



**The Financial Accounting
Foundation**

*Setting the Standard for
Standards Setting*

FAF Overview

- Non-stock, Delaware corporation
- Incorporated in 1972
- IRC Section 501(c)(3) Status
- Operating exclusively for educational purposes
- Located in Norwalk, CT

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FAF Purposes

- Establish and improve financial accounting and reporting standards
- Educate constituents as to standards
- Responsible for oversight, administration, and finances of Standards Boards and Advisory Councils
- Select members of the Boards and Councils
- Protect independence and integrity of standard-setting process

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FAF Organizational Structure

- Comprised of four groups
 - Two Standard-Setting Boards
 - The Governmental Accounting Standards Board
 - The Financial Accounting Standards Board
 - Two Advisory Councils
 - Governmental Accounting Standards Advisory Council
 - Financial Accounting Standards Advisory Council



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Standard-Setting Boards

- FAF has delegated all powers and authority of the Foundation to set standards of financial accounting and reporting to its Boards
 - GASB
 - Established by FAF in 1984
 - Sets standards for state and local governmental units
 - FASB
 - Established by FAF in 1973
 - Sets standards for non-governmental public, private, and not-for-profit enterprises

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Advisory Councils

- Comprised of Constituents
- GASAC/FASAC interact with the Boards on
 - Technical issues on the Boards' agendas
 - Project priorities
 - Matters likely to require attention
 - Selection and organization of task forces

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FAF Board of Trustees

- 16 Trustees with business, professional, and government experience
 - 3 Government Officials
 - 3 Certified Public Accountants
 - 2 Financial Executives
 - 1 Investment Professional
 - 1 Investment Banker
 - 1 Accounting Educator
 - 5 At-Large
- 3-year term, eligible for reappointment to a second 3-year term

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FAF Nominating Organizations

- 6 *Financial Organizations* nominate 8 trustees:
 - American Accounting Association (1)
 - AICPA (3)
 - CFA Institute (1)
 - Financial Executives International (1)
 - Institute of Management Accountants (1)
 - Securities Industry Association (1)
- 2 *Governmental Organizations* elect 3 trustees
 - *National Association of State Auditors, Controllers, and Treasurers*
 - Government Finance Officers Association
- 5 *At-Large* Trustees

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FAF Government Trustees

John J. Radford

Oregon State Controller

Douglas R. Ellsworth

Director of Finance, Village of Schaumburg, Illinois

William H. Hansell

Executive Director Emeritus, International City/County Management Association

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Independence

- FAF Trustees and Officers not involved in technical aspects of standard setting
- FAF ensures environment that makes standard setting most effective
- FAF committed to vigorously protect independence and integrity

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Independence

- Constituents have many competing interests
- Standard Setting Boards provide objectivity for the financial accounting and reporting process
- Independence is fundamental to each Board's objectivity

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Independence

- Unbiased accounting rules protect investors and enhance public trust
- Independence from political and commercial influence is key to GASB's and FASB's work
- Since 1973, FAF has acted to preserve the independence of the Boards

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Board Membership

- GASB - One full-time Chairman, six additional part-time members
- FASB - One full-time Chairman, six additional full-time members
- All members serve maximum of two five-year terms
- Selection based primarily on candidate ability
- Selection based secondarily on candidate background
- Candidate ability measured by specific selection criteria

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Board Selection Criteria

- Knowledge of financial accounting and reporting
- High level of intellect applied with integrity and discipline
- Judicial temperament
- Ability to work in a collegial atmosphere
- Communication skills
- Awareness of the financial reporting environment
- Commitment to the Boards' respective missions

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Current GASB Composition

- 2 From State Government
 - Robert H. Attmore, Chairman
 - Jan L. Sylvis
- 2 From Local Government
 - Marcia L. Taylor
 - Richard C. Tracy
- 1 CPA From Public Practice
 - James M. Williams
- 1 Academic
 - William W. Holder
- 1 User
 - Girard Miller

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GASB Staff

- 15 *Research and Technical Activities Staff members*
- 1 Director
- 1 Senior Technical Advisor
- 1 Research Manager
- 7 Project Managers
- 1 Assistant Project Manager
- 1 Fellow (2-yr rotating)
- 3 Postgraduate Technical Assistants (1-yr rotating)

