

National State Auditors Association

GASB Update

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

Effective Dates—June 30

- June 30, 2010
 - Statement 45—Phase III
 - Statement 51
 - Statement 53
 - Statement 57, paragraph 6 and 7
 - Statement 58
- June 30, 2011
 - Statement 54
 - Statement 59
- June 30, 2012
 - Statement 57, paragraph 8

Current Projects

- Concepts Statements
 - Recognition and Measurement Attributes
- Service Efforts and Accomplishments Reporting
 - Voluntary Guidelines
- Pension Accounting and Reporting
- Pre-November 30, 1989 FASB Pronouncements
- Service Concession Arrangements
- Statement 14 Reexamination
- Economic Condition Reporting
- Statement of Net Position
- Comprehensive Implementation Guide

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Service Efforts and Accomplishments Reporting—Voluntary Guidelines

- Essential components
 - Purpose and Scope
 - Major Goals and Objectives
 - Key Measures of SEA Performance
 - Discussion and Analysis of Results and Challenges
- Application of the qualitative characteristics
- Effective communications

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Scope of the Postemployment Benefits Project

- Basic approach for pension benefits
 - Who should report the liability
- How the liability should be measured
 - Salary projections, service credits, discount rate, etc.
- Cost sharing plan reporting for employers
- Pension plan reporting
- Other postemployment benefits

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Pension Accounting and Financial Reporting

- Preliminary Views—scope
 - Employer measurement and recognition issues
- Items to be discussed after the June 2010 Preliminary Views (PV) is released
 - Plan reporting
 - Note disclosures

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Primary and Secondary Obligor—PV

- The pension plan becomes the primary obligor, and the employer becomes the secondary obligor, for the pension obligation to the extent that plan assets have been accumulated to provide for the payment of benefits to employees or their beneficiaries when due.
- The employer remains the primary obligor for the pension obligation to the extent that it is unfunded.

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Net Pension Liability—PV

- The unfunded accrued benefit obligation meets the definition of a liability (that is, it is a present obligation, and the employer has little or no discretion to avoid a sacrifice of its resources to satisfy the obligation) and is measurable with sufficient reliability to be recognized as a liability in basic financial statements of a sole or agent employer.

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Projection of Future Benefit Payments—PV

- The effects of the following projected future changes should be included in the projection of benefits for the purpose of measurement of the pension liability:
 - Automatic cost-of-living adjustments (COLAs)
 - Projected future ad hoc COLAs, referring in this context to COLAs that are dependent upon a decision to grant by a responsible authority, when those adjustments are substantially the same as automatic COLAs
 - Projected future salary increases in circumstances in which the pension benefit formula is based on future compensation levels
 - Projected future service credits, both in determining an employee’s probable eligibility for benefits and in the projection of benefits in circumstances in which the pension benefit formula is based on years of service.

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Discount Rate—PV

- Should be a single rate that reflects:
 - The long-term expected rate of return on plan investments to the extent that current and expected future plan net assets available for pension benefits are projected to be sufficient to make benefit payments
 - A high-quality municipal bond index rate beyond the point at which plan net assets available for pension benefits are projected to be fully depleted.

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Attribution Method—PV

- Entry age normal
 - Level percent of payroll
- Benefits should be attributed to periods beginning in the first period in which the employee's services lead to benefits under the plan (whether or not the benefits are conditional on further service, as is the case, for example, with vesting provisions) and ending in the last period of the employee's service

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Pension Expense—Deferrals—PV

- Differences that result from the following events should be recognized as components of pension expense over periods representative of the expected remaining service lives, if any, of individual employees, considering separately (a) the aggregate effect on the liabilities of active employees to which the change applies and (b) the aggregate effect on the liabilities of inactive employees
 - Assumed and actual experience with regard to demographic and economic factors affecting the measurement of the employer's pension liability,
 - Effects of changes in the demographic and economic assumptions used in the measurement of the employer's pension liability, and
 - Effects of benefit changes that are applied retroactively to past periods of service of plan members.
- An effect is that such changes related to past periods of service of inactive (including retired) plan members at the time of the event would be recognized immediately.

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Investment Earnings—Corridor—PV

- Recognition of pension investment earnings above or below the expected long-term rate of return should be deferred so long as the net cumulative amount of deferred outflow or net cumulative amount of deferred inflow remains within a corridor 15 percent above and below the fair value of investments.
- However, if the net cumulative deferred balance at the end of a financial reporting period falls outside the corridor, the amount outside the corridor should be recognized as a component of pension expense immediately.

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Multiple-Employer Cost Sharing Plans—PV

- The Plan's Unfunded Pension Liability (calculated in accordance with the preliminary views just discussed) and related deferrals, if any, would be allocated to the participating employers.
- The allocation method is open for comment; however, it could be based on the employer's share of the total annual contractually required contributions to the plan.

