—indicators need to be identified.

Slide 37



Note Disclosures—Stabilization

- Stabilization arrangements
 - Authority for establishing
 - Requirements for additions
 - Conditions under which amounts may be used
- Minimum fund balance policies

Slide 38



Encumbrances

- Encumbrances should not be displayed separately within the restricted, committed, and assigned categories
- Amounts are classified as restricted, committed, and assigned based on the source and strength of the constraints placed on them—encumbering those amounts does not further affect them

Slide 39



Level of Detail

- Level of detail requirements may be met by display, disclosure, or a combination of display and disclosure
 - Nonspendable by type
 - Restrictions by major purposes
 - Commitments and assignments in sufficient detail that major purposes are evident to reader

Slide 40

Specific purpose details displayed

Fund Purpose	General Fund	Major Special Revenue Funds			Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund					
Nonspendable								
Investment fund principal	\$ 125,000	\$ 108,000	\$ 16,000	—	—	—	\$ 249,000	
Restricted for								
Social services	—	—	—	—	—	\$ 164,000	164,000	
Parks and recreation	240,000	—	—	—	—	—	240,000	
Education	80,000	—	—	—	—	—	80,000	
Highways	55,000	—	—	—	\$ 444,000	—	55,000	
Road surface repairs	—	24,000	—	—	—	—	444,000	
Debt service reserve	—	—	—	\$ 206,000	—	—	206,000	
School construction	—	—	—	—	301,000	—	301,000	
Law enforcement	—	—	—	—	—	214,000	214,000	
Other capital projects	—	—	—	—	51,000	—	51,000	
Other purposes								
Committed to	30,000	—	—	—	—	—	30,000	
Assigned to	16,000	—	—	—	—	—	16,000	
Unassigned								
Economic stabilization	210,000	—	—	—	—	—	210,000	
Homeland security	110,000	—	—	—	—	—	110,000	
Education	50,000	—	103,000	—	—	—	153,000	
Other purposes	75,000	—	—	—	—	—	75,000	
Assigned to								
Public safety	50,000	—	—	—	—	—	50,000	
Library acquisitions	50,000	—	—	—	—	—	50,000	
Highway resurfacing	—	258,000	—	—	—	—	258,000	
Debt service	—	—	—	306,000	—	—	306,000	
Public pool	—	—	—	—	121,000	—	121,000	
City Hall renovation	—	—	—	—	60,000	—	60,000	
Other capital projects	50,000	—	—	—	471,000	—	521,000	
Other purposes								
Unassigned	80,000	—	73,000	—	—	176,000	329,000	
Total fund balances	\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 1,448,000	\$ 554,000	\$ 4,842,000	

This level of detail is not required for display on the face of the balance sheet. Fund balance categories and classifications may be presented in detail or in the aggregate if sufficient detail is provided in the notes to the financial statements.

Classification totals displayed—details disclosed in the notes

Fund balances:	General Fund	Major Special Revenue Funds			Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund					
Nonspendable	\$ 125,000	\$ 108,000	\$ 16,000	—	—	\$ 164,000	\$ 413,000	
Restricted	405,000	24,000	—	\$ 206,000	\$ 796,000	214,000	1,645,000	
Committed	481,000	—	103,000	—	—	—	584,000	
Assigned	230,000	258,000	73,000	306,000	652,000	176,000	1,695,000	
Unassigned	525,000	—	—	—	—	—	525,000	
Total fund balances	\$ 1,746,000	\$ 390,000	\$ 192,000	\$ 512,000	\$ 1,448,000	\$ 554,000	\$ 4,842,000	



Classifying Residual Balances

- Spending prioritization policies (the flow assumption)
 - Restricted vs. unrestricted
 - Committed, assigned, unassigned
 - Multiple policies
 - The “default” policy
 - Negative balances
 - General fund
 - Other funds

Slide 43



Classifying Residual Balances

- The flow assumption for this special revenue fund is to use restricted amounts before unrestricted amounts and to use the default policy for its unrestricted fund balance. If expenditures incurred exceed the amounts that have been restricted, committed, and assigned to a specific purpose and results in a negative residual amount for that specific purpose, amounts assigned to other purposes in that fund are reduced to eliminate the deficit.

Slide 44

What were the balances at the beginning of the year?

