



GASB Update

Accounting and Reporting Considerations for 2013



Assurance • Tax • Consulting

Today's Presenter



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1

Learning Objectives

After completing this program, you should

- Have a better understanding of recent accounting and reporting developments and issues impacting state and local governments
 - To address applicable standards in the preparation of the financial statements of a state or local government reporting entity
 - To prepare for implementation of applicable standards with future effective dates



2

Agenda and Topics

- Accounting and reporting standards – GASB Update
 - Recently issued and effective for period ending in 2013
 - Issued with future effective dates
 - Exposed but not issued and Future projects

GASBS 60, Service Concession Arrangements

Issued - November 2010

Effective date - **periods beginning after December 15, 2011**

GASBS 60

- SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which all of the following criteria are met
 - The transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration
 - The operator collects and is compensated by fees from third parties
 - 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
 - The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement

GASBS 60, continued

- What is an SCA? **Examples**
 - Arrangements in which the operator will design and build a facility and will obtain the right to collect fees from third parties (for example, **construction of a municipal complex** for the right to lease a portion of the facility to third parties)
 - Arrangements in which the operator will provide significant consideration in exchange for the right to access an existing facility (for example, a **parking garage**) and collect fees from third parties for its usage
 - Arrangements in which the operator will design and build a facility for the transferor (for example, a **new toll-way**), finance the construction costs, provide the associated services, collect the associated fees, and convey the facility to the government at the end of the arrangement

GASBS 60, continued

- Transferor Accounting and Reporting for facilities and related payments
 - If existing facility...continue to report as capital asset
 - If newly purchased, constructed, or improvements to existing facility by operator...report
 - The new facility or the improvement as a capital asset at fair value when it is placed in operation
 - Any contractual obligations as liabilities
 - A corresponding deferred inflow of resources equal to the difference between the above

GASBS 60, Transferor Accounting and Reporting, continued

- Recognize liability at present value, for certain obligations to sacrifice financial resources under the terms of the arrangement if a contractual obligation is significant and meets either of the following criteria:
 - The contractual obligation directly relates to the facility (for example, obligations for capital improvements, insurance, or maintenance on the facility)
 - Obligation could relate to ownership of the facility or could arise from the transferor's responsibility to ensure that the facility remains fit for the particular purpose of the arrangement
 - The contractual obligation relates to a commitment made by the transferor to maintain a minimum or specific level of service in connection with the operation of the facility (for example, providing a specific level of police and emergency services for the facility or providing a minimum level of maintenance to areas surrounding the facility)

GASBS 61, Overview

- The most significant effects of the amendment:
 - Increased emphasis on financial relationships
 - Raises the bar for inclusion
 - Refocused and clarified requirements to blend certain component units
 - Changes to recognition of ownership interests
 - Joint ventures
 - Component units
 - Investments

GASBS 61, Inclusion Criteria

- GASBS 14 requires inclusion if Potential Component Unit is fiscally dependant. That is, Primary Government has authority over:
 - Budget, or
 - Setting taxes and charges, or
 - Issuing debt
- GASBS 61 adds a requirement for a financial benefit or burden before inclusion is required.

GASBS 61, Inclusion Criteria, continued

- GASBS14 requires inclusion of a Potential Component Unit if exclusion would make reporting entity's statements "misleading or incomplete"
- GASBS 61 eliminates "incomplete," criteria - emphasizes that determination to normally be based on financial relationships
 - Such as significant financial benefit to/burden on the Primary Government that is other than temporary

GASBS 61, Major CUs

- Clarifies the types of relationships that should generally affect the major CU determination:
 - Primarily financial relationships
 - Significant transactions with the PG
 - Significant financial benefit/burden relationship
 - Could be based on the nature of services provided by CU
- Eliminates consideration of each CU's significance relative to other CUs

GASBS 61, Reporting Equity Interests

- An asset should be recognized for an equity interest in:
 - A joint venture
 - A partnership
 - An investment
 - A component unit
 - If the CU is blended, the equity interest is eliminated in the blending process
 - Minority interests would be classified in net assets as "Restricted, nonexpendable"
- Recognition and Measurement is based on Joint Venture equity interest requirements in Statement 14