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FASB Staff

- 57 *Research and Technical Activities Staff members*
- 3 Directors
- 4 Senior Technical Advisors
- 18 Project Managers
- 9 Project Technical Assistants
- 14 Fellows (2-yr rotating)
- 9 Postgraduate Technical Assistants (1-yr rotating)

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GASAC

- 29 members
- Representative of preparers, auditors, and users of financial information
- Eligible for three 2-year terms
- Meets with Board and staff at least 3 times per year
- **NASACT Members:**
 - *Dan Ebersole, Georgia State Treasurer*
 - *Debra Davenport, Arizona State Auditor General*

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GASB Due Process

- Decision-making process is open, thorough, and objective
- Board balances conflicting perspectives of all independent parties and makes independent, objective decisions
- Public decision making (sunshine)
- Exposure of all proposed standards
- Followed by comment periods
- Often followed by public roundtables

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GASB Constituency Study

- Independently Conducted in 2006
 - 1,200 GASB stakeholders (preparers, auditors, users)
- Consistent with goals and objectives:
 - Engage, educate, and communicate with constituents
 - Continually improve due process activities and standards
- Understand Constituent Perceptions.....
 - Fulfilling mission
 - Meeting constituent needs
 - Listening and responding to constituents

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GASB Constituency Study: Top Level Findings

- GASB has been carrying out its standards-setting responsibilities appropriately and effectively
- Overwhelming belief that governmental accounting standards should be different from private sector standards
- GASB constituents confirm:
 - Accounting and reporting standards are high quality
 - Standards-setting process is efficient and effective
 - Board considers many diverse views of constituents

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GASB Constituency Study: Top Level Findings

- Opportunities for Improvement:
 - Continue working to simplify/reduce complexity of standards and guidance
 - Better educate stakeholders as to Board's consideration of the costs and benefits of standards

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FAF Financial Highlights

- \$37.2 million of revenue in 2006
 - \$22.4 in Accounting Support Fees
 - Provided for by the Sarbanes-Oxley Act of 2002
 - 8,800 registered companies paid fees
 - Fees allocated on basis of relative equity market capitalization.
 - \$2.2 million in contributed financial support
 - \$12.6 million in net FAF Publication and Subscriptions sales

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FAF Financial Highlights

- Major Expenditures
 - \$25.8 million in Salaries and Benefits
 - \$2.5 million in facilities expense

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GASB Finances

- \$6 million of funding in 2006
 - \$2.1 million in contributed financial support
 - \$2.2 million in net Publication and Subscriptions sales
 - \$1.7 million in FAF Reserve Fund transfers
- \$6 million of expenses in 2006
 - \$4.4 million in Salaries and Benefits
 - \$1.6 million in facilities and other expenses

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Summary of GASB Contributions – 2006

- General State and Local Government - \$1.5 million
 - NASACT: \$1 million
 - Other Associations: \$535,000
- Municipal Bond Fee Program - \$427,000
 - Issuances of \$ 1 million or more
 - Maturities of 2 years or more
 - 0.5 ¢ per \$1,000 bond
- Fair Share Campaign - \$146,000
 - City and county governments

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NASACT's Role

- Further strengthen the FAF/NASACT relationship
- Continue to nominate effective and experienced trustees
- Continue representation on GASAC, which is vital to the Board
- Continue member interest in serving on the GASB
- Continue to sponsor GASB funding arrangements
- Continue to promote independence of the standard-setting process

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FAF: Looking Forward

- Formulate proper strategies
- Leverage Trustee capabilities
- Continually improve constituent and other vital relationships
- Foster an organizational culture that enhances productivity
- Prudently manage financial resources
- Communicate importance of independence
- Continuously assess efficiency and implement required changes

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Summary

- FAF plays a critical role in the efficiency of nation's capital markets and in fostering public trust in government
- FAF's leadership, capabilities, and organizational structure are well equipped to deliver on its responsibilities
- Focus remains on maintaining independence, integrity, and excellence of standard setting
- Committed to continuously *Set the Standard for Standards Setting*

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2007 NASACT ANNUAL CONFERENCE

