



2008 Fall Conference

What's New With The GASB?

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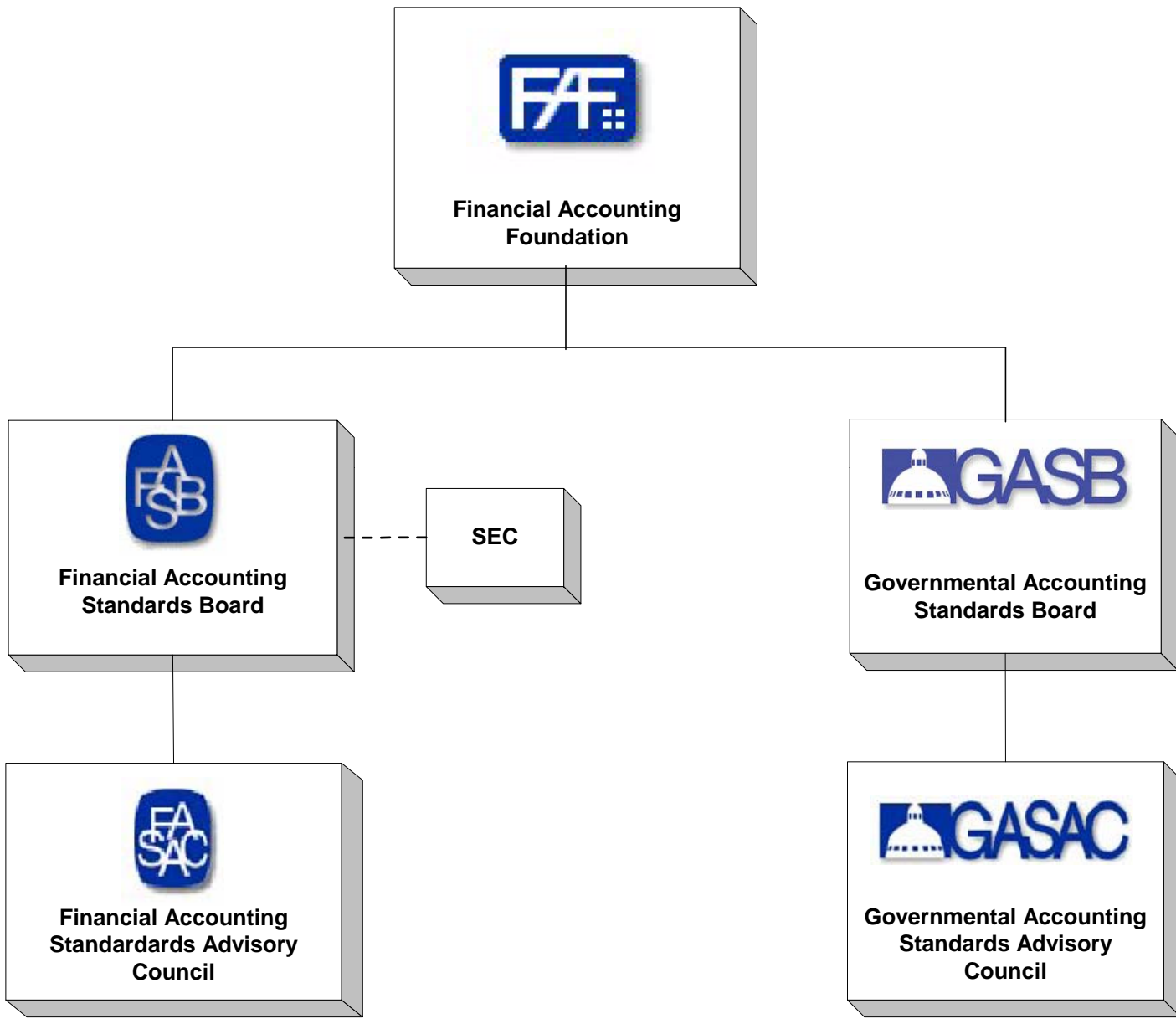
October 30, 2008

Topics for Discussion

- Standards Setting Structure & Participants
- FAF Trustee Initiated Governance Actions
- Select GASB Statements
- Current GASB Projects
- Research Projects

The opinions expressed in this presentation are those of Mr. Attmore.

Official positions of the GASB are established only after extensive public due process and deliberation.