Purpose A	Total	Restricted	Committed	Assigned
Beginning Balances	5,696	2,000	2,616	1,080
Additions				
Expenditures Incurred				
Ending Balances				
Purpose B				
Beginning Balances	8,871	8,871	0	0
Additions				
Expenditures Incurred				
Ending Balances				
Purpose C				
Beginning Balances	8,040	0	0	8,040
Additions				
Expenditures Incurred				
Ending Balances				



Note Disclosures

- Description of authority and actions that lead to committed and assigned fund balance
- Government’s policy regarding order of spending
 - Restricted and unrestricted fund balance
 - Committed, assigned, and unassigned
- Encumbrances, if significant, are disclosed by major funds and by aggregate nonmajors in conjunction with required disclosures of significant commitments

Slide 49



Special Revenue Funds

“Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenue sources” establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.”

- Used to say just “legally restricted”
- Now need a real revenue as the funds base—not a transfer
- Agrees with new Fund Balance categories

Slide 50

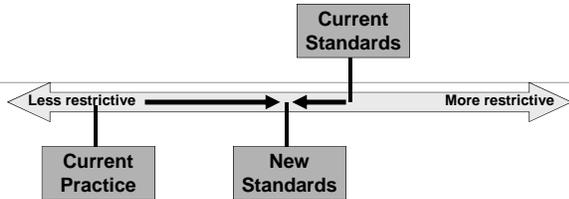


Special Revenue Funds

- Report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects
- Restricted or committed specific revenue sources should comprise substantial portion of fund’s resources, but fund also may include other restricted, committed, and assigned resources
- **Disclosure:** Purpose of each major special revenue fund and each revenue source or other resources reported in each

Slide 51

Effect of SRF Clarifications





Capital Projects Funds

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

- Previously covered only “major capital facilities”

Slide 53



Debt Service Funds

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

- Highlights that debt service funds are *required* when legally mandated or when resources are being accumulated for future years

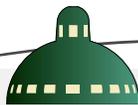
Slide 54



Transition

- Any fund balance reclassifications should be retroactive by restating
- Changes to fund balance information in statistical section may be made prospectively, but retroactive is encouraged
 - If the information for previous years is not restated, governments should explain the nature of the differences from the prior information

Slide 55



Statement 57

OPEB Measurements by Employers and Agent Multiple-Employer Plans

Slide 56



Changes for Agent Multi-Employer Plans

- Agent employer w/ <100 total plan members may use the alternative measurement method regardless of the size of the agent multiple-employer plan as a whole
- The plan may aggregate results of individual-employer actuarial valuations and measures resulting from use of the alternative measurement method
- Agent employers should use same actuarial valuation dates and frequency as the plan

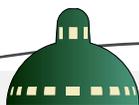
Slide 57



Effective dates

- Provisions related to the use and reporting of the alternative measurement method
 - Effective immediately
- Provisions related to the frequency and timing of measurements
 - Effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011
- Earlier application encouraged

Slide 58



GASB's Suggested Guidelines for Voluntary Reporting

SEA Performance Information

Slide 59

Suggested Guidelines for Voluntary Reporting

Issued in June 2010

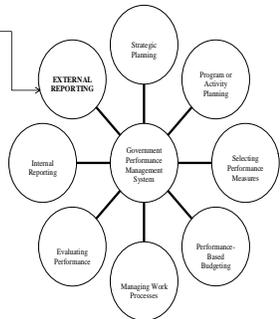


Suggested Guidelines for Voluntary Reporting— SEA Performance Information

- Conceptually based suggested guidelines for voluntary reporting of Service Efforts and Accomplishments (SEA) Performance Information
- What the project is:
 - Focus on voluntary reporting
 - Focus on suggested guidelines
 - Focus on clarifying GASB's role
- What the project is NOT:
 - Establishing performance measures
 - Establishing performance benchmarks
 - Establishing reporting standards
 - Requiring SEA reporting

Slide 61

Sole Focus
Of GASB
Efforts





Suggested Guidelines for Voluntary Reporting— SEA Performance Information

- 4 essential components of an effective SEA report
 - Purpose & scope
 - Major goals and objectives
 - Key measures of performance
 - Discussion and analysis of results and challenges
- 6 qualitative characteristics of performance information
 - Relevance
 - Understandability
 - Comparability
 - Timeliness
 - Consistency
 - reliability
- How to effectively communicate SEA performance information
 - Intended Audiences
 - Forms of Communication
 - Multiple Levels of Reporting

Slide 63



Other Current Projects

Slide 64



Other Current Projects

Projects with Recent Due Process Documents:

- Statement 14 Reexamination
- Service Concession Arrangements (SCA)
- Pre-November 30, 1989 FASB Pronouncements
- Pension Accounting and Reporting

Other Projects:

- Conceptual Framework
 - Recognition and Measurement Attributes
- Economic Condition Reporting: Fiscal Sustainability
- Statement of Net Position
- User Guide Series

Slide 65



Statement 14 Reexamination

- The most significant effects of the proposal would be to:
 - Increase the emphasis on financial relationships
 - Raises the bar for inclusion
 - Refocus and clarify the requirements to blend certain component units
 - Improve the recognition of ownership interests
 - Joint ventures
 - Component units
 - Investments

Slide 66



Statement 14 Reexamination

- Final Statement in December 2010
- Effective for periods beginning after June 15, 2012

Slide 67



Service Concession Arrangements

Scope: What is an SCA?

