

2013 Governmental GAAP Update



Interactive Webinar
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Presented by Rehmann

Presented by:



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Presentation Outline

- Newly effective in 2012/2013
 - GASB 60: Service Concession Arrangements
 - GASB 61: The Financial Reporting Entity
 - GASB 62: Codification of Pre-1989 FASBs
 - GASB 63: Deferred Inflows / Outflows
 - GASB 64: Derivative Instruments Amendment

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Presentation Outline

- Newly issued in 2012
 - GASB 65: Items Previously Reported as Assets and Liabilities
 - GASB 66: Technical Corrections—2012
 - GASB 67/68: Pensions
 - GASB 69: Government Combinations and Disposals

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Presentation Outline

- On the horizon
 - GASB's Technical Plan

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GASB Final Pronouncements

- Dodd-Frank Wall Street Reform and Consumer Protection Act
 - Includes an "accounting support fee" to fund the annual budget of the GASB
 - As a result, final statements and certain other pronouncements are now available online at no cost

www.gasb.org

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Newly Effective Standards



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
 - Otherwise it's either an outright sale, or just an annual operating contract



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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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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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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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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: $A + DO - L - DI = NP$



Statement of Net Position

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



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



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

Newly Issued Standards

GASB Statement 65

Items Previously Reported as Assets and Liabilities

- Effective 12/31/2013 *
- Builds on new definition of “deferred inflows” and “deferred outflows”
- Many former assets and liabilities now reclassified
- Restricts the use of the term “deferred” (even in governmental funds)

GASB Statement 65

Items Previously Reported as Assets and Liabilities

Item	Example	Pre-GASB 65	Post-GASB 65
Refundings of debt	Loss (or gain) on refunding debt at more favorable terms	Asset/Liability (loss/gain on refunding)	Deferred outflow/inflow
Imposed nonexchange revenue	Property taxes levied prior to the fiscal year they are intended to finance	Liability (deferred revenue)	Deferred inflow

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GASB Statement 65

Items Previously Reported as Assets and Liabilities

Item	Example	Pre-GASB 65	Post-GASB 65
Government-mandated and voluntary nonexchange transactions (eligibility requirements not met)	State provides an advance of resources to a local government; however, the local government has not yet met all requirements	Provider: asset (advance to...) Recipient: liability (advance from...)	No change
Same (eligibility requirements met, but not time requirements)	All requirements are met, except the advance is for the following program year	Provider: asset (advance to...) Recipient: liability (advance from...)	Provider: deferred outflow Recipient: deferred inflow

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GASB Statement 65

Items Previously Reported as Assets and Liabilities

Item	Example	Pre-GASB 65	Post-GASB 65
Sales of future revenues	Tobacco settlement revenues sold for a lump sum	Liability (deferred revenue)	Deferred inflow
Debt issuance costs	Underwriters fees and other costs associated with issuing new debt	Asset (deferred issuance costs)	Expense in year incurred

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GASB Statement 65

Items Previously Reported as Assets and Liabilities

Item	Example	Pre-GASB 65	Post-GASB 65
Initial direct costs of operating leases	Professional services and related costs associated with entering into a new operating lease	Asset (prepaid)	Expense in year incurred
Sale-leaseback transactions	Selling a building for an upfront payment, and continuing to lease it for a time	Asset / liability (deferred loss/gain on sale)	Deferred outflow/inflow

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GASB Statement 65

Items Previously Reported as Assets and Liabilities

Item	Example	Pre-GASB 65	Post-GASB 65
Loan origination fees related to lending activities (excluding any portion related to points)	Amounts charged to borrowers in an economic development loan program	Liability (deferred revenue)	Revenue in year received
Commitment fees	Fees received for a commitment to originate or purchase a loan or group of loans	Liability (deferred revenue)	Revenue in year received

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GASB Statement 65

Items Previously Reported as Assets and Liabilities

Item	Example	Pre-GASB 65	Post-GASB 65
Accounting for the effects of regulation (regulated entities)	Regulated public utility that charges a rate that is intended to recover future costs not yet incurred	Liability (deferred revenue)	Deferred inflow
	Regulated public utility receives a gain that is intended to reduce future rates	Liability (deferred revenue)	Deferred inflow

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GASB Statement 65

Items Previously Reported as Assets and Liabilities

Item	Example	Pre-GASB 65	Post-GASB 65
Unearned revenue	Unexpended proceeds of expenditure-driven grants; charges for services collected in advance	Liability (deferred revenue)	Liability (unearned revenue)
Governmental funds	Revenues that are not "available" because they are not collected soon enough after year end	Liability (deferred revenue)	Deferred inflow

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GASB Statement 66

Technical Corrections-2012

- Effective 12/31/2013
- Amendments to GASB 10 and 62
- Very minor in nature

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GASB Statement 66

Technical Corrections-2012

- GASB 10 Amendment
 - Previously required risk financing activities to be accounted for in the general fund or an internal service fund
 - This has been removed
 - Now a special revenue fund could be used (subject to GASB 54 compliance)

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GASB Statement 66
Technical Corrections-2012

- GASB 62 Amendments
 - Revised sections on "purchases of a loan or group of loans" and "servicing fees"
 - Removes language from old private-sector GAAP that was in conflict with existing GASB standards