Other Important Players

- International

- International Accounting Standards Board (IASB)
- International Public Sector Accounting Standards Board (IPSASB)

- United States

- Federal Accounting Standards Advisory Board (FASAB)
- American Institute of Certified Public Accountants

**WHY GOVERNMENTAL ACCOUNTING
AND
FINANCIAL REPORTING
IS—AND SHOULD BE—DIFFERENT**

“Governments are fundamentally different from for-profit business enterprises in several important ways.”



Key Differences

- Basic Missions/Purposes
- Stakeholders
- Processes for Generating Revenues
- Budgetary Obligations
- Longevity and Powers

The **needs of users** of financial reports of governments and business enterprises differ. Public accountability is an essential factor.

The Future of Accounting and Financial Reporting Standards Setting



Private Sector

- Norwalk Agreement—FASB & IASB convergence through joint projects (2002)
 - Reaffirmed in 2006 and 2008—faster track
 - Recent SEC action
 - Elimination of reconciliation from IFRS for foreign registrants
 - SEC proposed roadmap—U. S. companies
 - Private sector standard setting alternatives and need for a national transition plan
 - AICPA recognition of IASB
 - What will Congress do?
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Public Sector

- International standards not as advanced as found in the private sector
 - Conceptual framework will help, but environment and drivers are different
- Different environment
 - Geographic boundaries play a role that is not found in the private sector, even the not-for-profit sector
 - Capital markets are still US-focused because of the tax-exempt nature of most government debt issues
- Outcome will be user driven

Recent FAF Actions

Intended to enhance the independence
of the Boards and facilitate FASB's
convergence efforts

FAF Changes

- Expand the number and type of organizations that nominate FAF trustees
 - How government trustees are appointed is still being discussed
- Increase FAF governance activities
 - More Trustees oversight for both Boards
 - Add a 1/3 to 1/2-time FAF Chairman & CEO
- Revise trustee appointments to one five-year term
- Allow flexibility of the number of trustees (between 14 and 18)
 - Minimum number of governmental trustees remain at three members

FASB Changes

- Reduce number of FASB members from seven to five – effective July 1, 2008
 - Three members were already scheduled to leave the Board at the end of June (no forced turnover)
- Institute leadership agenda – effective in February 2008
- Both items intended to make the FASB more efficient and nimble as it advances toward convergence with the IASB

FAF Actions—GASB

- Institute leadership agenda
- Retain current Board size - with six part-time members and a full-time Chairman
- Affirmed the need for a stable and permanent funding source to adequately support GASB is a matter of urgency

GASB Effective Dates—June 30 Y/E

■ **June 30, 2008**

- ❑ Statement 43—OPEB Plans—Phase II
- ❑ Statement 45—Employer’s OPEB—Phase I
- ❑ Statement 48—Sales and Pledges
- ❑ Statement 50—Pension Disclosures

■ **June 30, 2009**

- ❑ Statement 43—OPEB Plans—Phase III
- ❑ Statement 45—Employer’s OPEB—Phase II
- ❑ Statement 49—Pollution Remediation Obligations
- ❑ Statement 52—Land Investments by Endowments

■ **June 30, 2010**

- ❑ Statement 45—Employer’s OPEB—Phase III
 - ❑ Statement 51—Intangible Assets
 - ❑ Statement 53—Derivative Instruments
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Recent GASB Statements

- GASB 51 Intangible Assets
- GASB 52 Land and Other Real Estate Held as Investments by Endowments
- GASB 53 Derivative Instruments

Intangible Assets

Issued in June 2007

Intangible Assets Basic Guidance

- All intangible assets should be classified as capital assets, and all existing authoritative guidance related to capital assets should be applied to these intangible assets.

Types of Intangibles

- Computer software
 - Purchased
 - Internally developed
- Right-of-Way Easements
- Patents and Trademarks
- Separately acquired or donated land rights
 - Water
 - Minerals
 - Timber

Internally Generated Intangibles

- Outlays incurred related to an internally generated intangible asset that is considered identifiable should be capitalized only upon the occurrence of all of the following:
 - Determination that an objective for the project is to create a specific internally generated intangible asset;
 - Determination of the nature of the service capacity that is expected to be provided by the asset upon its completion;
 - Demonstration of the technical or technological feasibility for completing the project so that the asset will provide its expected service capacity;
 - Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Intangibles Transition Guidance

- GASB 51 provisions are generally required to be applied retroactively – except for assets considered to have indefinite useful lives and those considered to be internally generated.
- For phase 1 and phase 2 governments, retroactive reporting is required for intangibles acquired in fiscal years ending after June 30, 1980.
- Retroactive reporting is encouraged, but not required, for phase 3 governments.

