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GASB Update

2010 EACUBO Pittsburgh Workshop

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Effective Dates

- **Beginning after** June 15, 2008 (June 30, '09, Dec. 31 '09)
  - Statement 52, Real Estate Investments in Endowment
- **Beginning after** June 15, 2009 (June 30 '10, Dec. 31 '10)
  - Statement 51, *Intangible Assets*
  - Statement 53, *Derivative Instruments*
- **Beginning after** June 15, 2009 (June 30 '10, Dec. 31 '10)
  - Statement 58, Chapter 9 Bankruptcy

Effective Dates

- **Beginning after** June 15, 2010 (June 30 '11, Dec. 31 '11)
  - Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions
- **Beginning after** June 15, 2011 (June 30 '12, Dec. 31 '12)
  - Statement 57, OBEB Measurements by Agent Employers and Agent Multiple-Employer Plans

Pell Grants

- Implementation Guide item 7.72.10
  - "…because of their administrative involvement with Pell Grant requirements and because Pell Grants are nonexchange transactions, public institutions should record Pell Grant receipts as nonoperating revenues in their financial statements, and any amounts applied to student receivable accounts should be recorded as scholarship discounts or allowances."

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Statement 52

Land and Other Real Estate Held as Investments by Endowments

5

Important Facts

- Land and other real estate held by perm. & term endowments reported at fair value
- Scopes out state land trusts
- Does not apply to quasi-endowments
- Shares in pooled real estate investments:
  - Endowment – Fair value
  - Quasi-endowment – Cost

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6

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Statement 51

Accounting and Financial Reporting
For Intangible Assets

Description

- An intangible asset is an asset that possesses all of the following characteristics:
  - Lack of physical substance
  - Nonfinancial nature
  - Initial useful life extending beyond a single reporting period

Is It An Asset?

- Statement generally does not provide guidance on whether a transaction results in an asset; however, all intangible assets subject to this Statement should be classified as capital assets
- Basis for conclusion (and implementation guide) does state that powers created through statute or inherent nature of government are not intangible assets

Common Types of Intangible Assets

- Right-of-way easements
- Other types of easements
- Patents, copyrights, trademarks
- Land use rights
- Licenses and permits
- Computer software
  - Purchased or licensed
  - Internally generated

Basic Guidance

- All intangible assets subject to Statement 51 should be classified as capital assets:
  - All existing authoritative guidance related to capital assets should be applied to these intangible assets
  - Since considered capital assets, not reported as assets in governmental fund financial statements
- Scope exceptions:
  - Intangible assets acquired or created primarily for directly obtaining income or profit
  - Capital leases
  - Goodwill from a combination transaction

Internally Generated Intangibles

- Internally generated intangible assets (IGIA) are:
  - Created or produced by the government or an entity contracted by the government; or
  - Acquired from a third party but require more than minimal incremental effort to achieve expected service capacity
- Statement provides a specific-conditions approach to recognizing outlays associated with IGIA

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Statement 53

Accounting and Financial Reporting
For Derivative Instruments

What is a Derivative for Financial Reporting Purposes?

A derivative has:

1. One or more reference rates (underlyings) and one or more notional amounts
2. Leverage
3. Net settlement

Examples of Derivatives

- Interest rate swap
  - Variable-rate to fixed-rate
  - Fixed-rate to variable-rate
- Basis swap
  - Exchange payments based on the changes of two variable rates
- Swaption
  - Gives the purchaser of the option the right, but not the obligation, to enter into an interest rate swap
- Commodity swap
  - Reduce exposure to a commodity's price risk

Excluded Instruments

- Normal purchases & normal sales contracts
  - Commodity e.g., gas or electricity
  - Government intends to and has practice of taking delivery or selling the commodity
  - Quantity is consistent with volume use
- Traditional insurance contracts
- Traditional financial guarantee contracts
- Non exchange-traded climate contracts, liquidated damages, etc.

Basic Approach
Fair Value with Hedge Accounting

- Derivative instruments are measured on the statement of net assets at fair value
- Fair value changes are reported on the statement of resource flows as investment income
- Exception: Effective Hedges
  - Changes in fair value of derivative instruments would be reported on the statement of net assets as deferrals–either deferred inflows or outflows
- Scope Exclusion: Measurement of derivatives in government funds

Methods of Evaluating Effectiveness

Effectiveness is determined by using a specified method of evaluating hedges

- Qualitative method
  - Consistent critical terms
- Quantitative methods
  - Synthetic instrument
  - Linear regression
  - Dollar offset
  - Other method – see characteristics

Current Exposure Documents

- Codification of Pre-1989 FASB standards
- Suggested Guidelines for Voluntary Reporting of SEA Information
- Pension Accounting and Financial Reporting (Invitation to Comment)
- Service Concession Arrangements
- Financial Instruments Omnibus
- Statement 14 Reexamination

Pre-89 Codification

- Tentative decision to rescind option to apply all post-1989 FASB Statements and Interpretations
- They would be other accounting literature in GAAP hierarchy

Service Efforts & Accomplishments

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

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Postemployment Benefits Project

- Basic approach
  - Funding based with parameters
  - Liability based (FASB Statement 158)
  - Something in between
- How the actuarial liability should be measured
  - Salary projections
  - Discount rate
- Plan reporting
- Cost sharing allocations for employers

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Financial Instruments Omnibus

- Covers issues in four Statements:
  - Statement 25 – Removes fair value exemption for unallocated insurance contracts
  - Statement 31 – Clarifies what is a "2a7-like" investment pool
  - Statement 40 – Clarifies that the interest rate risk disclosure requirement only applies to bonds and certain bond mutual funds
  - Statement 53 – Clarifies four practice issues

Statement 14 Reexamination

- Retains current reporting entity framework. This framework includes (1) the criteria for inclusion of component units and (2) the methods of presenting component unites.
- In addition to meeting the fiscal dependency criterion, a financial benefit/burden relationships should be present for a potential component unit to be included in the primary government's financial statements based on the fiscal dependency criterion.
- The "misleading to exclude" notion will be retained in Statement 14, but amendments to the guidance will clarify the professional judgment aspect of the guidance.
- Component units will be blended if the component unit's governing body is substantively the same as the governing body of the primary government and either (1) a financial benefit/burden relationship exists with the primary government or (2) management of the primary government has operational responsibility for the component unit.
  - Debt issuing component units would qualify for blending if primary government resources are used to retire their debt.

Questions?

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25