GASBS 62, Codification of Accounting and Reporting Guidance Contained in Pre-November 30, 1989 FSB and AICPA Pronouncements

- Issued - December 2010
- Effective - **Periods beginning after December 15, 2011**
- The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements
 - Financial Accounting Standards Board (FASB) Statements and Interpretations
 - Accounting Principles Board Opinions
 - Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

GASBS 62, continued

- Not really a “**Big Bang**” although statement is “**Huge**” in size
- Supersedes Statement No. 20 and related election for use of post-November 30, 1989 FASB Statements and Interpretations...
 - Entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement
- Codification now contains applicable FASB and AICPA pronouncements with governmental accounting and reporting implications



2

GASBS 62, Basic Guidance

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



25

GASBS 62, Significant Topics, continued

- 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 and FIN 14)
- Extinguishments of debt (APB 26 and FAS 76)
- Troubled debt restructuring (FAS 15)
- Inventory (ARB 43)
- Leases (FAS 13, 22, and 98 and FIN 23, 26, and 27)



GASBS 62, Specialized Topics, continued

- 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, and 101)



GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

- Issued - June 2011
- Effective - **Periods beginning after December 15, 2011**
- The objective is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed



28

GASB 63, continued

- Deferred outflows or inflows
 - consumption or acquisition of net assets in one period that are applicable to future periods
- Net position are reported within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities



29

GASBS 63, continued

- Statement of Net Positions
 - Assets
 - Deferred Outflows of Resources
 - Accumulated decrease in FV of hedge derivatives
 - Liabilities
 - Deferred Inflows of Resources
 - Accumulated increase in FV of hedge derivatives
 - Deferred service concession arrangement receipts
 - Net Positions
 - Net investment in capital assets
 - Restricted for...
 - Unrestricted (deficit)

GASBS 63, continued

- Net Investment in Capital Assets Component of Net Position
 - Capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets
 - Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position
 - If significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period
 - Portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets; include in the same net position component (restricted or unrestricted) as the unspent amount

GASBS 63, continued

- The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets
- The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are **not included in the determination of net investment in capital assets or the restricted component of net position**

GASBS 63, continued

■ **Financial Reporting for Governmental Funds**

Deferred outflows of resources and deferred inflows of resources that are required to be reported in a governmental fund balance sheet should be presented in a format that displays *assets plus deferred outflows of resources, equals liabilities plus deferred inflows of resources, plus fund balance*

GASBS 63, continued

■ **Disclosures**

Balances of deferred outflows of resources and deferred inflows of resources reported in a statement of net position or a governmental fund balance sheet may be aggregated

- Governments should provide details of the different types of deferred amounts in the notes to the financial statements if significant components of the total deferred amounts are obscured by aggregation
- Disclosure in the notes to the financial statements is required only if the information is not displayed on the face of the financial statements

If the difference between a deferred outflow of resources or deferred inflow of resources and the balance of the related asset or liability is significant, governments should provide an explanation of that effect on its net position in the notes to the financial statements

GASBS 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*

- Issued - June 2011
- Effective - **Periods beginning after June 15, 2011**
- The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider
- This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied

GASBS 65, Items Previously Reported as Assets and Liabilities

- Issued - April 2012
- Effective - **Periods beginning after December 15, 2012**
- To provide guidance on which balances, currently reported as assets or liabilities should be reported as
 - Deferred outflows of resources
 - Deferred inflows of resources
- Limits use of term “deferred”

GASBS 65, continued

- **Deferred Outflows of Resources:**
 - Debit amount resulting from a refunding of debt (Statement 23)
 - Intra-entity transfers of future revenues reported by the transferee (Statement 48)
 - The loss resulting from sale-leaseback transactions (Statement 62)
 - Net balance (debit) of direct loan origination costs for mortgage loans held for resale prior to the point of sale (Statement 62)
 - Fees paid to permanent investors to ensure the ultimate sale of loans prior to the point of sale (Statement 62).
 - Advance payments made to other governments related to government-mandated and voluntary nonexchange transactions when time requirements are the only eligibility requirements that have not been met by the other government (Statement 33).