GASB Update

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

**Recent Standards & Concepts
Statements**

- GASB 50 Pension Disclosures
- GASB 51 Accounting and Financial Reporting for Intangible Assets
- CONS 4 Elements of Financial Statements

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Effective Dates—June 30 FYE

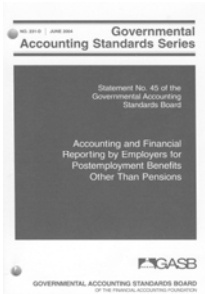
- June 30, 2007
 - Statement 27, Amortization period
 - Statement 34, Retroactive infrastructure—Phase II
 - Statement 43—Phase I
- June 30, 2008
 - Statement 43—Phase II
 - Statement 45—Phase I
 - Statement 48
 - Statement 50
- June 30, 2009
 - Statement 43—Phase III
 - Statement 45—Phase II
 - Statement 49

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Statements 43 & 45

**Other
Postemployment Benefits**

Statement 45 (for Employers)



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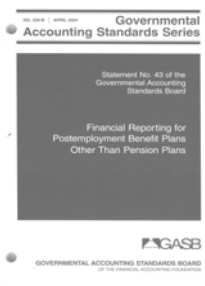
- Subject: accounting and reporting by **employers** for their **OPEB expenses and obligations** (*does not require funding*)
- Applies to all employers that provide OPEB (that is, the employer pays all or part of the cost of the benefits, including implicit rate subsidies)
- Requires **accrual-basis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

Selection of Methods and Assumptions

- Items to consider:
 - Experience rate
 - Remaining service lives of employees
 - Funding policy

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Related Statement: Statement 43 (for Plans)



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

Statement 48

**Sales and Pledges of Receivables and
Future Revenues**

Sales and Pledges

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

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Sales and Pledges

Sale or Borrowing?

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

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Disclosures

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

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Effective Date

- Periods beginning after December 15, 2006

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Statement 50

Pension Disclosures

Pension Disclosures

- Goal is to conform the pension disclosures with the OPEB disclosures
- Notes to financial statements would disclose the funded status of the plan as of the most recent actuarial valuation date.
 - Defined benefit pension plans also would disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to RSI.

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Effective Date

- Periods beginning after June 15, 2007

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Statement 51

**Accounting and Financial Reporting
for Intangible Assets**

Basic Guidance

- All intangible assets should be classified as capital assets, and all existing authoritative guidance related to capital assets should be applied to these intangible assets.

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Types of Intangibles

- Computer software
 - Purchased
 - Internally developed
- Right-of-ways
- Easements
- Separately acquired or donated land rights
 - Water
 - Minerals
 - Timber

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Internally Generated

- Outlays incurred related to an internally generated intangible asset that is considered identifiable should be capitalized only upon the occurrence of all of the following:
 - Determination that an objective for the project is to create a specific internally generated intangible asset;
 - Determination of the nature of the service capacity that is expected to be provided by the asset upon its completion;
 - Demonstration of the technical or technological feasibility for completing the project so that the asset will provide its expected service capacity;
 - Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

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Effective Date

- Periods beginning after June 15, 2009.

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Latest Exposure Draft

Accounting and Financial Reporting for Derivative Instruments

Examples of Derivatives

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

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Proposal

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

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Hedging Derivative

A derivative instrument that is associated with a hedgeable item and significantly reduces identified financial risks by substantially offsetting changes in cash flows or fair values of the hedged item.

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Hedge Effectiveness Tests

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

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Note Disclosures

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

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Project Timetable

- Exposure Draft—June 2007
- Public Hearing—November 1, 2007
- Final Statement—2008

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Other Current Projects

- Fund Balance and Governmental Fund Definitions
- Intergovernmental Financial Dependency Risk
- Service Efforts and Accomplishments Reporting
 - Concepts 2 update
 - Guidelines—due process document
- Concepts Statements
 - Recognition and Measurement Attributes
 - Deliberations to begin later this year

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SEA Reporting

- What the project is:
 - Focus on 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

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Research Agenda

- Economic Condition Reporting
- Electronic Financial Reporting
- Pension Accounting and Reporting
- Public and Private Partnerships
- Reporting Units/Statement 14 Revisited

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Calling All Issues

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

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Questions?



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