

STATE OF NORTH CAROLINA
 OFFICE OF THE STATE CONTROLLER
 MAY 17, 2013

**Governmental Accounting &
 Financial Reporting Seminar**

Who Are These people?

Members of the GASB

Current Board Members [continued]

| <u>Member</u> | <u>Term Expires June</u> |
|--------------------|--------------------------|
| Bob Attmore, Chair | 2014—resigning 2013 |
| David Vaught, Iowa | 7/1/13 – 6/30/20 |
| Bill Fish | 2016—first term |
| Michael Granof | 2015—first term |
| David Sundstrom | 2014—first term |
| Jan Sylvis | 2017 |
| Marcia Taylor | 2015 |
| Jim Brown | 2017—first term |

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Annual GASB Publications

- Original Pronouncements
 - Individual ones OK
 - Updated volumes better
- The *Codification* – OPs arranged by topic
- *Comprehensive Implementation Guide (CIG)*
 - Again, individual ones more immediate
 - Updated volume is better
 - CIG occasionally updated semi-annually

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GARS – The Other “Pub”

- Has everything found in the other sources
- Electronic – easier to carry around
- Updated semi-annually
- Searchable – that’s the big plus
- Now available on-line

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Review of the Governmental GAAP Hierarchy

**Where do we stand today, and what
does the future hold?**

GAAP Hierarchy

- A. First established in 1984
- B. Updated in 1989 with jurisdictional agreement between the FASB and the GASB
- C. Usually reported in an AICPA SAS
- D. Moved into GAAP with GASBS 55 – issued 03/2009, effective on issuance

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Governmental GAAP Hierarchy

- a. GASB Statements and Interpretations, which are periodically incorporated into the *Codification*
 - *Level “a” excludes “AICPA and FASB pronouncements specifically made applicable to SLG entities by GASB Statements or Interpretations”.*
 - *Replaced by GASBS 62.*
 - *First mention of the Codification*

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Hierarchy [continued]

- b. GASB Technical Bulletins and, if specifically made applicable to SLG entities by the AICPA and cleared by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position

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Hierarchy [continued]

- c. AICPA Practice Bulletins if specifically made applicable to SLG entities and cleared by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to SLG entities.

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Hierarchy [continued]

- No AICPA Practice Bulletin has ever been applied to governments
- Group of accountants seen to be a GASB version of the EITF – has never happened
- Net result is that this level does not exist

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Hierarchy [continued]

- d. Implementation guides (Q&As) published by the GASB staff, as well as practices that are widely recognized and prevalent in SLG.

No change here, either.

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Other Literature

- Can still be considered if topic not covered in categories a thru d
- Includes
 - GASB Concepts Statements
 - FASB Concepts Statements
 - FASAB Statements, Interpretations, TBs, & Concepts Statements
 - AICPA Issues Papers
 - IPSASB Standards or IFRS
 - Accounting **textbooks**, handbooks, and articles

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FASB?

- What about FASB Statements and Interpretations?
- GASB Staff says it is part of other literature, but it isn't there.
- They aren't sure what happened.

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Hierarchy Changes Coming?

- Added to Technical Agenda in April 2012
- Key issues to address:
 - Possible combination of some categories – current thoughts are for 2 levels
 1. GASB publications
 2. AICPA publications
 - Due process for CIG
 - Add reference to FASB *Codification* in other accounting literature

ED by 1st Quarter 2014

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Quick Overview of Everything Else

**GASB Statement 54:
Fund Balance Reporting and
Governmental Fund Type Definitions**

LAST REALLY BIG CHANGE

Effective Dates—ENDING AFTER 6/15

- 2013
 - 60 Service Concession Arrangements (12/15/12)
 - 61 Reporting Entity
 - 62 Codification of AICPA and FASB (12/15/12)
 - 63 Deferrals Presentation (12/15/12)
- 2014
 - 65 Items Previously Reported as Assets & Liabilities (12/15/13)
 - 66 Technical Corrections – 2012 (12/15/13)
 - 67 Reporting for Pension Plans
 - 70 Accounting & Reporting for Financial Guarantees
- 2015
 - 68 Accounting & Reporting for Pensions
 - 69 Government Combinations (12/15/14)

Missing Standard

- 64 – Derivative Instruments – issued 06/2011, effective FY 2012

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What's Coming Down the Pike

- Conceptual Framework
 - Measurement Approaches – ED 2nd Q 2013
 - Recognition – ED 1st Q 2014
- Economic Condition Reporting—Financial Projections (PV) – ED TBD
- Technical Correction—Pensions – ED 2nd Q 2013
- GAAP Hierarchy – ED 1st Q 2014
- OPEB Accounting & Reporting – ED 2nd Q 2014
- Leases – ED 4th Q 2014
- OPEB – ED 4th Q 2014

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GASB Statement No. 60

Service Concession Arrangements

Service Concession Arrangements (SCAs)

- SCAs are a **type** of public-private or public-public partnership.
- The term public-private partnership is used to refer to a variety of:
 - Service arrangements
 - Management arrangements
 - Service Concession Arrangements.

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Scope: What is an SCA?

An arrangement between a government and an operator where all four criteria are met:

- The government conveys to an operator the right and related obligation to provide services to the public through the operation of a capital asset, in exchange for significant consideration
- The operator collects and retains fees from third parties

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Scope: What is an SCA?

An arrangement in which [continued] :

- The government determines or has the ability to modify or approve:
 - What services the operator is required to provide
 - To whom the services will be provided
 - The prices or rates that will be charged
- The government is entitled to significant residual interest in the service utility of the facility at the end of the agreement

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Important Definitions

- Operator – may be a governmental entity or nongovernmental entity
- Significant consideration – Up-front payment, installment payments, a new facility, or improvements to existing facility
- Public services – relate to the primary function of the facility (operating a zoo) rather than ancillary services operated in conjunction with the facility (souvenir stand at zoo)

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Definitions [continued]

- Capital asset – includes infrastructure, equipment, and other tangible and intangible assets
- Scope of statement excludes agency relationships, which include arrangements where the operator accepts payments from third parties and remits those payments to the government for an established fee

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SCAs include arrangements in which

- Operator will design and build a facility and obtain the right to collect fees from third parties
- Operator will provide significant consideration in exchange for the right to access an existing facility and collect fees from third parties for its usage
- Operator will design and build a facility for the government, finance construction costs, provide associated services, collect the associated fees, and convey the facility to the government at the end of the arrangement

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Important Note from Applicability of this Statement

Provisions of this statement should be applied to financial statements of SLGs that are prepared using the economic resources measurement focus.

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Reporting Facilities

- If the facility is an existing facility, the government should continue to report the facility as a capital asset.

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Reporting Facilities [continued]

If the facility is a new facility purchased or constructed by the operator, or an existing facility that has been improved by the operator, then the government should report

1. New facility or the improvement as a capital asset at fair value when it is placed in operation
2. Any contractual obligations recorded as liabilities
3. Difference in 1 & 2 reported as ***deferred inflow of resources***

Note: Improvements increase the capacity or efficiency of the facility rather than preserve its useful life.

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Government-reported Liabilities

- Certain obligations to sacrifice financial resources
- Recorded at PV if amount is significant and it meets one of these criteria:
 - Relates directly to the facility (obligations for capital improvements, insurance, or maintenance)
 - Relates to a commitment to maintain a minimum or specific level of service in connection with operation of the facility (emergency service or maintenance to areas surrounding facility)

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General Rules

- Capital asset is subject to existing requirements for depreciation, impairment, and disclosures
- Capital asset should not be depreciated if arrangement requires operator to return facility in its original or enhanced condition
- Deferred inflow should be recognized in systematic and rational manner over the term of the arrangement, starting when facility is placed into operation

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General Rules [continued]

- If liability is recorded, it should be reduced as government's obligations are satisfied.
- Improvements to facility by operator should be capitalized as they are made and are subject to requirements for depreciation, impairment, and disclosures.

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Reporting Upfront or Installment Payments

- Up-front payment or present value of installment payments as an asset
- Any contractual obligations recorded as liabilities
- Related deferred inflow of resources.
- Revenue should be recognized in a systematic and rational manner as the deferred inflow of resources is reduced.

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What if a government is the
operator?

Government Operator

- Report intangible asset for the right to access and use the property
 - Measured by the amount of up-front payment or contributed asset
 - Amortized over life of arrangement
- Improvements made to facility increase intangible asset if improvements increase capacity or efficiency of facility
- Report liability to restore facility to a specified condition if required by agreement

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**Other Issues:
Revenue-Sharing Arrangements**

- Report all revenues earned and expenses incurred – government should recognize only its portion of the shared revenues
- Unconditional payments treated like installments
- Government recognizes conditional amounts when earned according to the agreement

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Other Issues: Disclosures

- Description of the arrangement
 - Why management entered into arrangement
 - If applicable, status of project during construction period
- Nature and extent of rights retained or transferred
- Nature and amounts of recognized assets, liabilities, and deferred inflows
- Any guarantees and commitments, including identification, duration, & contract terms

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GASB Statement No. 61

**The Financial Reporting
Entity—Omnibus**

**Foundation of Reporting Entity:
The Primary Government**

- All States, Counties and Cities are primary governments (PGs)
- Other governmental entities may be PGs if
 - It has a separately elected governing body; **and**
 - It has separate legal standing; **and**
 - It is fiscally independent

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Fiscal Independence

An entity is “fiscally independent” if it does not need another government’s approval to:

- Establish its budget; **or**
- Levy taxes or set other rates and charges; **or**
- Issue bonded debt

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Component Unit

- Legally separate
 - non-primary government, or
 - nonprofit organization, or
 - for-profit organization
- For which the primary government is financially accountable

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A Reexamination

Determine whether the standards for defining and presenting the financial reporting entity in Statement 14, as amended:

- Include the organizations that *should be* included
- Exclude organizations that *should not be* included
- Display and disclose the financial data of component units in the most appropriate and useful manner
- Are consistent with the current conceptual framework

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Overview

The most significant effects of the amendments are to:

- Increase emphasis on financial relationships – raises the bar for inclusion
- Refocus and clarify the requirements to blend certain component units
- Improve the recognition of ownership interests
 - Joint ventures
 - Component units
 - Investments

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Inclusion Criteria

- Statement 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
- Statement 61 adds a requirement for a financial benefit or burden before inclusion is required.

