

2012 Governmental GAAP Update



Interactive Webinar
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Presented by Rehmann

Presented by:

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Presentation Outline

- Newly issued in 2011
 - GASB 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
 - GASB 64: Derivative Instruments (an amendment of GASB 53)

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Presentation Outline

- Newly effective in 2011/2012
 - GASB 54: Fund Balance Reporting and Governmental Fund Type Definitions
 - GASB 62: Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

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Presentation Outline

- Effective dates coming soon
 - GASB 60: Accounting and Financial Reporting for Service Concession Arrangements
 - GASB 61: The Financial Reporting Entity: Omnibus

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Presentation Outline

- On the horizon
 - ED: Reporting Items Previously Recognized as Assets and Liabilities
 - ED: Pension/OPEB Accounting and Financial Reporting
 - PV: Economic Condition Reporting: Financial Projections
 - PV: Recognition of Elements of Financial Statements and Measurement Approaches

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Newly Issued Standards


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GASB Statement 63
Deferred Inflows/Outflows
and Net Position

- Effective 12/31/2012
- GASB Concepts Statement 4
 - Defined *deferred inflows* and *outflows*
 - Consumption or acquisition of net assets in one period that are applicable to future periods
 - Didn't provide many practical examples
 - Used the term *net position* for equity


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GASB Statement 63
Statement of Net Position

- Deferred outflows
 - Show on statement of financial position in a separate section following assets
- Deferred inflows
 - Show on statement of financial position in a separate section following liabilities
- Net position
 - New equation: $A + DO - L - DI = NP$


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GASB Statement 63

Statement of Net Position

- Categories of net position
 - Net investment in capital assets
 - Restricted
 - Unrestricted
- No change to governmental funds
 - Balance sheet
 - Fund balance



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GASB Statement 64

Derivative Instruments

an amendment of GASB Statement 53

- Effective 6/30/2012
- Technical corrections to GASB 53
 - Required derivative instruments to be carried at fair value
 - Changes in the value of *effective hedges* are deferred
 - Changes in the value of all other derivatives are recognized each period



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GASB Statement 64

Derivative Instruments

an amendment of GASB Statement 53

- Amendment to termination of hedge accounting; hedge is considered effective if
 - Collectability of swap payments is probable
 - Swap counterparty is assigned
 - Government enters into the assignment in response to the counterparty defaulting



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Newly Effective Standards


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GASB Statement 54
Fund Balance Reporting
and Governmental Fund Type Definitions

- Effective 6/30/2011
- Redefines fund types and categories of fund balance


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GASB Statement 54
Overview

- Purpose of fund balance classifications is to indicate "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent"


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GASB Statement 54

Fund Balance Classifications

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned




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GASB Statement 54 - Fund Balance Classifications

Nonspendable Fund Balance

- Not in spendable form
 - Assets that will never convert to cash (e.g., prepaids and inventory)
 - Assets that will not convert to cash soon enough to affect the current period (e.g., long-term receivables)
- Legally or contractually required to be maintained intact
 - Corpus of a permanent fund




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GASB Statement 54 - Fund Balance Classifications

Restricted Fund Balance

- Same definition used for net assets
- Constraints placed on resources:
 - Externally imposed by creditors, grantors, contributors, or laws or regulations
 - Imposed by law through constitutional provisions or enabling legislation



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Committed Fund Balance

- Constraints placed on resources:
 - Imposed by formal action of the government's highest level of decision-making authority
 - Requires formal action (e.g., legislation, resolution, or ordinance) to be taken prior to the end of the reporting period
 - Amount may be determined after year end
 - Would require equally formal action to undo

Assigned Fund Balance

- Constraints placed on resources by a government's "intent" to be used for specific purposes
- Intent is expressed by:
 - Governing body
 - Committee or official to which the governing body has delegated the authority to assign amounts