An arrangement in which:

- a transferor conveys to an operator the right and related obligation to provide services to the public through the operation of a capital asset
- the operator collects and is compensated by fees from third parties
- the transferor is entitled to significant residual interest in the service utility of the capital asset at the end of the agreement
- the transferor determines or has the ability to modify or approve:
 - What services the operator is required to provide,
 - To whom the services will be provided, and
 - The prices or rates that will be charged.

Slide 68



Service Concession Arrangements

Effective Date

- Statement is expected to be issued in November 2010
- Effective for financial statements for periods beginning after December 15, 2011
- Earlier application is encouraged
- The provisions generally would be required to be applied retroactively for all prior periods presented.

Slide 69



**Codification of Pre-November 30, 1989
FASB Pronouncements**

- **Statement 20 would be superseded**
 - All applicable pre-11/30/89 standards would be contained in the GASB's codification
 - All potentially applicable post-11/30/89 non-GASB standards would be "other accounting literature"
- **Guidance on 29 topics would be brought into the GASB literature, including:**
 - Capitalization of interest costs (FAS 34)
 - Statement of net assets classification (ARB 43, APB 12 & FAS 6)

Slide 70



**Codification of Pre-November 30, 1989
FASB Pronouncements**

- Special and extraordinary items (APB 30)
- Comparative financial statements (ARB 43)
- Related parties (FAS 57)
- Prior-period adjustments (FAS 16 & APB 9)
- Accounting changes and error corrections (APB 20 and FIN 20)
- Contingencies (FAS 5 & FIN 14)
- Extinguishments of debt (APB 26 & FAS 76)
- Troubled debt restructuring (FAS 15)
- Inventory (ARB 43)
- Leases (FAS 13, 22 & 98 & FIN 23, 26 & 27)

Slide 71



**Codification of Pre-November 30, 1989
FASB Pronouncements**

- Sales of real estate (FAS 66)
- Real estate projects (FAS 67)
- Research and development arrangements (FAS 68)
- Broadcasters (FAS 63)
- Cable television systems (FAS 51)
- Insurance enterprises (FAS 60)
- Lending activities (FAS 91)
- Mortgage banking activities (FAS 65)
- Regulated operations (FAS 71, 90 & 101)

Slide 72

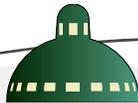


Codification of Pre-November 30, 1989 FASB Pronouncements

Clarifying Guidance

- Capitalization of interest—scope modified to include assets granted to other governments
- Current assets and liabilities—operating cycle (something other than 12 months) not allowed
- Related parties—definition expanded to recognize related organizations, joint ventures, and jointly governed organizations
- Change in accounting principle—omits change in depreciation method
- Interest rate costs—imputation—scopes excludes low interest loans that make the market

Slide 73



GASB's Research Agenda

Slide 74



Research Agenda

- **Electronic Financial Reporting**—GASB to monitor and encourage use
- **Government Combinations**—consider the financial reporting requirements for government combinations that are accomplished through annexation, consolidation, acquisition, or other means
- **Fair Value Measurement**—alternatives for the further development of the definition of fair value, the methods used to measure fair value, and potential disclosures about fair value measurements
- **Fiduciary Responsibilities**—assess whether additional guidance should be developed regarding the application of the fiduciary responsibilities criterion in deciding whether and how governments should report fiduciary activities in their financial statements
- **Financial Guarantees**—assess whether additional guidance should be developed regarding the recognition and disclosure of financial guarantees made by state and local governments

Slide 75



Calling All Issues

- Agenda is full; however, emerging issues still need to be addressed
 - GASB is not fishing for issues
- If you have identified an issue that you believe warrants the GASB's attention, please submit that issue via email to director@gasb.org
- Agenda reviewed three times a year the GASB

Slide 76

Questions?



Technical inquiry form at www.gasb.org
wagalloway@gasb.org
(203) 956-5272