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Timetable

- Preliminary Views—was released on June 16
- Comment deadline—September 17
- Public hearings—will be held in October 2010
 - October 13—Dallas
 - October 14—San Francisco
 - October 27—New York City

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Pre-1989 FASB and AICPA Pronouncements

Exposure Draft

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Sources of Guidance

- American Institute of Certified Public Accountants (AICPA)
 - Committee on Accounting Procedures—Accounting Research Bulletins
 - Accounting Principles Board—Opinions
 - Auditing Standards Board—Statements on Auditing Standards (SASs)
- Financial Accounting Standards Board (FASB)—Statements and Interpretations

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Pre-89 Subject Matter

- Topics addressed include:
 - Revenue recognition for exchange transactions
 - Related parties
 - Accounting changes and error corrections
 - Disclosure of accounting policies
 - Interest cost
 - Leases
 - Nonmonetary transactions
 - Regulated operations

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Timetable

- Exposure Draft issued in January 2010
- Comment Deadline is July 31, 2010
- Final standard expected to be issued December 2010
- Proposed effective date—December 15, 2011

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Service Concession Arrangement Proposals

- Scope
 - The transferor conveys to the operator the right and related obligation to provide public services through the operation of a capital asset
 - The operator collects and is compensated from fees from third parties
 - The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement
 - The transferor 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 for the services.
- When should upfront payments be recognized?
 - Over the life of the agreement
 - Deferred inflows versus liability

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SCA—Additional Due Process

- Revised Exposure Draft issued June 17th
- Comment deadline—August 17th
- Final Statement expected to be issued by year end

Statement 14 Reexamination

The Financial Reporting Entity

Reporting Entity Framework

- Retains current reporting entity framework.
- This framework includes:
 - The criteria for inclusion of component units
 - Fiscal dependence
 - Appointment, plus
 - Imposition of will
 - Financial benefit or burden
 - The methods of presenting component units
 - Discrete presentation
 - Blending

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Fiscal Dependency

- In addition to meeting the basic fiscal dependency criterion:
 - Budget approval
 - Tax levy approval
 - Debt issuance approval
- A financial benefit/burden relationship should be present for a potential component unit to be included in the primary government's financial statements based on the fiscal dependency criterion.

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Misleading to Exclude

- The “misleading to exclude” notion will be retained in Statement 14, but amendments to the guidance will clarify the professional judgment aspect of the guidance.

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Blending Criteria

- Component units will be blended if the component unit’s governing body is substantively the same as the governing body of the primary government and either:
 - a financial benefit/burden relationship exists with the primary government or
 - management of the primary government has operational responsibility for the component unit.
- New criteria also would be added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

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Equity Interests

- A primary government would report its equity interest in a component unit as an asset, with the asset being eliminated in the blending process if the component unit meets the blending criteria.
 - Equity interest is currently being expensed.

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Proposed Effective Date

- Periods beginning after June 15, 2012
- Earlier application would be encouraged

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Economic Condition History

- NCGA Concepts Statement 1—1982
- GASB Concepts Statement 1—1987
- Berne Study—started in 1988 and report issued in 1992
- Project added to the long-term technical agenda in 1993 (research agenda)
- Literature review—2002
- Research scope defined in 2004
- Statement 44—2004
- Broad user needs study—2005
- Concepts Statement 3—2006 developed working definitions
- Economic Condition and financial interdependency combined in 2007 (reversed earlier decision to deliberate financial interdependency issues separately)
- This phase of research started in the fourth quarter of 2008 and was completed in August 2009
- Results of the research were presented to the GASAC and a project prospectus was reviewed with the GASAC in December 2009.

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Economic Condition Themes

- The ability to
 - maintain or improve services
 - Meet financial obligations and commitments
 - Achieve and maintain intergenerational equity
- Effects of fiscal interdependencies between various governments

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Statement Of Net Position

- Where should new elements introduced in Statement 53 be presented?
 - Deferred inflows
 - Deferred outflows
- Does net assets (assets less liabilities) still have a role in the Statement of Net Position?

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Comprehensive Implementation Guide

- Level “d” GAAP, but still GAAP
- Annual edition scheduled for release in September
- 2010-2011 edition will include a focus on fund balance reporting, derivatives, and intangible assets

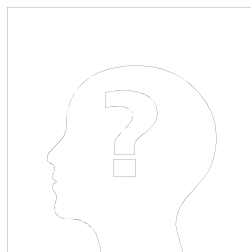
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Research Agenda

- Electronic Financial Reporting
- Fair Value Measurement
- Fiduciary Responsibilities
- Financial Guarantees
- Government Combinations

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Questions?



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