GASBS 65, continued

- **Outflows of Resources:**
 - Acquisition costs for insurance entities and public entity risk pools (Statement 62 and Statement 10)
 - Initial direct costs of operating leases (Statement 62)
 - Debt issuance costs (Statement 62)
 - Net balance (debit) of direct loan origination costs related to lending activities (Statement 62)
 - Net balance (debit) of direct loan origination costs for mortgage loans held for investment (Statement 62)
 - Net balance (debit) of direct loan origination costs for mortgage loans held for resale after the sale occurs (Statement 62)
 - Fees paid related to a purchased loan or a group of loans (Statement 62)
 - Fees paid to permanent investors to ensure the ultimate sale of loans after the ultimate sale occurs (Statement 62).

GASBS 65, continued

- **Deferred Inflows of Resources:**
 - Advance payments received related to imposed nonexchange transactions (Statement 33)
 - Credit amount resulting from a refunding of debt (Statement 23)
 - Proceeds from the sale of future revenues to parties outside the financial reporting entity and intra-entity transfers of future revenues (Statement 48)
 - Unavailable revenue related to the application of modified accrual accounting (Statement 6 and Statement 33)
 - Gain resulting from sale-leaseback transactions (Statement 62)
 - Net balance (credit) of loan origination fees, including any portion related to points, for mortgage loans held for resale prior to the point of sale (Statement 62)
 - Net balance (credit) of loan origination fees related to points for lending activities and mortgage loans held for investment (Statement 62)
 - Resources generated by current rates intended to recover costs that are expected to be incurred in the future (Statement 62)
 - Gains or other reductions of net allowable costs intended to reduce rates over future periods (Statement 62)
 - Advance payments received from other governments related to government-mandated and voluntary nonexchange transactions when time requirements are the only eligibility requirements that have not been met (Statement 33).

GASBS 65, continued

- **Inflows of Resources:**
 - Net balance (credit) of loan origination fees, excluding any portion related to points, related to lending activities (Statement 62)
 - Commitment fees realized upon exercise or expiration of the commitment (Statement 62)
 - Commitment fees charged when exercise is considered remote (Statement 62)
 - Fee received related to a purchased loan or a group on loans (Statement 62)
 - Net balance (credit) of loan origination fees, excluding any portion related to points, for mortgage loans held for investment (Statement 62)
 - Net balance (credit) of loan origination fees, including any portion related to points, for mortgage loans held for resale after the sale occurs (Statement 62)
 - Fees that are realized after the funding of mortgage loans has occurred or after the commitment to guarantee the funding of mortgage loans expires (Statement 62)
 - Fees realized when a commitments arranged directly between a permanent investor and a borrower (Statement 62).

GASBS 66, Technical Corrections – 2012

- Issued - April 2012
- **Effective - Periods beginning after December 15, 2012**
- Amends specific provisions of
 - GASBS 10 that limits fund-based reporting of risk financing activities to GF and ISF – Use GASBS 54 definitions
 - GASBS 62 for
 - Operating lease payments
 - Purchased loans or groups of loans
 - Servicing fees related to mortgage loans sold

GASBS 67 and 68 , Accounting and Financial Reporting for Pensions and Plans

- Statements issued in June 2012
- GASBS 67 – Reporting of plans
 - Effective for fiscal years beginning after June 15, 2013
- GASBS 68 – Employer/sponsor accounting/reporting
 - Effective for fiscal years beginning after June 15, 2014
- Standards address:
 - Changes in governmental accounting and financial reporting, principally the introduction of accrual-based government-wide financial statements
 - A perceived need among the users of governmental financial reports for comparable information about pensions
 - The continuing development of GASB concepts regarding what constitutes a liability and an outflow of resources

GASBS 67, Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25

- Establishes financial reporting standards for pension plans of SLGs
 - Defined benefit and defined contribution plans
 - Administered through trusts or equivalent arrangements, in which:
 1. Contributions are irrevocable
 2. Assets are dedicated to providing pension benefits
 3. Plan assets are legally protected from the creditors of:
 - a. Employers
 - b. Nonemployer contributing entities
 - c. Plan administrators