Accounting for Derivative Instruments

Issued in June 2008

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

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 charges or deferred credits
- 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

Note Disclosures

- Summary of derivative instrument activity by:
 - 1) Government activities, business-type activities, and fiduciary activities
 - 2) Then by fair value hedges, cash flow hedges, and investment derivatives
 - 3) Then by type:
 - Notional amount
 - Fair values & changes and where reported
 - Fair values & amounts reclassified from hedge to investment

Note Disclosures (continued)

- Disclosures for *HEDGING* derivatives
 - Application of TB-2003 disclosures
 - Significant terms
 - Risks: Credit, Interest Rate, Basis, Termination, Rollover, Market-access, Foreign Currency
 - If an “other evaluation method” is used, the identity of that method and its critical values
- Disclosures for *INVESTMENT* derivatives
 - Risks: Credit, Interest Rate, Foreign Currency

Note Disclosures (continued)

- Contingencies (e.g., collateral postings)
- Synthetic guaranteed investment contracts
 - Description and nature
 - Fair values
 - Wrap contract
 - Underlying investments

Other Recent GASB Documents

■ Exposure Drafts

- ❑ Fund Balance Reporting and Fund Type Definitions
- ❑ Amendment of Concepts Statement 2 – Service Efforts and Accomplishments Reporting
- ❑ ARC Adjustment – Technical Bulletin
- ❑ AICPA Omnibus & GAAP Hierarchy

■ Request for Response

- ❑ Suggested Guidelines For Voluntary Reporting Of SEA Performance Information

■ Comprehensive Implementation Guide

Fund Balance Reporting and Fund Type Definitions

Exposure Draft comments deadline was June 30, 2008

Fund Balance Reporting

- Net Assets/Fund Balance project
- Statement 46 issued on Restricted Net Assets
- Separate project to reexamine fund balance reporting
 - User interviews and surveys
 - What are the needs?
 - What are the problems?

Tentative Decisions

- Presentation hierarchy based primarily on spending constraints placed upon use of resources versus availability for appropriation
 - Format:
 - Non-spendable—Inventory, long-term receivables
 - Spendable
 - Restricted—Statement 34/46 definition
 - Limited—Formal action of governing body
 - Assigned—Similar to designations expressing intent
 - Unassigned
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Tentative Decisions

(continued)

- New note disclosures required
- Addresses classification of “stabilization” or “rainy day” amounts
- Clarifies definitions of individual governmental fund types
- Proposes effective date for periods beginning after June 15, 2010

Project Timetable

- Invitation to Comment—October 2006
- Roundtable—February 2007
- Exposure Draft—February 2008
- Public hearing—July 2008
- Final Statement—March 2009