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Inclusion Criteria

- Statement 14 requires inclusion of a Potential Component Unit if exclusion would make reporting entity's statements "misleading or incomplete"
- Statement 61 eliminates "incomplete," and emphasizes that the determination would normally be based on financial relationships, such as significant financial benefit to/burden on the Primary Government that is other than temporary

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Misleading to Exclude

Retained in Statement 14

Clarifications:

- Determination should be based on the nature and significance of relationship with the PG – matter of professional judgment
- Disclosure on an accountability relationship by any stand-alone government when a voting majority of its governing board is appointed by a PG

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Blending Requirements

- Statement 14 requires blending if Primary Government and Component Unit have "substantively the same" governing body
- Statement 61 expands that requirement to also include:
 - A financial benefit/burden relationship, or
 - Primary Government has "operational responsibility" for CU – PG's personnel manage activities of CU like a fund, program, or department of the primary government

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Benefit/Burden Relationship

- Benefit: PG has the ability to access other organization's financial resources (other than at dissolution)
- Burden
 - PG is legally or otherwise obligated to finance the deficits of, or to provide financial assistance to, the other organization
 - PG is "obligated in some manner" for the debt of other organization as determined in GASBS 6

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Blending Requirements

The blending criteria retained from GASBS 14 – CU provides services to, or benefits only, the primary government (meaning the government itself, not its constituency).

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Blending Requirements [continued]

The blending criteria are broadened to include component units whose total debt outstanding is expected to be repaid entirely or almost entirely by revenues of the primary government.

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Blending Requirements (continued)

Clarifies that the funds of a blended CU have the same characteristics, reporting alternatives, and limitations as those of the PG

- Major fund reporting
- Could be combined with other funds for display

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Blending Requirements (continued)

- Clarifies how to blend component units in a business-type activity (BTA) reporting model:
- For a multiple column BTA – additional column(s), as if funds of the Primary Government
- For a single column BTA
 - Consolidate Component Unit data into the single column – present combining information in the notes
 - Additional column(s), with Primary Government total column

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Reporting Discretely Presented CUs

- Found only on Government-Wide Financial Statements
 - Statement of Net Position (Assets when standard was issued)
 - Statement of Activities
- Four options for reporting CUs

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Options for Reporting CUs

1. Single column (option most often used)
2. Separate columns for Governmental CUs and Proprietary CUs (rarely used in practice – more common prior to GASBS 34))
3. Separate column for each major CU with aggregate column for other CUs
4. Separate column for each CU

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Options for Reporting CUs

[continued]

- When options 1 and 2 used, must present additional information about CUs later in report
- Methods available
 - Combining statements following major fund statements – must have separate column for each major CU and aggregate column for others
 - Condensed financial statements in notes to financial statements
 - Nonmajor funds may be reported as supplementary information

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Major Component Units

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

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Other Relationships

- Related organization – appointment criteria met but not the “plus”
- Jointly governed organization – has not met appointment requirement or “plus” requirements
- Joint venture – has not met appointment requirement and has either ongoing financial interest or ongoing financial responsibility

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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 component unit 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

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Reporting Equity Interests

[continued]

- Recognition of asset in PG at cost
- If CU is blended, replace equity interest (decrease net assets) with assets and liabilities of CU – adjust cost of equity interest to reflect ownership share of net assets of CU
- If CU is discretely presented, report equity interest by adjusting cost of equity interest to reflect ownership share of net assets of CU

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Note Disclosures

- Clarifies that *current* disclosures require:
 - Rationale for including *each* component unit
 - Whether it is discretely presented, blended, or included as a fiduciary fund(Practical consideration: Can aggregate similar Component Units for disclosure)
- No new disclosures

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GASB Statement No. 62

**Codification of Pre-November 30,
1989 FASB & AICPA Pronouncements**

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Me – ‘bout dang time!

- This standard should have been issued over 20 years ago
- Why?
- Need to know something about history of governmental GAAP

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Changes to the Hierarchy:
Original Hierarchy – 1984 to 1989

- a. GASB Statements and Interpretations
- b. FASB Statements and Interpretations

Changed due to disagreements and apparent conflicts in standards

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Conflicting Standards

- #87 on Pensions – cancelled by #4
- #93 on Depreciation – cancelled by #8
- #95 on SCF – cancelled by #9
- #106 on OPEB – pre-empted by #12

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Changes to the Hierarchy:
Adjusted Hierarchy – 1989 to 2009

- a. GASB Statements and Interpretations
- b. GASB Technical Bulletins and some AICPA publications

FASB Standards and Interpretations became “Other Accounting Literature” in SAS 69

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**Changes to the Hierarchy:
GASBS 55 – 2009 and Forward**

- a. GASB Statements and Interpretations. This paragraph expanded to include GASB *Codification*
- b. GASB Technical Bulletins and some AICPA publications – no real change

Both FASB and GASB made hierarchy part of GAAP rather than relying on SAS 69

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Preparers & Auditors: Are you kidding me?!

- Exposure draft
 - Was over 600 pages long
 - Came in two parts just in case you didn't want all the details
- Final standard has 282 pages, with 502 paragraphs in "the standard"
 - GASBS 34 – 166
 - GASBS 11 – 100
 - GASBS 3 – 84
 - GASBS 10 – 83
 - GASBS 14 – 82

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Preparers & Auditors: Uh-oh!

- Why not make standard effective immediately
 - after all, aren't you already doing all this stuff?
- Maybe, but in case you find something you weren't doing, now you have time to determine how to adjust – change in principle rather than correction of error

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Implementing GASBS 62

- Earlier application is encouraged – too late!
- Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements for all periods presented (unless not practical – then use cumulative effect in earliest period restated).
- In period first applied, disclose the nature of any restatement and its effect, including reason for not restating prior periods

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Overview of the Project

- Primary Objective of this Statement is to directly incorporate the applicable provisions in FASB and AICPA pronouncements issued on or before November 30, 1989, into the state and local government accounting and financial reporting standards.
- Paragraph 17 of Statement 34 requires application of pre-November 30, 1989, FASB statements, APB opinions and ARBs, unless they conflict with or contradict GASB pronouncements

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GASBS 34, paragraph 17

Reporting for governmental and business-type activities should be based on all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements:

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GASBS 34, paragraph 17

[continued]

- a. Financial Accounting Standards Board (FASB) Statements and Interpretations
- b. Accounting Principles Board (APB) Opinions
- c. Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

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Approaches to Development of the Statement:

Option 1

- Adoption of the accounting and reporting requirements as is, modifying the language, as appropriate, without affecting the substance of the provisions
- Would not significantly affect practice as accounting and financial reporting would not change; only the source of the guidance would be different

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Approaches to Development of the Statement:

Option 2

- Redeliberation of individual issues
- Could result in changes in practice depending on the extent of the modifications made the Board.

The Board decided to the adopt **Option 1.**

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Approaches to Development of the Statement

To determine what to carry forward as "Category A" GAAP, the Board divided the Pre-November 30, 1989 FASB and AICPA pronouncements into the following categories to facilitate deliberations:

- Conflict with or contradict GASB standards
- Are not applicable to governments
- Rarely applicable (excluded)
- Are applicable to governments – more detail later
- Will be addressed in GASB projects (applicable, but excluded)
 - ABPO, *Business Combinations*

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Conflict with or contradict GASB standards

- 3 ARBs, including:
 - ARB 51, *Consolidated Financial Statements*
- 2 APB Opinions, including:
 - APBO 14, *Intangible Assets*
- 24 FASB Standards, including:
 - FASBS 4, *Reporting Gains and Losses from Extinguishment of Debt*
 - FASBS 95, *Statement of Cash Flows*
- 4 Interpretations, including:
 - FASBI 18, *Accounting for Income Taxes in Interim Periods*

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Are not applicable to governments

- FASBS 84, *Induced Conversions of Convertible Debt—an amendment of APB Opinion No. 26*
- FASBS 89, *Financial Reporting and Changing Prices*

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Rarely applicable (excluded)

- ARB 43 (3 Chapters), including:
 - Chapter 11, *Government Contracts*
- 3 APB Opinions, including:
 - APBO 2, *Accounting for the “Investment Credit”*
- 13 FASB Standards, including:
 - FASBS 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*
 - FASBS 45, *Accounting for Franchise Fee Revenue*
- 5 FASB Interpretations, including:
 - FASBI 36, *Accounting for Exploratory Wells in Progress at the End of a Period*

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General Provisions

Scope and Applicability – applies to accounting and financial reporting for governmental activities, business-type activities, and proprietary funds, except as identified in the Statement.

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What about GASBS 20?

- You remember GASBS 20, don’t you?
- The one that gave us these great disclosures:

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Paragraph 6

Proprietary activities should apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, APB Opinions, and ARBs.