Defined Benefit Plans (DBPs)

- DBPs should present the following financial statements prepared on accrual basis
 - A statement of fiduciary net position
 - Assets
 - Deferred outflows
 - Liabilities
 - Deferred inflows
 - Fiduciary net position
 - State of changes in fiduciary net position
 - Addition to plan
 - Deductions from plan
 - Net increase(decrease) in fiduciary net position

DBPs – Additional Reporting Considerations

- Notes to financial statements
 - Plan description
 - Plan investments
 - Receivables
 - Allocated insurance contracts excluded from plan assets
 - Reserves
 - Deferred retirement option (DROP) balances
 - Disclosures specific to
 - Single-employer plans
 - Cost-sharing plans

DBPs – Additional Reporting Considerations

- Required supplementary information (RSI) for single employer and cost sharing plans
 - 10 year schedule of changes in the net pension liability
 - 10 year schedule of the following for each year
 - Total pension liability
 - Plan's fiduciary net position
 - Net pension liability
 - Plan's fiduciary net position as a percent of total pension liability
 - Covered employee payroll
 - Net pension liability as a percent of covered employee payroll
 - 10 year schedule of actuarial determined information
 - 10 year schedule of annual money-weighted return on pension investments

GASBS 67 Also Addresses

- Measurement of the DBP's net pension liability
 - Detailed considerations relative to the Pension liability
- Defined contribution pension plan reporting
 - Required disclosures

GASBS 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27

- Establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans (as defined earlier)
- **Focus is on accounting and reporting by employers for pension plans addressed in GASBS 67**

GASBS 68, Basic Considerations

- Defined benefit pensions originate from exchanges between the employer and employees resulting from employee services and are part of the total compensation for employee services
- Obligations for pensions meet the definition of a liability in Concepts Statement 4
- Compensation expense should be recognized in the period employee services are provided

GASBS 68, GASB's Fundamental Approach

- View the cost of pensions within the context of an ongoing, career-long employment relationship
- Use an accounting-based versus funding-based approach to measurement
- Produce measures of the employer's obligation to employees and the current period cost to taxpayers of providing governmental services

GASBS 68, Key GASB Conclusions

- An employer is primarily responsible for the unfunded pension obligation resulting from an employment exchange
- The difference between the total pension liability and the plan net position would be reported as a net pension liability in the financial statements of the government

GASBS 68 – Major Accounting Change

- A government employer will report in its financial statements a net pension liability for DBPs equal to the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits to current employees, retirees, and their beneficiaries

GASBS 68 – Another Major Accounting Change

- A government participating in a cost-sharing DBP will report a liability in its own financial statements that is equivalent to its long-term proportionate share of the collective net pension liability
 - Approach uses a basis for allocation of proportionate share based on the employer's expected contribution effort relative to that of all contributors

GASBS 68 – Yet Another Major Accounting Change

- Special funding situations for DBPs
 - Under certain conditions both governmental nonemployer contributing entities and governmental employers will recognize a proportionate share of the collective net pension liability

GASBS 68 – Three Step Approach for Measurement DBPs

- Determine projected benefit payments
- Discount future payments to determine present value of payments
- Attribute PV of payment to employee periods of service

Selection of all actuarial assumptions should be made in accordance with Actuarial Standards of Practice (with consideration of specific guidance provided by the GASB).