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GASB Statement 67/68
The New Pension Standards

- Effective 06/30/2014 (plans) and 06/30/2015 (employers)
- Amends GASB 25/27
- Dramatically changes the accounting for pension liabilities
- Covered in our 4Q2012 webinar
www.rehmann.com/government_resources



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GASB Statement 67/68
The New Pension Standards

- New term: *net pension liability*
 - Recorded by the employer (not the plan)
 - Equal to the actuarially determined *total pension liability*, less the *net position* of the pension plan
 - Recorded in full accrual financial statements (certain portions are deferred and amortized)



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GASB Statement 67/68

The New Pension Standards

- Actuarial valuations
 - Methods and assumptions are set by the GASB, and must either match or be "rolled forward" to the government's FYE
 - Discount rate is a blend of long-term rate of return (to the extent funded) and a "risk free" rate (to the extent not funded)

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GASB Statement 67/68

The New Pension Standards

- Extensive new footnote and RSI requirements
 - Plan description
 - Investment policies
 - Annual money-weighted return (10 years)
 - Basis for calculating the net pension liability, including discount rate assumptions

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GASB Statement 69

Government Combinations / Disposals of Operations

- Effective 12/31/2014
- Establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations

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GASB Statement 69
Government Combinations / Disposals of Operations

- **Definitions**
 - An *operation* is an integrated set of activities conducted and managed for the purpose of providing identifiable services with associated assets or liabilities
 - May be less than an entire legally separate entity



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GASB Statement 69
Government Combinations / Disposals of Operations

- **Definitions**
 - A *government merger* is a combination of legally separate entities
 - No significant consideration is exchanged
 - Either form a new government (A+B=C) or one government absorbs another (A+B=A)



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GASB Statement 69
Government Combinations / Disposals of Operations

- **Definitions**
 - A *government acquisition* is a combination in which a government acquires another entity, or the operations of another entity, in exchange for significant consideration
 - The acquired entity/operation becomes part of the acquiring government's legally separate entity (A+B=A)



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GASB Statement 69
Government Combinations / Disposals of Operations

- **Definitions**
 - A *transfer of operations* is a combination involving the operations of an entity, rather than a combination of legally separate entities
 - No significant consideration is exchanged



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GASB Statement 69
Government Combinations / Disposals of Operations

- **Mergers**
 - New governments
 - Recognize all assets, liabilities and deferred inflows/outflows of the merging entities at their respective carrying values
 - May adjust values for consistency with GAAP and/or to align accounting policies
 - Initial reporting period begins on merger date



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GASB Statement 69
Government Combinations / Disposals of Operations

- **Mergers**
 - Continuing governments
 - Recognize all assets, liabilities and deferred inflows/outflows of the merging entities at their respective carrying values
 - May adjust values for consistency with GAAP and/or to align accounting policies
 - Treat as if the merger occurred at the start of the continuing government's FY
 - Eliminate inter-entity transactions



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GASB Statement 69
Government Combinations / Disposals of Operations

- **Acquisitions**
 - Acquisition date is when control of assets or obligation for operations occurs
 - Assets, liabilities, and deferred inflows/outflows should generally be recorded at *acquisition value* (market)
 - If consideration exceeds acquisition value, record a deferred outflow and amortize over the period benefiting from the acquisition



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GASB Statement 69
Government Combinations / Disposals of Operations

- **Transfers of operations**
 - Effective transfer date is when control of assets or obligation for operations occurs
 - Recognize all assets, liabilities and deferred inflows/outflows of the transferred operation at their respective carrying values
 - May adjust values for consistency with GAAP and/or to align accounting policies
 - Recognize net position as a special item



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GASB Statement 69
Government Combinations / Disposals of Operations

- **Disposals of government operations**
 - Recognize a gain/loss on the disposal as a special item as of the transfer date or date of sale



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GASB Statement 69
Government Combinations / Disposals of Operations

- Note disclosures
 - Brief description, effective date, and primary reasons for the combination
 - Amounts recognized/deferred
 - Description of any consideration involved
 - Revenues/expenses of any disposed operations



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On the Horizon



GASB Current Technical Agenda
Major Projects

- Conceptual Framework
 - Develop recognition criteria for *whether* and *when* information should be reported
 - Measurement Approaches
 - PV 2Q11; ED 2Q13; Final 1Q14
 - Recognition
 - PV 2Q11; ED 1Q14; Final 1Q15



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Major Projects

- Financial Projections
 - Guidelines for economic condition reporting and intergovernmental financial dependencies
 - PV 4Q11; ED TBD; Final TBD
 - Currently "on hold pending resolution of issues relating to GASB's scope"

Major Projects

- Fair Value Measurement
 - Definition and methods used to measure and report fair value for certain investments and donated capital assets
 - ED 2Q13; Final 1Q14

Major Projects

- Financial Guarantees
 - Recognition and disclosure of financial guarantees made and received
 - ED 2Q12; Final 2Q13

Major Projects

- Other postemployment benefits
 - Companion project to GASB 67/68 for pensions
 - ED 2Q14; Final 2Q15

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Questions and Answers...



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For More Information

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