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Paragraph 7

In addition to applying the FASB Statements and Interpretations, APB Opinions, and ARBs required in paragraph 6, a proprietary activity **may** also apply **all** FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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GASBS 20 is superseded

- All applicable pre-November 30, 1989 FASB and AICPA pronouncements are contained in the GASB's codification
- All potentially applicable post-11/30/89 non-GASB standards would be "other accounting literature"
 - Can be adopted as long as not considered conflicting with GASB Statements
 - Except that is not what current hierarchy says

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Scope exclusions:

- Interest capitalization applies only to business-type activities and enterprise funds
- Revenue recognition with right of return applies only to business-type activities and proprietary funds
- Regulated operations can apply to certain business-type activities that meet certain criteria
- Inventory applies only to business-type activities and enterprise funds

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Standards that also apply to governmental funds

- Related parties
- Contingencies
- Leases
- Extraordinary items and special items

Subject to accounting and financial reporting distinctions of those funds

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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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What About Governmental Funds?

- Path not quite as clear
- Specific pronouncements identified in GASB literature apply. For example:
 - APB Opinion 22—Disclosures
 - APB Opinion 30—Extraordinary Items
 - APB Opinion 20—Accounting changes
- Result on conceptual framework project on recognition and measurement attributes is key

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Topics in order of presentation

- Capitalization of interest cost
- Revenue recognition for exchange transactions
- Revenue recognition when right of return exists
- Statement of Net Asset classification
- Etc, etc, etc

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AIPCA Committee on Accounting Procedure

Standards Set From 1939-1959

Accounting Research Bulletins

- ARB 43—Root source of current standards (1939—1953)
 - Current assets and liabilities
 - Depreciation
 - Inventory
- ARB 44—51
 - Only ARB 45 has any application (long-term construction contract)—limited

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AICPA Accounting Principles Board

Standards Set From 1962-1973

APB Opinions

- Thirty-One Opinions issued and 11 superseded by pre-November 30, 1989 literature
- Key pronouncements
 - APB 22—Disclosure of accounting policies
 - APB 20—Accounting changes
 - APB 21—Interest on receivables and payables
 - APB 29—Nonmonetary transactions

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APB Opinion 22

Requires the following disclosures

- All significant accounting policies
- Selection from acceptable alternatives
 - Depreciation method
 - Inventory pricing
- Principles and methods peculiar to a specific industry (government is a sector, not an industry)
 - Utilities
 - Colleges and universities
- Unusual or innovative applications of GAAP

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APB Opinion 20

- Establishes guidance for three types of changes:
 - Accounting principle (if preferable)
 - Accounting estimate
 - Reporting entity
- Corrections of errors

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APB Opinion 21

- Applies to receivables and payables that present contractual rights to receive money or contractual obligations to pay money on fixed or determinable dates.
- Requires those receivables and payable to be reported at present value
 - Discounted at the market rate
 - Governments often set below “market” rates; however, the government is the market
- Interest amortized over the life of the contract using the “interest” method or a method that would not produce in a significantly different result

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APB Opinion 29

- Most nonmonetary transactions are covered by:
 - Statement 33—Nonexchange transactions
 - Statement 24—Certain on behalf payments
- APB Opinion
 - Provides useful guidance for exchange transactions (trade-ins)
 - Does not “back door” other on behalf payments

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Financial Accounting Standards Board

Standards Set from 1973

FASB Statements

- One hundred and two (102) Statements issued before November 30, 1989
- Nineteen Statements superseded by pre-November 30, 1989 literature
- Many have limited or no application in government
 - Accounting for Intangible Assets of Motor Carriers (Statement 44)

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FASB Statements

- Key Standards
 - FASB Statement 13, as amended—Leases
 - FASB Statement 5—Contingencies
 - NCGA Statement 4 and GASB Statement 10 do not cover all the bases
 - FASB Statement 57—Related party transactions
 - FASB Statement 6—Classifying short-term obligations
 - FASB Statement 71—Regulated industries
 - FASB Statements 34 and 62—Capitalization of interest

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FASB Statement 13

- NCGA Statement 5, adopted the FASB Statement 13 (capital and operating leases), as amended and interpreted
 - At the time NCGA Statement 5 was issued in 1982 the FASB had amended Statement 13 with
 - Seven Statements
 - Six Interpretations
 - After the release of NCGA Statement 5—two additional Statements (pre-November 30, 1989) and one Statement in the “post-period”
- Status of FASB/IASB project will be discussed by Board

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FASB Statement 5

- Reference point for contingencies
 - NCGA Statement 4—Direct reference
 - GASB Statement 10—Uses Statement 5 language
- Contingent assets and liabilities—criteria
 - Probable
 - Reasonably possible
 - Remote

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FASB Statement 57

- NCGA Interpretation 6 includes related party disclosures on list, but no guidance
- FASB Statement 57
 - Defines related party
 - Sets forth disclosure guidance
- Guidance strictly in terms of the private sector
 - Affiliate. A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an enterprise.
 - Principal owners. Owners of record or known beneficial owners of more than 10 percent of the voting interests of the enterprise.
- GASB Statement 56 focused on auditing literature—substance over form

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FASB Statement 6

- NCGA Interpretation 6 incorporated FASB Statement No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced*, through reference
 - Bond Anticipation Notes
- Focused on intent and ability to refinance

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FASB Statement 71

- Referenced in a number of GASB standards
- What is a regulated industry?

The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator **or by its own governing board empowered by statute or contract to establish rates that bind customers**
- Does not provide license to ignore other standards

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FASB Statements 34 and 62

- Application of capital of interest standard is limited by:
 - FASB with Statement 62—interest earnings offset for certain tax-exempt debt and gifts and grants
 - GASB with Statement 37—eliminated application to governmental activities
- Only applies to business-type activities and in many cases would be immaterial
- International deliberations

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FASB Interpretations

- Thirty-eight interpretations were issued prior to November 30, 1989
- Ten Interpretations superseded by pre-November 30, 1989 literature
- Those that do not conflict with or contradict GASB pronouncements are included the current technical agenda project

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FASB Interpretations

- Interpretation 14—What are reasonable estimates in applying FASB Statement 5
- Lease interpretations

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Post-November 1989

- FASB has issued 167 Statements and 48 Interpretations (not including the “R”s) to date
- GASB Website
 - Technical issues
 - GASB Statement 20
 - FASB Statements 103–159
 - FASB Interpretations 39-48
 - Nonauthoritative (alternative is resource intensive)

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Not Everything Is Cut & Dried

Early retirement of debt

- No refunding debt issued
- Is difference extraordinary?
- What FASB rule was in effect in 1989?
- See paragraph 126

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GASB Statement No. 63

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

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Background

- Concepts Statement 4 issued June 2007
- Identifies 5 elements that make up a statement of financial position:
 - Assets
 - Liabilities
 - Deferred outflows of resources
 - Deferred inflows of resources
 - Net position

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Background

- Contrast with GASBS 34, issued June 1999
- Identifies 3 elements of the Statement of Net Assets
 - Assets
 - Liabilities
 - Net Assets
- No definitions provided except to say that “the difference between a government’s assets and its liabilities is its net assets” (para. 32)

113

Let’s Review

Assets – resources with ***present service capacity*** that the government presently ***controls***

- Present Service Capacity – existing capability to enable the government to provide services
- Control – ability of the government to utilize the resource’s present service capacity and to determine the nature and manner of use of the capacity

114

Characteristics of Control

Government has the ability to determine whether to:

- Directly use the capacity to provide services to citizens
- Exchange the capacity for another asset, such as cash
- Employ the asset in other ways that it may provide benefit

115

Control [continued]

- Generally arises from contractual rights or legal ownership
- Different governments may own different rights of the same asset
- Control occurs as a result of a past event

116

Let's Review [continued]

- Liabilities – present **obligations** to sacrifice resources that the government has **little or no discretion** to avoid
- Obligation is
 - A social, legal, or moral requirement – such as a duty, contract, or promise – that compels one to follow or avoid a particular course of action
 - Reason that obligation cannot be avoided is that they are legally enforceable

117

Other Liability Characteristics

Government has little or no discretion to avoid

- When it does not have the power to decline making the sacrifice of resources
- When it cannot indefinitely defer when the sacrifice of resources will occur
- When the penalty or consequences for failing to sacrifice the resource is more than insubstantial
- May be influenced as a result of actions or conduct of the government and the reliance of others on the government's actions or conduct

118

Other Characteristics [continued]

- Specific party to whom a liability is owned need not be identified for the liability to exist, but other party should be external to the government
- Government cannot have a liability to perform maintenance on an asset it owns

119

Present Obligation Characteristics

- For an obligation to be a liability it must be a present obligation
- Event that created the liability has taken place
- Commitment may become a liability in the future – government may withdraw from or avoid a commitment

120

Things that Aren't Liabilities

- Mission of the government to promote the general welfare or to educate children or to operate a library
- Change in mission
- Political commitments
- Approval of the budget

121

Assets & Liabilities Continue Unchanged

Now comes the new stuff

Important Dates

- GASBS 63 issued June 2011
- Effective for periods ending after 12/15/2012
- CAFR that must include it: FY 2013
- Too late for early application, even though it was encouraged – few governments did

123

Definitions

Deferred Outflows of Resources

- A consumption of net assets by the government that is applicable to a future reporting period
- Has a positive effect on net position, similar to assets

124

Definitions [continued]

Deferred Inflows of Resources

- An acquisition of net assets by the government that is applicable to a future reporting period
- Has a negative effect on net position, similar to liabilities

125

Definitions [concluded]

Net Position

- The residual of all elements presented in a statement of financial position
- New formula:

$$\begin{array}{r} \text{Assets} \\ + \\ \text{Deferred} \\ \text{Outflows} \end{array} - \begin{array}{r} \text{Liabilities} \\ + \\ \text{Deferred} \\ \text{Inflows} \end{array} = \begin{array}{r} \text{Net} \\ \text{Position} \end{array}$$

126

Statement Formats

- Net format – shown on previous slide – is encouraged
- Governments may use balance sheet format

Total Assets and Deferred Outflows
=
Total Liabilities, Deferred Inflows, and Net Position

127

Display Requirements

- Deferred outflows should be reported in a separate section following assets
- Similarly, deferred inflows should be reported in a separate section following liabilities
- Net Position components resemble net asset components under Statement 34, but include the effects of deferred outflows and deferred inflows
 - Net investment in capital assets (NICA)
 - Restricted
 - Unrestricted
- Governmental funds continue to report fund balance

128

NICA

- Calculation is largely unchanged from ICANReD
- Deferred Outflows and Deferred Inflows attributable to the acquisition, construction, or improvement of capital assets or to related debt should be included
- If there are significant unspent related debt proceeds or deferred inflows, the portion of the debt or deferred inflows attributable to the unspent amount should be excluded from the calculation

129

Restricted Net Position

- Consists of restricted assets reduced by liabilities and deferred inflows related to those assets
- Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of the liability or if the liability will be liquidated with the restricted assets reported

130

Unrestricted Net Position

- Net amount of assets, deferred outflows, liabilities, and deferred inflows not included in NICA and Restricted Net Position
- Otherwise known as a plug number!