GASBS 68 – Actuarial Considerations DBPs

- Benefit projections
 - The projection of pension benefit payments should include the effects of projected future salary increases and future service credits, if part of the benefits formula, as well as automatic COLAs
 - Ad hoc COLAs would be incorporated into projections of pension benefit payments only if an employer's practice indicates that the COLAs are substantively automatic

GASBS 68 – Actuarial Considerations DBPs, continued

- Discount rate
 - Should be a single rate that reflects:
 - The long-term expected rate of return on plan investments to the extent that
 1. Plan net position is projected to be sufficient to make benefit payments that are projected to occur in the period, and
 2. Assets are projected to be invested using a long-term investment strategy
 - A high-quality tax exempt municipal bond index rate to the extent that plan net position is projected to no longer be available for long-term investment

GASBS 68 – Actuarial Considerations DBPs, continued

- Timing and frequency of measurement
 - Recognize a net pension liability that is measured as of a date (the measurement date) no earlier than the *end of its prior fiscal year, consistently applied from period to period*
 - Total pension liability component of the net pension liability at the measurement date is determined either by
 - An actuarial valuation as of that date or
 - The use of update procedures to roll forward amounts to the measurement date from an actuarial valuation as of a date no more than 30 months (plus 1 day) prior to the fiscal year-end
 - A single or agent employer should be required to obtain, for financial reporting purposes, actuarial valuations at least biennially
 - More frequent valuations are encouraged

GASBS 68 – Measurement DBPs

Plan net assets

- In calculating the employer’s net pension liability, plan net position should be measured in the same way as measured in the plan’s statement of plan net position, including measurement of investments at fair value.

Pension Expense (next slide)

- Immediate
- Deferred

GASBS 68 – Expense Recognition DBPs

- Immediate
 - Pension benefits earned during the reporting period (service cost or normal cost)
 - Interest cost on the total pension liability
 - Changes in benefit terms that affect the total pension liability
- Deferred
 - Expense would be deferred and recognized over a period equal to the average remaining service periods of active and inactive (including retirees) employees for:
 - Differences between expected and actual changes in economic and demographic factors
 - Changes in assumptions about economic and demographic factors
 - Differences between actual and projected earnings on plan investments would be deferred and recognized as pension expense over a five-year, closed period

GASBS 68 – Disclosures

- General information
 - Name of the plan through which benefits are provided
 - Identification of the public employee retirement system or other entity that administers the plan
 - Identification of the plan
 - A brief description of the benefit provisions
 - The number of employees covered by the plan
 - Whether the pension plan issues a stand-alone financial report, or is included in the report of a public employee retirement system or another entity, and, if so, how to obtain the report

GASBS 68 – Disclosures DBPs

- Actuarial information
 - Assumptions used in measurement
 - Discount rate
 - Assumptions
 - Expected rate of return
 - Municipal bond rate
 - Sensitivity analysis
- Also
 - Changes in net pension liability
 - Deferred inflows and outflows

GASBS 68 – Required Supplementary Information (RSI) DBPs

- 10-year schedules for all governments, regardless of type of plan (plus notes):
 - Changes in the net pension liability by source
 - Collective level for cost-sharing employers
 - Components of the net pension liability and ratios: plan net position total pension liability; net pension liability covered-employee payroll
 - Collective and individual level for cost-sharing
 - Contribution information, if a government has an actuarially determined contribution: actuarially calculated contribution – actual contributions; contributions payroll

GASBS 68 – RSI for Cost-Sharing Employer’s DBPs

- 10-year schedules
 - Changes in the net pension liability (cost-sharing at collective level only)
 - Cost-sharing at both collective level and employer level with employer proportionate share percentage
 - Total pension liability, plan net position, net pension liability, and
 1. Plan net position as a percentage of the total pension liability
 2. Net pension liability as a percentage of covered-employee payroll
 - Actuarially calculated employer contributions needed, actual contributions made, the difference between them, and contributions made as a percentage of covered-employee payroll

GASBS 68 – Audit Considerations

- Coordination of efforts and clear division of responsibility between auditor, auditee, and actuary.
 - Consider nonaudit services and the impact of GAS
- Coordination and communication when participating in cost sharing plans and special funding situations.
- Impact of new group audits clarity standard when other (component) auditors are responsible for plans

Implementation of the new standards will be costly

Suggested Action Items

- Determine the type of plan you have (single, agent, cost sharing) and read the appropriate sections of GASB 68 that pertain to your situation. Be sure to review the illustrations in Appendix C.
- Determine if there are any legal requirements to contribute certain actuarially determined amounts to your plan(s). If there are, discuss with your actuary to determine if there are any efficiencies (cost reductions) by engaging a single actuary to prepare all the needed calculations.
- Determine the measurement date you plan to use, and discuss it with your actuary. If the actuarial valuation can be performed as of the measurement date, a roll-forward of the actuary's calculation will not be necessary. This should be a simple matter for most single employer plans, but is not as simple for multiple employer plans.