Assigned Fund Balance

- Includes all remaining amounts (except for deficits) reported in governmental funds other than the general fund
- Cannot assign fund balance in excess of total fund balance less amounts classified as nonspendable, restricted, and committed

Unassigned Fund Balance

- Residual classification for the general fund
- Not used by other funds, except for deficits (e.g., only the GF can report a positive unassigned fund balance)

General Fund

- Used to account for and report all financial resources not accounted for and reported in another fund
 - No substantive change to definition

Special Revenue Funds

- 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*" should be the foundation of a special revenue fund

Special Revenue Funds

- Restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund
- Other resources may also be reported in the fund for the same purpose

Special Revenue Funds

- Discontinue use of a special revenue fund (and include in the general fund) if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources
- These are special *revenue* funds, not special *expenditure* funds

Special Revenue Funds

- Practical guidance
 - Many governments may wish to continuing using the fund number currently assigned to a former special revenue fund
 - This facilitates multi-year tracking of fund balance and internal reporting
 - These “funds” would be combined with the general fund for external reporting

Debt Service Funds

- Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest
 - No substantive change to definition

Capital Projects Funds


- 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
 - No substantive change to definition

Permanent Funds

- Used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry
 - No substantive change to definition

GASB Statement 62
Codification of Pre-11/30/1989 Guidance


- Effective 12/31/2012 (early implementation encouraged)
- Codifies all existing FASB, APB, and AICPA guidance currently in effect, which does not conflict with or contradict GASB pronouncements
- Eliminates the “official” option to follow subsequent private sector GAAP



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GASB Statement 62
Codification of Pre-11/30/1989 Guidance

- Approximately 500 paragraphs of guidance added to the Codification
- No substantive changes to GAAP




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Standards Becoming Effective Soon



GASB Statement 60
Service Concession Arrangements


- Effective December 31, 2012
- Service Concession Arrangements (SCAs) are a type of public-private partnership
 - Operator pays the government for the right to build, operate, and collect user fees on infrastructure or other public assets



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GASB Statement 60
Service Concession Arrangements


- Criteria for an SCA:
 1. The transferor government conveys to the operator the right and related obligation to provide public services through the use and operation of a capital asset in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility



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GASB Statement 60
Service Concession Arrangements

- Criteria for an SCA:
 2. The operator collects and is compensated by fees from third parties
 3. 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



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GASB Statement 60
Service Concession Arrangements


- Criteria for an SCA:
 4. The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement
- Must meet all four criteria to qualify



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GASB Statement 60
Service Concession Arrangements


- Accounting by transferor (full accrual):
 - Existing capital assets remain on the books, and are depreciated (unless required to be returned in like or improved condition)
 - New capital assets constructed by the operator are capitalized and offset by a deferred inflow



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GASB Statement 60
Service Concession Arrangements


- Accounting by transferor (full accrual):
 - Book the NPV of any commitments to provide maintenance, insurance, etc. over the period of the agreement
 - Book any upfront payment or the NPV of future installment payments as a deferred inflow
 - Amortize deferred inflow over the term of the agreement



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GASB Statement 60
Service Concession Arrangements


- Sometimes the operator is another government (public-public partnership)
- Accounting by operator (full accrual):
 - Record an intangible asset (at cost) for the rights to operate the capital asset and collect third-party fees from its operation
 - If applicable, estimate a liability for costs necessary to improve the asset to the required condition specified in the SCA



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GASB Statement 60
Service Concession Arrangements

- Accounting by operator (full accrual):
 - Record the NPV of any installment payments due to the transferor as a liability
 - Amortize intangible asset over the term of the agreement
 - Record all gross revenue from operations
 - Separately record any revenue shared with the transferor as an expense



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GASB Statement 60
Service Concession Arrangements


- Required disclosures:
 - General description of SCA
 - Nature and amounts of assets, liabilities, and deferred inflows recognized
 - Nature and extent of rights transferred
 - Details of any guarantees or commitments