131

Disclosures

- Provide details of different types of deferred amounts if components of the total deferred amounts are obscured by aggregation on the face of the statements
- If the amount reported for a component of net position is significantly affected by the difference between deferred inflows or outflows and their related assets or liabilities—provide an explanation in the notes

132

Deferred Outflows/Inflows

- Although GASB insists this is a “principles-based standard, the Board will tell us what may be reported as a Deferred Outflow or Deferred Inflow
- Currently, only two standards allow this reporting:
 - Statement 53—Accounting and Financial Reporting for Derivative Instruments
 - Statement 60—Service Concession Arrangements

133

Transition

- Accounting changes should be applied retroactively by reclassifying Statement of Net Position and Balance Sheet information, if practical, for all prior periods presented
- In period first applied, financial statements should disclose the nature of any reclassification and its effect
- Reason for not reclassifying statements should be explained

134

Impact on Statistical Section

- Similar to GASBS 54
- Options
 - Restate all prior periods
 - Start with current year and go forward
 - Continue with previous disclosures for last 9 years and restate current year
- Effect on Net Assets / Net Position is minimal

135

GASB Statement No. 65
**Items Previously Reported as Assets
and Liabilities**

Deferred Outflows/Inflows

Concepts Statement 4 provides that recognition of deferrals should be limited to those instances specifically identified by GASB.

137

Important Dates

- GASBS 65 issued March 2012
- Effective for periods ending after 12/15/2013
- CAFR that must include it: FY 2014
- Early application is encouraged

138

Important Dates

- GASBS 65 issued March 2012
- Effective for periods ending after 12/15/2013
- CAFR that must include it: FY 2014
- Early application is encouraged

Smitty's opinion: implement simultaneously with GASBS 63

139

Reason for this project

- Board added project to identify "deferrals" – certain assets and liabilities – that would be subject to GASBS 63
- What should be reclassified from assets to deferred outflows or from liabilities to deferred inflows?
- Also, what should be reclassified from assets to current period expenditures/expenses or from liabilities to current period revenues
- Some provisions apply to Governmental Funds

140

Deferred Outflows of Resources

- Grant paid in advance of meeting timing requirement
- Deferred amounts from refunding of debt (debits)
- Cost to acquire rights to future revenues (intra-entity)
- Deferred loss from sale-leaseback

141

Items that Remain Assets

- Grants paid in advance of meeting eligibility requirements (other than timing)
- Rights to future revenues acquired from outside the reporting entity
- Prepayments – pension assets (plan net assets exceed total liabilities)
- “Regulatory” assets (capitalized incurred costs)

142

Assets that Become Outflows of Resources

- Debt issuance costs
- Initial costs incurred by lessor in an operating lease
- Acquisition costs for risk pools
- Loan origination costs
- Costs to acquire loans

143

More on Debt Issuance Costs

- Include all costs incurred to issue bonds (14)
 - Insurance costs (net of rebates from old debt, if any)
 - Financing costs (such as rating agency fees)
 - Others – printing, legal, administrative, & trustee expenses
- Prepaid insurance costs should be capitalized and amortized (15)

I don't know the difference between insurance costs and prepaid insurance costs!

144

Still More

- Governmental Funds
 - Bond issuance costs have always been a period expenditure
 - Never capitalized until GASBS 34, then only in the government-wide statements
- Proprietary Funds
 - Always capitalized and amortized
 - Now will be a period cost

145

Assets that Become Outflows of Resources

- Debt issuance costs
- Initial costs incurred by lessor in an operating lease
- Acquisition costs for risk pools
- Loan origination costs
- Costs to acquire loans

146

Deferred Inflows of Resources

- Grants received in advance of meeting time requirement
- Taxes received in advance
- Deferred amounts from refunding of debt (credits)
- Proceeds from sales of future revenues
- Deferred gain from sale-leaseback
- “Regulatory” credits
- “Unavailable” revenue in Governmental Funds

147

Items that Remain Liabilities

- Derived tax revenue received in advance
- Premium revenues (risk pools)
- Grants received in advance of meeting eligibility requirements (other than timing)
- Resources received in advance of an exchange transaction
- Refunds imposed by a regulator

148

Liabilities that Become Inflows of Resources

- Loan origination fees
- Commitment fees (after exercise or expiration)
- Fees received for sale of loans

149

Other Provisions

- Governmental Fund revenue recognition rules still stand, but it is now a deferred inflow
- Use of the term “deferred” can only be used as stipulated in this standard
- Major fund criteria adjusted to include deferred outflows and deferred inflows

150

Transition

- Accounting changes should be applied retroactively by restating financial statements, if practical, for all periods presented
- If restatement not practical, cumulative effect should be reported for earliest period presented
- In period first applied, disclose the nature of any restatement and its effect
- Reason for not restating prior periods should be explained

151

GASB Statement No. 66

Technical Corrections – 2012

152

Conflicts

- Statement 62 with
 - Statement 13—Leases
 - Statement 48
 - Purchase of a loan or group of loans
 - Servicing fees related to mortgage loans
- Statement 54 with
 - Statement 10—Risk financing pools

153

Risk Financing Activities

- GASBS 10 requires accounting for risk financing activities in either GF or ISF, when a single fund is used
- GASBS 66 removes this paragraph entirely (except for footnote 12, which clarifies who can participate in the ISF)

154

Operating Leases

- GASBS 62, paragraphs 222 and 227b, include guidance for accounting for operating leases that vary from straight-line basis
- Provisions are deleted to remove apparent conflict with GASBS 13, paragraph 6b (using [effective] interest method for implicit financing)

155

Purchase of Loan or Group of Loans

- GASBS 62, paragraph 442 includes guidance on accounting for difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans
- Last 3 sentences deleted with the following added: the initial investment in a purchased loan or group of loans should include the amount paid the seller +plus any fees paid or less any fees received

156

Servicing Fees

- GASBS 62, paragraph 460, includes guidance on recognition by the government for servicing fees related to mortgage loans sold when stated service fee rate difference significantly from normal servicing fee rate
- GASB 66 deletes this paragraph entirely – conflicts with GASBS 48, paragraph 13, that requires gain or loss be recognized without adjustment to sales price

157

Pension Accounting and Reporting

Pension Project Timeline

- Staff research completed in 2008
- Invitation to Comment issued in 2009
- Preliminary Views issued in 2010
- Two Exposure Drafts approved in June 2011 include proposals to:
 - Improve transparency in financial reporting
 - Enhance decision usefulness of pension information
 - Assist financial report users to assess accountability and interperiod equity related to pensions
- Final standards issued in June 2012

159

Pensions

- GASBS 67 & 68 frequently discussed together as it can be difficult to tell where one ends and the other begins – particularly for governments that do both plan and fund reporting
- Good overview appropriate before hitting details

160

Pension Q&A

- Do standards establish requirements for how government should fund pension?
- NO
 - Past rules did match funding with accounting & reporting. As a result, many governments established policies based on funding
 - GASB concluded that accounting & reporting did not approach for funding was not necessarily the same as accounting and reporting
 - New standards mark departure from practice

161

Pension Q&A [continued]

- Will change cause governments to pay more?
- NO
 - New standards relate only to accounting & reporting, not to funding
 - How governments fund plans is a policy decision
 - Governments will likely report expense more quickly than before

162

Pension Q&A [continued]

- Do governments have to use municipal bond rate as punishment for not fully funding pensions?
- NO – but it gets complicated in a hurry

163

Discount Rate

- Selection of interest rate for discounting is based on what resources are projected to be used for those payments:
 - Assets of the plan invested to achieve an assumed long-term expected rate of return
 - General resources of government employer
- As long as projected plan net position exceeds projected benefit payments
- Rate is appropriate because earnings on investments reduce amount employer needs to contribute to the plan

164

Discount Rate [continued]

- When government reaches the crossover point, can't invest for the long-term any longer.
- Must use lower high-quality municipal bond interest rate
- Pension liability would resemble the government's outstanding debt and other typical long-term liabilities

165

Punishment?