Suggested Action Items, continued

- Plan net position is an important component of the net pension liability. Be sure to consider the expected issuance date of plan financial statements when selecting your measurement date.
- If you are in a multiple employer plan, try to arrange a meeting of all the employers involved (and the plan's administrator). Discuss the timing and frequency of the actuarial valuation and how (and when) information will be disseminated to each employer. For cost sharing plans, determine the method to be used for calculating proportionate shares. If the AV date is before the measurement date, discuss how an individual employer can obtain sufficient detail to enable an independent roll-forward of the calculation (unless this will be provided by the administrator).

Suggested Action Items, continued

- If the measurement date and actuarial valuation date will not coincide, determine who will perform the necessary roll-forward. This calculation is a significant estimate, and major changes since the original valuation date could have a material impact on the calculation. Your auditor may be unable (or unwilling) to perform this work. Consider you will need to engage another actuary to update the original valuation.
- Meet with officials of the Plan. Assumptions used for plan reporting and employer reporting have to be the same. Agreeing to the assumptions in advance will help eliminate inconsistencies and should reduce the need for your actuaries to re-calculate data.
- Cost sharing plan participants – make sure you understand the contribution requirements as they will significantly impact the "proportionate share" of the liability you will record. Determine how frequently the cost sharing allocations will be reviewed and the manner in which this will take place. Identify and communicate any concerns early in the process.

Suggested Action Items, continued

- Meet with your governing body. Discuss the requirements of the new standard, the expected impact on net position, the significant assumptions selected by management, and discuss the level of involvement of other entities (other governments, plan administrators, etc.). In situations in which there may not be a corroborative spirit between management of your entity and management of the plan or other entities, it may be necessary to get members of your governing body to intervene.
- Be informed about the impacts of underfunding. A significantly underfunded plan will not go un-noticed by the rating agencies and certain other users of your financial statements. Be prepared to discuss the impact this may have with your governing body. A rating decrease will likely increase your borrowing rate and could make debt issuances less affordable.
- If you are responsible for engaging the actuary, meet with them early and make sure they are aware of the requirements of the new standards (both 67 and 68). Determine what they will need from you in order to perform a timely and accurate actuarial valuation. Discuss deadlines, both on your end and theirs.

Suggested Action Items, continued

- Meet with your auditors. Discuss your plan for implementing this standard and ask for feedback. Find out what the auditor will require in terms of documentation and support. Provide information about the actuary to be engaged and what you know of their qualifications and professional reputation. Involving the actuary in this meeting would be beneficial. Consider allowing your auditor to evaluate the significant assumptions you plan to use, particularly the long-term rate of return on investments, before the actuary finalizes the calculation.
- In addition to the requirements of this standard, there are also new audit standards pertaining to group audits. If your auditor will not be auditing the Plan, determine with your auditor, in advance, what communication and interaction they need to have with the plan auditors (and plan management).
- Draft the new footnotes and RSI. This will likely take a sizeable investment of your time. If you will be asking your auditors (or independent consultants) to prepare this information, discuss what information they will need, the timing of the work, the assistance they can seek from the actuary, and any other concerns pertaining to these non-audit services.

For more information

We suggest all preparers read and become familiar with the text of both GASB Standards

We suggest you be on-the-lookout for GASB implementation guidance

We suggest you read the McGladrey's Whitepaper *GASB Statement No. 68, Accounting and Financial Reporting for Pensions - A Summary of the Changes and Recommended Implementation Steps*

<http://mcgladrey.com/Government-Entities/GASB-Statement-No-68-Accounting-and-Financial-Reporting-for-Pensions>

GASBS 69, Government Combinations and Disposals of Government Operations

- Issued – January 2013
- Effective – **Periods beginning after December 15, 2013**
 - Applied on a prospective basis