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GASB Statement 61
Financial Reporting Entity Omnibus

- Effective June 30, 2013
- Includes various revisions to the process of identifying and classifying component units (CUs)



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GASB Statement 61
Financial Reporting Entity Omnibus


- Component units are legally separate organizations for which the elected officials of the primary government (PG) are financially accountable
 - Can be governments, nonprofits, or for-profit entities



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GASB Statement 61
Financial Reporting Entity Omnibus


- In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading



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GASB Statement 61
Financial Reporting Entity Omnibus


- “Misleading to exclude” doctrine:
 - CU is closely related to PG
 - Financially integrated with PG
 - Matter of professional judgment to determine whether the nature and the significance of a PCU unit’s relationship with the PG warrant inclusion in the reporting entity



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GASB Statement 61
Financial Reporting Entity Omnibus


- Two ways to demonstrate “financial accountability” :
 1. The PG appoints voting majority of CU board, and either:
 - a) PG is able to impose its will, or
 - b) Potential financial benefit/burden to the PG
 2. CU is fiscally dependent on PG, and
 - a) Potential financial benefit/burden to the PG



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GASB Statement 61
Financial Reporting Entity Omnibus


- Financial benefit/burden to the PG
 - PG is legally entitled to or can otherwise access the CU’s resources; or
 - PG is legally obligated to finance the deficits of, or provide financial support to, the CU; or
 - PG is obligated in some manner for the debt of the CU



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GASB Statement 61
Financial Reporting Entity Omnibus


- “Major” component units
 - Determined relative to the PG, not other CUs
 - Certain information/disclosures only required for each major CU



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GASB Statement 61
Financial Reporting Entity Omnibus


- Blending component units:
 - Governing bodies of PG and CU are substantially the same, and either:
 - Financial benefit/burden to the PG; or
 - Same management of PG and CU
 - CU provides services almost entirely to the PG
 - Operates similarly to an internal service fund



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GASB Statement 61
Financial Reporting Entity Omnibus


- Blending component units:
 - CU’s total debt outstanding is expected to be repaid almost entirely by resources of the PG through pledges and appropriations
- Blended CUs should be treated like any other fund of the PG for disclosures



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GASB Statement 61
Financial Reporting Entity Omnibus


- Equity interests:
 - If a government holds an equity interest in a CU for the purpose of providing governmental services, report as a CU and show an asset for the equity interest
 - If a government holds an equity interest in a CU for income or profit, report as an investment instead



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GASB Statement 61
Financial Reporting Entity Omnibus

- Note disclosures:
 - Disclose the basis for reporting each CU separately
- CUs with joint venture characteristics:
 - If one government has a controlling interest in a JV, report as CU with restricted net assets for any minority equity interest held by others



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On the Horizon



Exposure Draft: Reporting Items Previously Recognized as

Assets and Liabilities

- Final standard expected 1Q2012
- Builds on new definition of “deferred inflows” and “deferred outflows”
- Term “deferred” now limited use
 - Includes deferred as unavailable
- Many former assets and liabilities now reclassified

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Exposure Draft: Accounting and Financial Reporting for

Pension / OPEB Plans

- Final Pension standard expected 2Q2012 (OPEB expected 2 years later)
- Implementation required 6/30/2014 (6/30/2013 for plans >\$1 billion)
- Prescribes new actuarial requirements
- Recognizes a “net pension liability” in full accrual financial statements

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Preliminary Views: Recognition of Elements of F/S and

Measurement Approaches

- Exposure draft expected 4Q2012
- Final standard expected 2Q2013
- Clarifies the economic resources measurement focus
- Replaces current financial resources with “near-term financial resources”

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Preliminary Views: Economic Condition Reporting

Financial Projections

- Exposure draft expected 4Q2012
- Final standard expected 3Q2013
- Requires 5-year financial projections as required supplementary information
- Focus is *fiscal sustainability*

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Questions and Answers...



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For More Information

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