- Well, sort of
- Less well-funded plan will reach crossover point more quickly
- The better you fund, the longer it will take to reach the point
- Fully funded never gets there? Well, that depends on what you are promising your employees

166

Pensions Q&A [continued]

- Do standards allow governments to make liabilities look smaller by using unrealistic high expected rates or return?
- NO
 - Liabilities measured using assumptions that are consistent with requirements of actuary profession
 - If a government does this, it is misapplying the standards rather than exploiting a loophole

167

Pensions Q&A [continued]

- Is the discount rate the most important factor in determining size of pension liability?
- Only one part of the determination
- Steps: (1) projecting, (2) discounting, and (3) attributing
- Other Factors:
 - Types of benefits promised
 - Length of service and salaries in final years of employment
 - Life expectancy of retirees
 - Inflation rate

168

Pensions Q&A [continued]

- Can information reported by governments be compared?
- YES – comparability significantly improved
- All governments use same cost allocation method: entry age and applied only to level percentage of payroll
- Assumptions will vary based on conditions of plans

169

Effective Dates

- 67, Plan Reporting – FYE after 6/15/2014
- 68, Accounting and Reporting for Pensions – FYE after 6/15/2015
- Early implementation encouraged

170

Types of Pensions

- Defined benefits
 - Benefits defined by terms of the plan (for example, specific dollar amount or calculated based on factors such as compensation, age, years of service)
- Defined contributions
 - Individual accounts
 - Contributions in the periods that services are rendered
 - Dependent on contributions, earnings, and forfeitures of other employee accounts, administrative costs

171

Types of Plans

- Single employer—police and fire plans, Illinois Teachers Retirement System (special funding situation)
- Agent multiple-employer—Illinois Municipal Retirement Fund
- Cost-sharing multiple-employer

172

Basics

- Defined benefit pensions originate from exchanges between the employer and employees of salaries and benefits for 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

173

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

174

Key Board Conclusions

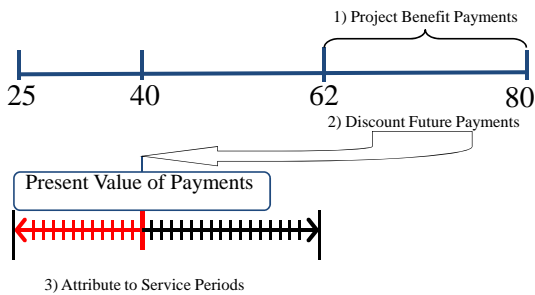
- An employer is primarily responsible for the unfunded pension obligation resulting from an employment exchange
- The difference between the total pension liability and the plan net position would be reported as a net pension liability in the financial statements of the government

175

Total Pension Liability

Measurement

Basic Three-Step Measurement Approach



177

Actuarial Assumptions

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

178

Projection of Benefits

- 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

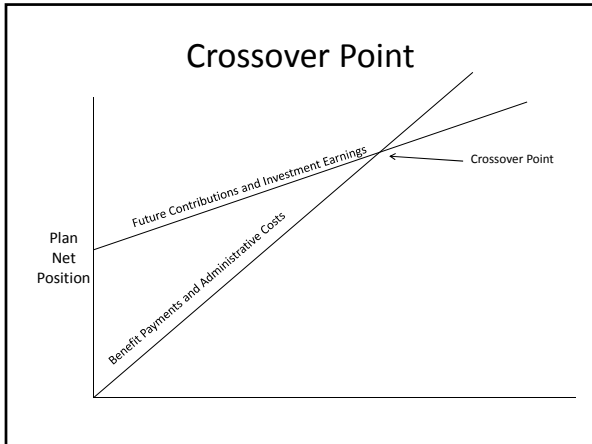
179

Discount Rate

Should be a single rate that reflects:

- The long-term expected rate of return on plan investments to the extent that
 - Plan net position is projected to be sufficient to make benefit payments that are projected to occur in the period, and
 - 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

180



Attribution Method

Single actuarial cost allocation method:

- Based on entry age normal principles
- Applied as a level percentage of payroll
- Over periods beginning in first period in which the employee's services lead to benefits under the plan (without regard to conditional service-related provisions such as vesting) and ending in last period of the employee's service

182

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

183

Plan Net Position
Measurement

Measurement of Plan 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.

185

Pension Expense
Measurement

Immediate Expense Recognition

Expense recognition would be immediate for:

- 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

187

Deferred Expense Recognition

- 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

188

Governmental Funds

Recognition

Modified Accrual

- Net pension liabilities are normally expected to be liquidated with expendable available resources to the extent that pension benefits have matured—that is, pension benefit payments are due and plan net position is not sufficient for payments of benefits.
- Liabilities to defined benefit pension plans, as well as liabilities for defined contribution pensions, are normally expected to be liquidated with expendable available resources when amounts are due pursuant to contractual arrangements or legal requirements.

190

Cost-Sharing Multiple Employer Plans

Cost-Sharing Employers

- A government participating in a cost-sharing plan would report a liability in its own financial statements that is equivalent to its proportionate share of the collective unfunded obligation of the employers in the cost-sharing plan.
- Approach uses a basis for allocation of proportionate share based on the employer's expected contribution effort relative to that of all contributors

192

Note 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 as:
 - Single-employer
 - Agent multiple-employer
 - Cost-sharing multiple-employer
 - A brief description of the benefit provisions, including
 - Types of benefits,
 - Key elements of the benefit formula(s), and
 - Authority under which benefit provisions are established or may be amended

194

- ### General Information
- The number of employees covered by the plan, separately identifying numbers of the following:
 - Retired employees and their beneficiaries currently receiving benefits
 - Inactive employees entitled to but not yet receiving benefits
 - Active employees
 - 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

195

Assumptions Used In Measurement

- Assumptions in respect of:
 - Salary,
 - Inflation
 - Postemployment benefit increases
 - Discount rate
- Different rates, if contemplated for different periods
- Date(s) of experience studies and tables on which significant assumptions are based

196

Discount Rate Assumptions

- Assumptions made about contributions of the employer and of employees and about other projected cash flows into and out of the plan
- Expected rate of return

197

Discount Rate—Expected Rate of Return

- Expected rate of return on plan investments
- Description of how the expected rate of return on plan investments was determined, including
 - Assumed asset allocation of the portfolio
 - Best estimate of the long-term expected real rate of return for each major asset class

198

Discount Rate—Municipal Bond Rate

If the discount rate incorporates a municipal bond index rate

- Tax-exempt municipal bond index rate
- Index selected (20-year maturity)
- Periods of projected benefit payments to which the expected rate of return and the municipal bond index rate were applied to determine the discount rate

199

Discount Rate—Sensitivity Analysis

The effects on the current-period net pension liability of a 1-percentage-point increase and a 1-percentage-point decrease in the discount rate

200

Cost-Sharing Employer's RSI 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
 - Plan net position as a percentage of the total pension liability
 - 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

201

GASB Statement No. 69

Government Combinations and Disposals of Government Operations

Timeline

- ED issued March 2012
- Standard approved January 2013
- Effective for FY ending after 12/15/2014 (FY 2015 in North Carolina)
- Early implementation encouraged

203

Scope

- Government combinations include
 - Mergers
 - Acquisitions
 - Transfer of operations from another government
- Disposal of government operations
 - Transfer of operations to another government
 - Sale of operations

204

Common Terminology

- Merger – combination of legally separate governments or governmental operations without exchange of significant consideration
- Acquisition – government acquires another government or its operations in exchange for significant consideration
- Disposal – removal of specific activities of that government

205

Specific Guidance

- Determining the type of a government combination
- Using carrying values to measure balance sheet items
- Measuring acquired balance sheet items based on acquisition values
- Reporting disposal of operations

206

Service Continuation

- To be considered a combination, arrangement should result in continuation of a substantial portion of services provided by previous separate entities
- Generally, terms establish whether service continuation was intended
- PJ may be necessary to determine if combination has occurred

207

Government Mergers

May result in

- New government
- Continuing governments

208

New Government

- Merger date is date combination becomes effective
- Initial reporting of new government begins on that date
- Combined elements should be recognized and measured in Statement of Net Position as of the beginning of the initial reporting period

209

New Government: Recognition

- Assets, deferred outflows, liabilities, or deferred inflows recognized as of the merger date
- New government should not recognize additional elements – like intangible asset that was not required to be reported
- If certain elements not recognized IAW GAAP, then must make adjustments before the merger

210

New Government:
Measurement

- Measure elements at carrying value as reported on separate financial statements as of merger date
- New government may choose to adjust some carrying values to align accounting principles
- May make adjustments to reflect consistent method of accounting
- Adjustments must be explained in the notes
- Changes in estimates should be recognized in flows statement of new government

211

New Government:
Impairment

- If new government will not use capital assets identified for disposal, those assets should be evaluated for impairment to determine if carrying value should be adjusted
- If some capital assets are to have change in manner or duration of use , should evaluate for impairment

212

Continuing Governments

- Merger date is the beginning of the reporting period in which combination occurs regardless of actual date of merger
- Elements should be measured as of the beginning of the year, as if merger had occurred at beginning of the year

213

**Continuing Governments:
Recognition**

- Continuing government should recognize elements as of merger date
- If no statement as of that date, use the most recently completed period
- Continuing government should not recognize additional elements

214

**Continuing Governments:
Measurement**

- Measure elements at carrying value as of merger date
- If no statements as of merger date, elements should be measured based on applicable principles in most recent financial statements
- Continuing government may make some adjustments to align accounting principles
- May adjust measurements as of beginning of year to reflect consistent method of accounting

215

**Continuing Governments:
Impairment**

- If merging entities decide before merger date to dispose of assets, but continuing government will use in meantime – report at carrying value
- If continuing government decides to dispose of assets it will not use, evaluate for impairment to adjust carrying value
- For capital assets that will see change in manner or duration of use, evaluate for impairment

216

Continuing Governments: Eliminations

- Transactions between merging entities that occur before combination should be eliminated in the combination process
- Receivables and payables should also be eliminated

217

Impact of Merger on Governmental Funds

Elements that will be reported should be recognized in accordance with reporting requirements for governmental funds