Service Efforts and Accomplishments Reporting

Two Part Project

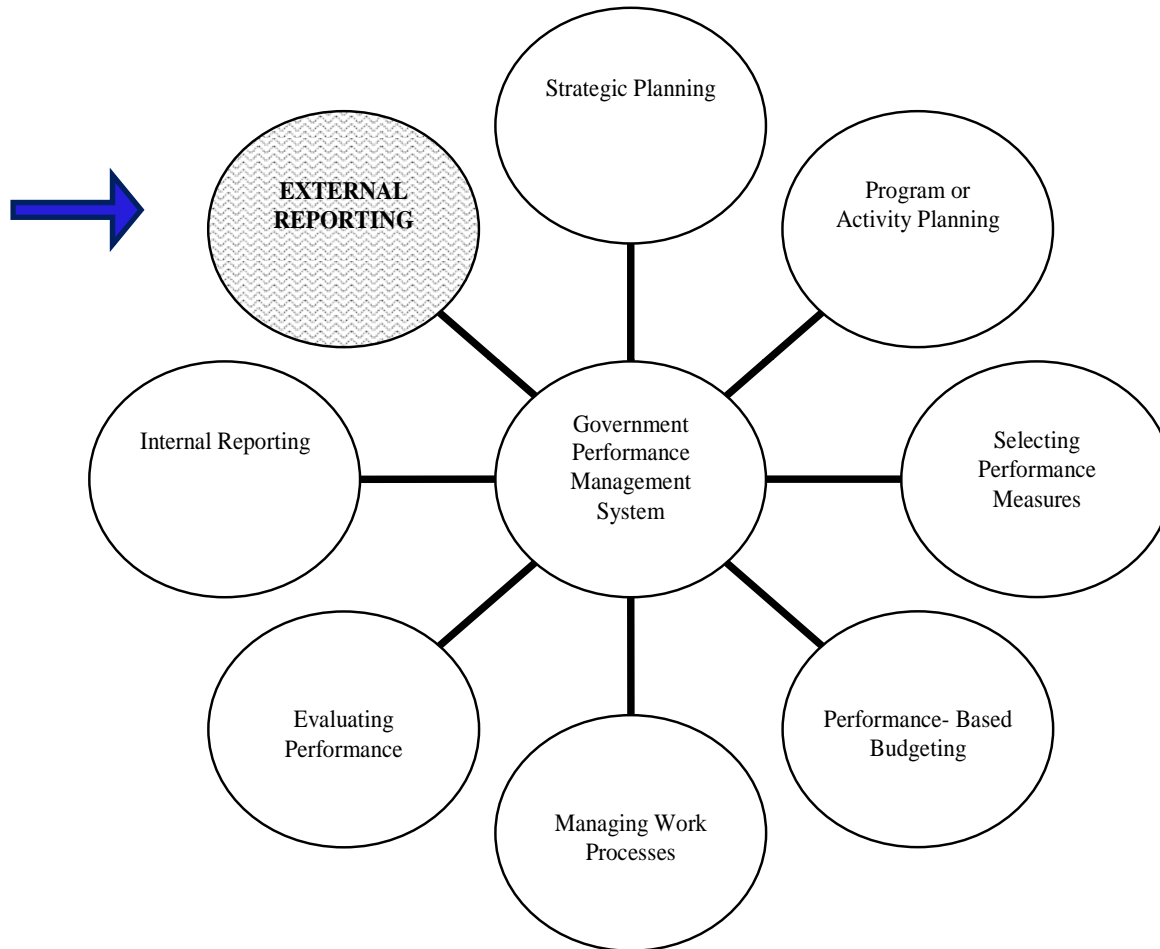
Exposure Draft of proposed amendments to Concepts Statement 2 was released and posted on the GASB website on April 4, 2008
- Comment deadline was July 3, 2008

Request For Response on Suggested Guidelines for Voluntary Reporting of SEA Performance Information was released and posted on the GASB website on July 31
- Comment deadline is October 31, 2008

SEA Reporting—Scope

- What the project is:
 - Focus on voluntary reporting
 - Focus on suggested guidelines
 - Focus on clarifying GASB's role
- What the project is not:
 - Establishing performance measures
 - Establishing performance benchmarks
 - Establishing reporting standards
 - Requiring SEA Reporting

Performance Management System



Proposed Essential Components of Effective SEA Reports

- Purpose and Scope
- Major Goals and Objectives
- Key Measures of SEA Performance
- Discussion and Analysis of Results and Changes

Proposed Qualitative Characteristics of SEA Performance Information

- Relevance
- Understandability
- Comparability
- Timeliness
- Consistency
- Reliability

ARC Adjustment – Proposed Technical Bulletin

Exposure Draft issued on July 21, 2008 clarifies that use of actual known amounts, rather than estimates, when calculating annual required contribution (ARC) adjustment for pensions and OPEB is consistent with the intent of existing standards, and is encouraged. ARC adjustments are needed to amortize past contribution deficiencies or excesses.

AICPA Omnibus—accounting guidance currently presented only in the SASs

Two Exposure Drafts released and posted to the GASB website on August 28, 2008

- **AICPA Omnibus** – addresses related party transactions, going concern issues, and subsequent events
- **GAAP Hierarchy** – addresses the source of generally accepted accounting principles for state and local governments

Comprehensive Implementation Guide 2008–2009 edition

- Includes, updates, and supplements all prior guides issued through June 30, 2008
 - More than 1,700 questions and answers
- 2008 edition adds more than 50 new questions and answers including:
 - 7 new questions on Statement 48
 - 35 new questions and multiple amendments related to Statement 51
 - 4 new questions and several amendments related to OPEB

Other Current Projects

- Pension Accounting and Reporting
- Public and Private Partnerships
- Reporting Units/Statement 14 Revisited
- Recognition and Measurement Attributes – Concepts Statement
- Derivatives Implementation Guide

Research Agenda

- Economic Condition Reporting
- Electronic Financial Reporting
- FASB Pronouncements (pre-1989)
- Fair Value Measurement
- Investment Omnibus
- Chapter 9 Bankruptcy

Questions?

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