GASBS 69, continued

- Standards for government combinations and disposals
 - Government merger - combination of legally separate entities in which no significant consideration is exchanged and either:
 - Two or more governments (or one or more governments and one or more nongovernmental entities) cease to exist as legally separate entities and are combined to form one or more new governments
 - One or more legally separate governments or nongovernmental entities cease to exist and their operations are absorbed into, and provided by, one or more continuing governments

GASBS 69, continued

- Government acquisition - government combination in which a **government acquires** another entity, or the operations of another entity, **in exchange for significant consideration.**
 - The consideration provided should be significant in relation to the assets and liabilities acquired.
 - The acquired entity or operation becomes part of the acquiring government's legally separate entity.

GASBS 69, continued

- Transfer of operations - government combination involving the operations of a government or nongovernmental entity, rather than a combination of legally separate entities, in which no significant consideration is exchanged.
 - Operations may be transferred to another existing entity or to a new entity.
 - Examples
 - Reorganizations
 - Redistricting
 - Annexations
 - New shared service arrangements

GASBS 69, Merger

- Merger date begins initial reporting period.
 - Date combined assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities should be recognized and measured
 - Generally, measure the assets, deferred outflows of resources, liabilities, or deferred inflows of resources as of the merger date at the carrying values as reported in the separate financial statements of the merging entities
 - Consider impairments.
- For a continuing government merger described in paragraph 10b of this Statement, the merger date is the beginning of the reporting period in which the combination occurs, regardless of the actual date of the merger
- Transactions between the merging entities that occur before the combination should generally be eliminated in the combination process

GASBS 69, Acquisitions

- Date on which the acquiring government obtains control of the assets and becomes obligated for the liabilities of an acquiree entity or its operations is the acquisition date
 - Acquired assets, deferred outflows of resources, liabilities, or deferred inflows of resources, are measured *acquisition value* is a market-based entry price.
 - An entry price is assumed to be based on an orderly transaction entered into on the acquisition date.
 - Acquisition value represents the price that would be paid for acquiring similar assets, having similar service capacity, or discharging the liabilities assumed as of the acquisition date.
 - Statement also addresses
 - Consideration
 - Acquisition costs
 - Intra-entity government acquisitions
 - Reporting on a provisional basis
 - Reporting in governmental fund F/S

GASBS 69, Transfers of Operations

- Effective transfer date is the date the transferee government obtains control of the assets and becomes obligated for the liabilities of the operation transferred
 - A continuing government should report a transfer of operations as a transaction in its financial statements for the reporting period in which it occurs
 - If transfer of operations results in the formation of a new government, the new government's initial reporting period begins at the effective transfer date
- Generally transferee government recognizes the carrying values of assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the operations of the transferor government or nongovernmental entity as of the effective transfer date

GASBS 69, Disposals of Government Operations

- Disposing government should recognize a gain or loss on the disposal of operations, if applicable.
 - Gains or losses on the disposal of operations should be reported as a special item in the period in which the disposal occurs, based on either the effective transfer date of a transfer of operations, or the date of sale for operations that are sold
 - Special provision for certain costs

GASBS 69, continued

- General and transaction specific disclosure requirements
- Statement also includes
 - Illustrations
 - Government merger
 - Government Acquisition with Excess Consideration Provided
 - Government Acquisition with Excess Net Position Received
 - Transfer of Operations

GASBS 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees

- Issued – April 2013

- Effective – **Periods beginning after June 15, 2013**
 - Applied retroactively
 - Earlier application is encouraged

GASBS 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees

- Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange.

- As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements.

- The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

GASBS 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees

- This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

- The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee.

- When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

GASBS 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees

- This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor.
- This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor.
- When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation.
- This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

GASBS Projects

- **Conceptual Framework – Recognition and Measurement Approaches – PV issued**
- **Economic Conditions Reporting – Financial Projections – PV issued**
- Fair Value Measurement and Application
- GAAP Hierarchy
- OPEB Accounting and Financial Reporting
- Post employment Benefit Accounting and Financial Reporting Implementation Guide