218

Government Acquisitions

- Date on which acquiring government gains control of assets and becomes obligated on liabilities is the acquisition date
- Generally occurs on date that acquiring government provides consideration – closing date
- Parties may designate another date

219

Government Acquisitions [continued]

- Acquiring government should recognize elements IAW authoritative guidance
- Acquiring government may be required to recognize elements that the acquired organization was not required to recognize

220

Government Acquisitions [continued]

- Acquired organization may have recognized deferred outflow (goodwill) as a result of an earlier acquisition
- Acquiring government should not recognize such deferred outflows

221

Government Acquisitions [continued]

- Acquiring government should recognize acquired elements at acquisition value
- Acquisition value = market-based entry price
- Entry price assumed to be based on orderly transaction entered into at acquisition date

222

Exceptions to Use of Acquisition Value

Use appropriate standards to value following items:

- Employee benefit arrangements (compensated absences , pension, & OPEB)
- Landfill obligations
- Investments
- Deferred outflows and deferred inflows

223

Consideration

- Valued at acquisition date as sum of values of assets remitted or liabilities incurred
- May include financial and nonfinancial assets
- Liability may represent an obligation to provide consideration to former owners of acquired entity
- Negative net position acquired is not consideration

224

Consideration [continued]

- Potential transfer to assets contingent on a future event may be part of consideration
- If amount paid exceeds value of elements acquired
 - Deferred outflow is recorded
 - Amortized in systematic and rational manner
- If amount paid is less that value of elements acquired
 - Eliminate by reducing value of noncurrent, nonfinancial assets acquired
 - If still not eliminated, report as special item in flows statement

225

Amortization Term Factors

- Estimated service lives of assets acquired
- Estimated service life of landfill acquired
- Expected length of contracts acquired
- Estimated remaining service life of technology acquired

226

Acquisition Costs

- Costs incurred to make acquisition take place
- Include fees for legal, accounting, valuation, professional, or consulting services
- Recognize expenditure/expense in periods in which costs are incurred and services received

227

Intra-Reporting Entity Acquisition

- Acquiring government recognizes elements at carrying value of selling entity
- Difference in price paid and carrying value reported as special item in acquiring government's separately issued financial statements
- Reclassified as transfer or subsidy in reporting entity financial statements

228

Provisional Acquisition

- If measurement of certain elements is not finalized by end of reporting period, acquiring government should recognize estimated amounts for items not yet finalized
- Prospectively update estimated amounts if new information becomes available about conditions existing at acquisition date

229

Impact of Acquisition on Governmental Funds

- Elements recognized IAW financial reporting requirements of governmental funds
- Net fund balance acquired reported as a special item

230

Transfers of Operations

- Effective transfer date is date the transferee government obtains control of assets and becomes obligated on liabilities of operation transferred
- Continuing government should report transfer in reporting period in which it occurs
- If transfer creates a new government, new government's initial reporting period starts on date of transfer

231

Transfer Recognition

- Recognize carrying values of elements as of transfer date
- Elements should be adjusted if not recognized IAW SLG authoritative guidance
- No additional elements should be recognized
- Net position received or assumed should be reported as a special item

232

Transfer Measurement

- Entities involved may have used different but acceptable ways of measuring elements
- Transferee government may adjust elements to make measurement more consistent
- Explanation of adjustments must be provided in the notes
- Elements in transferor government's records based on elements should not be adjusted
- Changes in estimates reported on transferee's flows statement

233

Transfer Impairments

- If decision made before transfer date to dispose of certain capital assets and transferee will use assets until disposal, assets should be reported at carrying value
- If transferee does not use assets, they should be evaluated for impairment – transferee must explain impairment in notes
- If decision made before effective date to change duration or manner of use, assets should be evaluated for impairment

234

Impact of Transfers on Governmental Funds

- Elements recognized IAW financial reporting requirements of governmental funds
- Net fund balance transferred reported as a special item

235

Disposals of Government Operations

- Disposing government should recognize a gain or loss, as appropriate
- Recognize as a special item – only include costs directly associated with the disposal (not normal operating activities)
- Typical costs: involuntary terminations, contract termination costs, and fees for professional services

236

Notes on All Combinations

- Brief description of combination, including entities involved, and whether entities are part of the same reporting entity
- Date of the combination
- Brief description of reasons for the combination

237

Mergers & Transfers of Operations: New or Continuing Government

- Amounts of all elements reported on merger date or effective transfer date
- Brief description of nature and amount of significant adjustments made to bring into conformity the individual accounting policies or to adjust for impairments
- Initial amounts recognized by new government from values above that arise from above adjustments

238

Government Acquisitions

- Brief description of consideration provided
- Total amount of net position acquired
- Brief description of contingent consideration arrangements, including basis for determining amounts of payments that are contingent

239

Disposals of Operations

- Identify the operations disposed
- Brief description of policy that lead to disposal
- If not separately reported in financial statements:
 - Total expenses, distinguishing between operating and nonoperating
 - Total revenues, distinguishing between operating and nonoperating
 - Total governmental revenues and expenditures

240

GASB Statement No. 70

Accounting and Financial Reporting for Nonexchange Financial Guarantees

241

Overview

- By extending financial guarantee, government agrees to indemnify third part of the entity that issued the obligation does not fulfill its obligation
- Third party may be
 - Other government
 - Nongovernmental entity
 - Individuals
- Guarantee done to fulfill government's mission to assist others within its jurisdiction
- Nonexchange guarantee occurs when guarantor does not receive something of equal value in return

242

Government Extending Guarantee

- Must consider qualitative factors to assess likelihood payment will be required
 - Initiation of process of entering into bankruptcy or financial reorganization
 - Breach of a debt contract in relation to the guaranteed obligation
 - Indicators of significant financial difficulty

243

Examples of Breach of Debt Contract

- Failure to meet rate covenants
- Failure to meet coverage ratios
- Default or delinquency in interest or principal payments

244

Indicators of Significant Financial Difficulty

- Failure to make payments to paying agents or trustees on timely basis
- Drawing on a reserve fund to make debt service payments
- Initiation of a process to intercept receipts to make debt service payments
- Debt holder concessions
- Significant investment losses
- Loss of a major revenue source
- Significant increase in noncapital disbursements relative to operating revenues
- Commencement of financial supervision by another government

245

Economic Resource Model

When qualitative factors indicate a better than 50% chance that payment under guarantee will be required

- Government should recognize an expense and liability
- Amount recognized should be the discounted present value of best estimate of future outflows resulting from guarantee
- If estimate is a range, use the lowest value

246

Current Financial Resource Model

When qualitative factors indicate a better than 50% chance that payment under guarantee will be required

- Recognize expenditure and fund liability, to the extent that the liability is expected to be liquidated with current financial resources
- Amounts are normally expected to be liquidated when payments are due and payable on guaranteed obligation

247

Issuer of Guaranteed Obligation

- If government is required to pay grantor for guarantee payments, government should reclassify that portion of guaranteed obligation as liability to grantor
- Continue to recognize liability until released
- When released, recognize revenue to the extent of the reduction of its guaranteed liabilities

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Disclosures – Issuer of Guarantee

When guarantee made:

- Description of transaction
 - Legal authority and limits for extending guarantees
 - Relationship of government to the issuer
 - Length of time of the guarantee
 - Arrangements for recovering payments from issuer
- Total amount of all guarantees extended that are outstanding at reporting debt

249

Disclosures – Issuer of Guarantee

Government that recognizes liability or has made payments

- Brief description of timing of recognition and measurement of the liabilities
 - Beginning of period balances
 - Increases, including initial recognition and adjustments
 - Guarantee payments made and adjustments
 - End-of-period balances
- Cumulative amounts of payments made on guarantees as of reporting date
- Amounts expected to be recovered that have been made through the reporting date

250

Disclosures – Issuer of Debt

Government with outstanding obligations that have been guaranteed:

- Name of entity providing guarantee
- Amount of guarantee
- Length of time of guarantee
- Amount paid, if any, by entity extending the guarantee
- Description of requirements to repay entity extending guarantee
- Outstanding amounts required to be repaid

251

Disclosures – Issuer of Debt

Government with guaranteed debit for which payments have been made, but debt no longer outstanding

- Amount paid by the guarantor
- Cumulative amount paid by guarantor
- Description of requirements to repay the entity
- Outstanding amounts required to be repaid

252

Standard

- Effective for periods ending after 6/15/2014
- Early application encouraged
- In period first applied, changes made to comply with statement should be treated as an adjustment of prior periods, with statements presented for periods being restated
- If restatement not practical, cumulative effect of applying standard reported as restatement of beginning net position
- Reason for not restating prior periods should be explained
- Nature of any restatement and its effect

253

Other Projects in Process

- Conceptual Framework
 - Measurement Approaches – ED due in 2nd Quarter 2013
 - Recognition – ED due in 1st Quarter 2014
- Economic Condition Reporting—Financial Projections (PV) – ED TBD
- GAAP Hierarchy – ED 1st Quarter 2014
- OPEB Accounting & Reporting – ED 2nd Quarter 2014

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GASB's Conceptual Framework Project Recognition and Measurement

Recognition and Measurement Attributes
Concepts Statement—Objectives

Develop recognition criteria for whether information should be reported in state and local government financial statements and when that information should be reported

- Economic resources
- Near-term financial resources

256

Recognition and Measurement Attributes
Concepts Statement—Objectives

Consider the measurement attribute or measurement attributes (for example, historical cost or fair value) that conceptually should be used in government financial statements

- Initial values
- Re-measured values

257

Economic Condition Reporting:
Financial Projections

Project Objectives

- Develop a definition for fiscal sustainability
- Consider whether additional guidance or guidelines should be provided based on the information needed by users
- Determine the preferable methods of communicating any additional information, if applicable

■ Basic Facts about GASB's Project can be found at http://www.gasb.org/facts/Economic_Condition_Reporting_Fact_Sheet.pdf

259

What is Fiscal Sustainability?

Fiscal sustainability is a government's ability and willingness to generate inflows of resources necessary to honor current service commitments and to meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits.

260

Preliminary Views—Components

- Projections
- Narrative discussion

261

Projections

- Total cash inflows and major individual cash inflows, in dollars and as a percentage of total cash inflows, with explanations of the known causes of fluctuations in cash inflows
- Total cash outflows and major individual cash outflows, in dollars and as a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows
- Total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts, with explanations of the known causes of fluctuations in financial obligations
- Annual debt service payments (principal and interest)

262

Narrative Discussion

Should include discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies

263

Financial projections should be

- Based on current policy in affect the projection periods
- Informed by historical information
- Adjusted for known events and conditions that affect the projection periods
- Current policy includes policy changes that have been formally adopted by the end of the reporting period but that will not be effective until future periods

264

Assumptions

The identification and development of assumptions for making financial projections should be guided by a principles-based approach:

- Such an approach would set forth principles that require assumptions to be based on relevant historical information, as well as events and conditions that have occurred and affect the projection periods.
- These assumptions should be (a) consistent with each other (where appropriate) and with the information used as the basis for the assumptions and (b) comprehensive by considering significant trends, events, and conditions.

265

Other Factors

- Inflows and outflows should be projected on a cash basis of accounting, and financial obligations should be projected on an accrual basis of accounting
- Annual financial projections should be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting
- All of the components of fiscal sustainability information are essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context and therefore should be required and communicated as required supplementary information

266

Research Agenda

- Electronic Financial Reporting
- Fiduciary Responsibilities
- Tax Abatement Disclosures

267

GASB Agenda-Setting Process

Phases

- Issue identification
- Research
- Current technical agenda development

268

Issue Identification

- Identify potential project – Board, GASAC, constituents, preparers, auditors
- Chairman & Staff assess potential projects
- Review projects with GASAC
- Prepare potential project list
- Add to technical plan incorporating preliminary research info – consult with GASAC
- Prepare refined list based on GASAC feedback
- Board reviews
- Add to research agenda

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Research

- Finalize research plans and conduct research
- Review research results with Board
- Prepare Project Prospectus to summarize research and Board considerations

270

Current Technical Agenda Development

- Consult with GASAC about adding project to agenda, including priority
- Review technical plan and GASAC input with Board who make decision on adding to technical agenda
- If Board approves, it goes on the agenda

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GASB Classes of Governmental Financial Information

Group 1

Clearly within standard setting authority: basic financial statements, notes to basic financial statements, current RSI, other supplementary information for historical context (CAFR?)

272

GASB Classes of Governmental Financial Information

Group 2

Information GASB believes is within its standard-setting authority, but not clearly in Group 1: notes that contain non-traditional information, current RSI providing operational and economic context, and other general purpose financial reports.

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GASB Classes of Governmental Financial Information

Group 3

Information clearly recognized as being outside GASB's standard-setting authority: information outside general purpose external financial reporting

274

Hot-Button Issues

- Service Efforts and Accomplishments
- New reporting model (GASBS 34)
- OPEB (GASBS 43 & 45)
- Pollution Remediation Accounting (GASBS 49)
- Bankruptcy Accounting & Reporting (GASBS 58)
- Deferred Outflows & Inflows (GASBS 63 & 65)
- Financial Projections (ongoing)

275

Proposed FAF Changes

- Group 1 – No changes proposed
- Group 3 – GASB will do no research here (consistent with current practice?)

276

Proposed FAF Changes: Group 2

- Issue identification
 - GASB will provide expanded project proposal to FAF Standard Setting Oversight Committee. OC may conduct, or request GASB to conduct, additional stakeholder outreach on proposed project.
 - OC will make recommendation to FAF Trustees about whether project is in GASB's scope of authority
 - FAF will approve project

277

Proposed FAF Changes: Group 2

- End of Research Phase
 - OC may review project prospectus – caused by changes in project scope and additional stakeholder input
 - OC may decide to obtain additional stakeholder input
 - OC will reevaluate FAF Trustees previous determination, and make final recommendation
 - FAF Trustees will make another recommendation

278

GASB Statement No. 54

Fund Balance Reporting and Governmental Fund Type Definitions

279

GASBS 54 – How did it go?

- Should have been implemented in last report
- Any problems?
- Let's take a quick overview

280

What You Should Know About GASB 54

New fund balance presentation hierarchy is based primarily on the degree of **spending constraints** placed upon use of resources **for specific purposes** versus availability for appropriation.

281

New Fund Balance Presentation Classifications

- **Non-spendable**—Inventory, long-term receivables, minority interest
- **Restricted**—Statement 34/46 definition
- **Committed**—Formal action of governing body
- **Assigned**—Similar to designations expressing intent
- **Unassigned**—Available for any purpose

282

Committed Fund Balance

- Constraint on use is imposed by the government itself, using its highest level of decision making authority
- Amounts classified as “committed” are not subject to legal enforceability like restricted resources; however, spending constraint can be removed or changed only by taking the same highest level action
- Action to constrain resources should occur prior to end of fiscal year, though the exact amount may be determined subsequently

283

Assigned Fund Balance

- Amounts *intended* to be used for specific purposes
- Intent is expressed by
 - The governing body itself, or
 - A body (budget or finance committee) or an official authorized by the governing body to assign resources for specific purposes
- Residual amounts in governmental funds other than the general fund are assigned

284

Unassigned Fund Balance

- Available for any purpose
- Reported only in the General Fund, except in cases of negative fund balance
- Negative balances in other Governmental Funds are reported as unassigned – first must zero out Assigned Fund Balance

285

Fund Balance Reporting in Tennessee

(at least for counties)

Nonexpendable

- Endowments
- Inventory
- Long-term Notes Receivable
- Prepaid Expenditures

286

Fund Balance Reporting in Tennessee

(at least for counties)

| | |
|---|---|
| General Government | Education |
| Finance | Instruction |
| Administration of Justice | Support Services |
| Public Safety | Capital Outlay |
| Public Health and Welfare | Debt Service |
| Social, Cultural, & Recreational Services | Operation of Non-Instructional Services |
| Agriculture & Natural Resources | Capital Projects |
| Other Operations | Other Purposes |
| Highways/Public Works | |

287

NEW NOTES FROM GASBS 54

Stabilization (or Rainy Day) Arrangements

- For the purposes of reporting fund balance, stabilization is considered a *specific purpose*. If criteria is met:
 - Restricted
 - Committed
- If criteria is not met—unassigned (General Fund)
- Rarely reported in a special revenue fund

289

Stabilization Arrangements (continued)

- The authority to establish the arrangement.
- The requirements for additions to the stabilization amount.
- The conditions under which stabilization amounts may be spent.
- The stabilization balance, if not apparent on the face of the financial statements.

290

Displaying Fund Balance Categories and Classifications

- Restricted fund balance may be displayed in a manner that distinguishes between the major restricted purposes, or it may be displayed in the aggregate
- Committed and assigned fund balances may be displayed in sufficient detail so that the purposes of the major limitations and assignments are evident, or each classification may be displayed in the aggregate
- If aggregate disclosure made in financial statements, details **must** be reported in the notes.

291

Other Disclosures

- Committed Fund Balance
 - Government’s highest level of decision-making authority
 - Formal action required to be taken to establish, modify, or rescind a commitment
- Assigned Fund Balance
 - Body or official authorized to assign amounts to a specific purpose
 - Policy established by governing body pursuant to which that authority is given

292

Other Disclosures (continued)

Classifying Fund Balances

- Whether the government considers restricted or unrestricted amounts to have been spent when both are available
- Whether committed, assigned, or unassigned amounts are considered to have been spent when any of those categories could have been used

293

Other Disclosures (continued)

Minimum fund balance policies – if a government formally adopts a minimum fund balance policy, the policy should be described in the notes, including the action taken in adopting the policy.

GFOA Recommendation

Prior to GASBS 54 = Unreserved FB

With GASBS 54 = CFB + AFB + UFB

294

Encumbrances

- Should not be displayed as a separate classification of fund balance on the face of the balance sheet.
- For governments that use encumbrance accounting – should be disclosed in the notes by major fund and nonmajor funds in the aggregate in conjunction with required disclosures about other significant commitments.

295

Fund Definitions Clarified

- Special revenue
- Capital projects
- Debt service

296

Special Revenue Funds

Special revenue funds are 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.

297

Proceeds of Specific Revenue Sources

- Establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund
- Restricted or committed proceeds of specific revenue sources should comprise a *substantial* portion of the resources reported in the fund

298

Capital Projects Funds

Capital projects funds are 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.

299

Debt Service Funds

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest payments.

- Should be used to report resources if legally mandated.
- Financial resources that are being accumulated for principal and interest payments maturing in future years also should be reported in debt service funds.

300

Service Concession Arrangement to Design, Build, and Operate a New Dormitory

Facts and Assumptions: XYX University (University), the transferor, enters into an arrangement with the Cardinal Development Authority (CDA), a nongovernmental operator, in which the CDA has agreed to design, build, and then operate a residence hall, Dogwood Hall, for 40 years. During the term of the arrangement, the CDA is entitled to collect and retain fees generated by the residence hall. The arrangement meets all criteria in paragraph 4 of GASB 60 to qualify as a service concession arrangement. The cost to the CDA to construct the residence hall is \$22 million. The fair value of the residence hall when it is placed into operation is \$26 million. The fair value is based on the appraised value of the residence hall. The University has a contractual obligation to insure the residence hall each year over the course of the arrangement beginning when the residence hall is placed into operation. The insurance payments will be made at the beginning of each period. The present value of this insurance obligation is estimated to be \$1 million. The CDA is not a component unit of the State's financial reporting entity.

GASB 60 – Service Concession Arrangements
Journal Entries

| | <u>Debit</u> | <u>Credit</u> |
|---|---------------|---------------|
| <u>Year 1</u> | | |
| 1. Capital assets | \$ 26,000,000 | |
| Liability - insurance | | \$ 1,000,000 |
| Deferred inflow of resources - SCA | | 25,000,000 |
| (To account for SCA at commencement and completion of construction) | | |
| 2. Insurance expense | 40,000 | |
| Cash | | 40,000 |
| (To record payment of insurance premium) | | |
| 3. Liability - insurance | 40,000 | |
| Deferred inflow of resources - SCA | | 40,000 |
| (To recognize a deferred inflow of resources as contractual obligations are satisfied) | | |
| 4. Depreciation expense | 520,000 | |
| Accumulated depreciation | | 520,000 |
| (To recognize annual depreciation expense) (\$26 million ÷ 50 years) | | |
| 5. Deferred inflow of resources - SCA | 626,000 | |
| Nonoperating revenues | | 626,000 |
| (To recognize deferred inflow of resources as revenue over term of the agreement) (25,000,000 ÷ 40) = \$625,000 + (40,000 ÷ 40) = <u>\$1,000</u> <u>\$626,000</u> | | |
| <u>Year 2</u> | | |
| 6. Insurance expense | 40,800 | |
| Cash | | 40,800 |
| (To record payment of insurance premium) | | |
| 7. Liability - insurance | 38,955 | |
| Deferred inflow of resources - SCA | | 38,955 |
| (To recognize a deferred inflow of resources as contractual obligations are satisfied) | | |
| 8. Depreciation expense | 520,000 | |
| Accumulated depreciation | | 520,000 |
| (To recognize annual depreciation expense) | | |
| 9. Deferred inflow of resources - SCA | 626,999 | |
| Nonoperating revenues | | 626,999 |
| (To recognize deferred inflow of resources as revenue over term of the agreement) (25,000,000 ÷ 40) = \$625,000 + (40,000 ÷ 40) = \$1,000 + (38,995 ÷ 39) = <u>\$999</u> <u>\$626,999</u> | | |

Calculation of Present Values – Insurance Payments

| | | | | |
|--------------|----------|-----------|--------------------------------|------------|
| Rates | | | Initial Def Inflow | 25,000,000 |
| COLA | Disc | | Revenue Recognized Each period | 625,000 |
| 2.00% | 4.73659% | | | |
| | NPV | 1,000,000 | Liability - Insurance | 1,000,000 |

Expected Insurance Payments

| Period | Insurance Expense | | Years Remaining | Revenue | | Revenue |
|--------|-------------------|------------------|-----------------|---------|-----------------------|------------------|
| | FV | PV | | Per Pmt | Recognized Per Period | |
| 1 | 40,000 | 40,000 | 40 | 1,000 | 1,000 | 1,000 |
| 2 | 40,800 | 38,955 | 39 | 999 | 1,999 | 1,999 |
| 3 | 41,616 | 37,937 | 38 | 998 | 2,997 | 2,997 |
| 4 | 42,448 | 36,946 | 37 | 999 | 3,996 | 3,996 |
| 5 | 43,297 | 35,980 | 36 | 999 | 4,995 | 4,995 |
| 6 | 44,163 | 35,040 | 35 | 1,001 | 5,996 | 5,996 |
| 7 | 45,046 | 34,125 | 34 | 1,004 | 7,000 | 7,000 |
| 8 | 45,947 | 33,233 | 33 | 1,007 | 8,007 | 8,007 |
| 9 | 46,866 | 32,365 | 32 | 1,011 | 9,018 | 9,018 |
| 10 | 47,804 | 31,519 | 31 | 1,017 | 10,035 | 10,035 |
| 11 | 48,760 | 30,696 | 30 | 1,023 | 11,058 | 11,058 |
| 12 | 49,735 | 29,894 | 29 | 1,031 | 12,089 | 12,089 |
| 13 | 50,730 | 29,113 | 28 | 1,040 | 13,129 | 13,129 |
| 14 | 51,744 | 28,352 | 27 | 1,050 | 14,179 | 14,179 |
| 15 | 52,779 | 27,611 | 26 | 1,062 | 15,241 | 15,241 |
| 16 | 53,835 | 26,890 | 25 | 1,076 | 16,317 | 16,317 |
| 17 | 54,911 | 26,187 | 24 | 1,091 | 17,408 | 17,408 |
| 18 | 56,010 | 25,503 | 23 | 1,109 | 18,517 | 18,517 |
| 19 | 57,130 | 24,837 | 22 | 1,129 | 19,645 | 19,645 |
| 20 | 58,272 | 24,188 | 21 | 1,152 | 20,797 | 20,797 |
| 21 | 59,438 | 23,556 | 20 | 1,178 | 21,975 | 21,975 |
| 22 | 60,627 | 22,940 | 19 | 1,207 | 23,182 | 23,182 |
| 23 | 61,839 | 22,341 | 18 | 1,241 | 24,424 | 24,424 |
| 24 | 63,076 | 21,757 | 17 | 1,280 | 25,703 | 25,703 |
| 25 | 64,337 | 21,189 | 16 | 1,324 | 27,028 | 27,028 |
| 26 | 65,624 | 20,635 | 15 | 1,376 | 28,403 | 28,403 |
| 27 | 66,937 | 20,096 | 14 | 1,435 | 29,839 | 29,839 |
| 28 | 68,275 | 19,571 | 13 | 1,505 | 31,344 | 31,344 |
| 29 | 69,641 | 19,059 | 12 | 1,588 | 32,932 | 32,932 |
| 30 | 71,034 | 18,561 | 11 | 1,687 | 34,620 | 34,620 |
| 31 | 72,454 | 18,076 | 10 | 1,808 | 36,428 | 36,428 |
| 32 | 73,904 | 17,604 | 9 | 1,956 | 38,384 | 38,384 |
| 33 | 75,382 | 17,144 | 8 | 2,143 | 40,527 | 40,527 |
| 34 | 76,889 | 16,696 | 7 | 2,385 | 42,912 | 42,912 |
| 35 | 78,427 | 16,260 | 6 | 2,710 | 45,622 | 45,622 |
| 36 | 79,996 | 15,835 | 5 | 3,167 | 48,789 | 48,789 |
| 37 | 81,595 | 15,421 | 4 | 3,855 | 52,644 | 52,644 |
| 38 | 83,227 | 15,018 | 3 | 5,006 | 57,650 | 57,650 |
| 39 | 84,892 | 14,626 | 2 | 7,313 | 64,963 | 64,963 |
| 40 | 86,590 | 14,244 | 1 | 14,244 | 79,207 | 79,207 |
| | <u>2,416,079</u> | <u>1,000,000</u> | | | | <u>1,000,000</u> |

Assumptions

Insurance Payments are made at the beginning of each period.

Illustrative Disclosures
Year 1

(For the University)

Note X: Service Concession Arrangement for New Dormitory

During the current year, construction was completed on a new residence hall pursuant to an agreement with the Cardinal Development Authority (CDA), under which the CDA designed, built, and for 40 years will operate Dogwood Hall. The CDA will be entitled to all fee revenue generated during the 40-year operations period. At the end of the arrangement, operation of Dogwood Hall will be transferred to XYZ University (University). The University entered into this agreement with the CDA to construct and operate a residence hall to address the shortage of student housing caused by recent enrollment growth, yet avoid the issuance of debt. Under this arrangement, the University is responsible for insuring the residence hall over the course of the 40-year operations period. At year-end, the University reports a liability for \$960 thousand, the present value of this insurance obligation. The University also reports the residence hall as a capital asset with a carrying amount of \$25.48 million at year-end and a related deferred inflow of resources of \$24.414 million.

Calculation of Pension Expense Illustration

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) | Deferred Outflows of Resources | Deferred Inflows of Resources | Pension Expense |
|--|-----------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|-------------------------------------|--------------------|
| Balances at 12/31/X8 | \$ 3,045,893 | \$ 2,283,333 | \$ 762,560 | \$ 289,881 | \$ 30,107 | |
| Changes for the year: | | | | | | |
| Service cost | 101,695 | | 101,695 | | | \$ 101,695 |
| Interest | 231,141 | | 231,141 | | | 231,141 |
| Changes of benefit terms | - | | - | | | |
| Differences between expected and actual experience | (69,638) | | (69,638) | - | 63,582 | (6,056) |
| Changes of assumptions | - | | - | - | - | - |
| Contributions—employer | | 109,544 | (109,544) | | | |
| Contributions—employees | | 51,119 | (51,119) | | | (51,119) |
| Net investment income | | 199,273 | (199,273) | (16,804) | - | (182,469) |
| Benefit payments, including refunds | (126,863) | (126,863) | - | | | |
| Administrative expense | | (3,427) | 3,427 | | | 3,427 |
| Other | | 8 | (8) | | | (8) |
| Expense for beginning deferred amounts | | | | (60,320) | (3,592) | 56,728 |
| Net changes | 136,335 | 229,654 | (93,319) | (77,124) | 59,990 | |
| Balances at 12/31/X9 | \$ 3,182,228 | \$ 2,512,987 | \$ 669,241 | \$ 212,757 | \$ 90,097 | \$ 153,339 |

*Assumes measurement date = fiscal year-end