Update of Current GASB Activities

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May 23, 2012

Effective Dates – June 30

June 30, 2012

- **GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans***
- **GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions***

June 30, 2013

- **GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements***
- **GASB Statement No. 61, *The Financial Reporting Entity Omnibus, an amendment of GASB Statements No. 14 and No. 34***
- **GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements***
- **GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position***

June 30, 2014

- **GASB Statement No. 65, Items Previously Reported as Assets and Liabilities**
- **GASB Statement No. 66, Technical Corrections—2012**

Agenda

- Statement 60
- Statement 62
- Statement 63
- Statement 65
- Statement 66
- Other GASB Agenda Projects

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*

Service Concession Arrangements

- **GASB Statement No. 60 issued in December 2010**
- **For purposes of the Standard, a service concession arrangement (SCA) is a type of public-private partnership in which:**
  - The transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset ("facility") in exchange for significant consideration
  - The operator collects and is compensated by fees from third parties
  - The transferor determines or has the ability to modify or approve:
    - What services the operator is required to provide
    - To whom the operator is required to provide the services
    - The prices or rates that can be charged for the services
  - The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement
- **Effective for periods beginning after December 15, 2011**

Service Concession Arrangements

- **Examples of SCAs include, but are not limited to, arrangements in which:**
  - The operator will design, build, and finance a new facility in exchange for the right to collect fees from third parties for services provided through the facility
  - The operator will provide significant consideration in exchange for the right to access an existing facility and collect fees from third parties for its usage
  - The operator will provide cash and create enhancements to an existing facility in exchange for the right to access the facility and collect fees from third parties for its usage
- **Arrangements can be between:**
  - The transferor government and a *private sector* operator
    - Arrangement between a state and a private sector consortium
  - The transferor government and a *government* operator
    - Arrangement between a state and a tollway authority
- **Standard provides guidance for both the transferor government and government operators, *but only for economic resources measurement focus financial statements***

Service Concession Arrangements

- **Assets most commonly used in SCAs are those for which fees for services are charged:**
  - Roads and bridges
  - Water and sewer
  - Golf courses
  - Dormitories
  - Parking garages
  - Parking meters

Service Concession Arrangements

- **Governments will enter into SCAs for a number of reasons:**
  - Leverage existing facilities to generate additional resources in the form of upfront payments from the operator for the right to operate the facility
  - Facilitate construction and financing of new facilities or improvement of existing facilities
  - Provide services to the general populace in a more efficient and cost-effective manner
- **High profile SCAs involve:**
  - Indiana Toll Road
  - Chicago Skyway
  - Chicago parking garages and parking meters

Transferor Accounting

- **Existing facility:**
  - Transferor continues to report existing facility as capital asset.
- **New facility or improvements to existing facility:**
  - Transferor reports
    1) A new facility or improvements as capital asset at fair value when placed into operation,
    2) Any contractual obligations as liabilities,
    3) And a corresponding deferred inflow of resources equal to the difference between (1) and (2).
- **Up-front or installment payments**
  - Transferor reports:
    1) An up-front payment or the present value of installment payments as an asset,
    2) Any contractual obligations as liabilities,
    3) And a corresponding deferred inflow of resources equal to the difference between (1) and (2).

Transferor Accounting

- **A liability is recorded at present value if a contractual obligation exists AND if it meets either of the following criteria:**

  (1) The contractual obligation directly relates to the facility. ***(for example, capital improvements, insurance, or maintenance)***

  OR

  (2) The contractual obligation relates to a commitment by the transferor to maintain a minimum or specific level of service in connection with the operation of facility. ***(for example, police or emergency services, maintenance around facility)***

- **Liability is reduced as transferor's obligations are satisfied.**
  - When obligation is satisfied, a deferred inflow is reported and related revenue is recognized in systematic and rational manner over the term of the arrangement.

Transferor Accounting

- **Revenue is recognized in a systematic and rational manner over the term of arrangement as the deferred inflow is reduced.**

- **After initial measurement, the capital asset is subject to existing requirements for depreciation, impairment, and disclosures.**
  - Improvements made to the facility during the arrangement would increase the transferor's asset.

- **Transferor does *NOT* depreciate if the agreement requires operator to return facility in its original or enhanced condition.**

Governmental Operator

- **Reports an *intangible asset* for the right to access and use the property**
  - Measured by the amount of up-front payment or contributed asset
  - Amortized over the life of the arrangement
  - Improvements made to the facility by the government operator increases the government operator’s intangible asset if the improvements increase the capacity of efficiency of the facility
- **Reports a liability to restore facility to a specified condition if required by agreement and the facility is not in the expected condition**

Note Disclosures

- **Both the transferor and government operator, as applicable:**
  - A general description of the arrangement
  - Nature and amounts of assets, liabilities, and deferred inflows of resources related to the SCA recognized in the financial statements.
  - Nature and extent of rights retained by the transferor or granted to the government operator.
  - Disclosures should be made about guarantees and commitments.
- **Disclosures for multiple SCAs may be provided individually or in the aggregate for those that involve similar facilities and risk.**

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements

- **Statement No. 62 was issued December 30, 2010.**
- **Primary objective 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
  - Since FASB introduced its codification, its original pronouncements are nonauthoritative.
- **Effective for periods beginning after December 15, 2011.**

Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements

- **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 (excluded)
    - FAS 4 Gain or loss on debt extinguishments
    - FAS 43 Compensated absences
  - Are not applicable to governments (excluded)
    - FAS 84 Convertible debt
    - FAS 89 Changing prices
  - Rarely applicable (excluded)
    - FAS 19 Oil and Gas
  - Are applicable to governments (included)
    - FAS 5 Contingencies
    - FAS 34 Capitalization of interest
  - Will be addressed in future GASB projects (applicable, but excluded)
    - APB 16 Business combinations

Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements

- **Guidance on 29 topics is brought into the GASB literature, including:**
  - Capitalization of interest costs (FAS 34 & FAS 62)
  - Statement of net assets classification (ARB 43, APB 12 & FAS 6)
  - Special and extraordinary items (APB 30)
  - Comparative financial statements (ARB 43)
  - Related parties (FAS 57)
  - Prior-period adjustments (FAS 16 & APB 9)
  - Accounting changes and error corrections (APB 20 and FIN 20)
  - Contingencies (FAS 5 & FIN 14)
  - Extinguishments of debt (APB 26 & FAS 76)
  - Troubled debt restructuring (FAS 15)
  - Inventory (ARB 43)
  - Leases (FAS 13, 22 & 98 & FIN 23, 26 & 27)

Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements

- **Guidance on 29 topics is brought into the GASB literature (continued):**
  - Sales of real estate (FAS 66)
  - Real estate projects (FAS 67)
  - Research and development arrangements (FAS 68)
  - Broadcasters (FAS 63)
  - Cable television systems (FAS 51)
  - Insurance enterprises (FAS 60)
  - Lending activities (FAS 91)
  - Mortgage banking activities (FAS 65)
  - Regulated operations (FAS 71, 90 & 101)

Codification of Pre-November 30, 1989 FASB and AICPA Pronouncements

- **Accounting and reporting requirements adopted as is, modifying the language as appropriate to reflect the government environment without affecting the substance of the provisions**
- **Provisions generally apply to governmental activities, business-type activities, and proprietary funds, except as identified in the Statement:**
  - Certain provisions also apply to governmental funds
  - Certain provisions are limited to business-type activities and proprietary funds
- **GASB Statement 20 is superseded:**
  - Election to apply all post-November 30, 1989 FASB pronouncements not in conflict with GASB pronouncements is eliminated
  - Can still be applied as "other accounting literature"

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

Overview

- **Statement No. 63 issued in June 2011**
- **Objective is to address presentation issues associated with the financial position elements created in Concepts Statement No. 4, *Elements of Financial Statements* (CONS 4):**
  - Assets
  - Liabilities
  - Deferred outflows of resources
  - Deferred inflows of resources
  - Net position
- **Effective for periods beginning after December 15, 2011.**
  - Early application is encouraged.

CONS 4 Definitions of Elements

- **Assets**
  - Resources with present service capacity that the government controls
- **Liabilities**
  - Present obligations to sacrifice resources with little or no discretion to avoid
- **Deferred outflows of resources**
  - A consumption of net assets by the government that is applicable to a future reporting period
  - Has a natural debit balance and, therefore, increases net position similar to assets
- **Deferred inflows of resources**
  - An acquisition of net assets by the government that is applicable to a future reporting period
  - Has a natural credit balance and, therefore, decreases net position similar to liabilities
- **Net position**
  - The residual of all elements presented in a financial position statement

Deferred Outflows of Resources and Deferred Inflows of Resources

- **CONS 4 specifically states that *deferred outflows of resources* and *deferred inflows of resources* should only be used as specifically required in authoritative GASB pronouncements.**
- **Currently deferred outflows of resources and deferred inflows of resources are only required in:**
  - GASB 53 on derivative instruments
  - GASB 60 on service concession arrangements
  - Proposed in Exposure Draft, *Accounting and Financial Reporting for Pensions*
- **GASB 65 will require reporting several additional deferred outflows of resources and deferred inflows of resources**

Economic Resources Measurement Focus Financial Statements

- **The statements of financial position for these sets of financial statements should be referred to as the *Statement of Net Position*.**
  - Preferred reporting format is: *assets* + *deferred outflows – liabilities – deferred inflows* = *net position*.
- **Traditional balance sheet format is permitted:**
  - Assets + deferred outflows = liabilities + deferred inflows + net position.
- **Equity section referred to as net position instead of net assets and is reported in the following three components:**
  - *Net investment in capital assets,*
  - Restricted,
  - Unrestricted,
  - No change in the definitions of these net position components other than incorporating impact of deferred outflows and inflows

Example Statement of Net Position

Statement of Net Position

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 11,712,829	$ 10,516,820	$ 22,229,649	$ 303,935
Investments	29,250,291	64,575	29,314,866	7,428,952
Derivative instrument--rate swap	1,040,482		1,040,482	
Receivables (net)	11,792,650	3,609,615	15,402,265	4,042,290
Internal balances	313,768	(313,768)		—
Inventories	322,149	126,674	448,823	83,697
Equity interest in joint venture	2,303,256	—	2,303,256	—
Capital assets:				
Land, improvements, and construction in progress	28,435,025	6,408,150	34,843,175	751,239
Other capital assets, net of depreciation	141,587,735	146,513,065	288,100,800	36,993,547
Total capital assets	170,022,760	152,921,215	322,943,975	37,744,786
Total assets	226,758,185	166,925,131	393,683,316	49,603,660
DEFERRED OUTFLOWS				
Accumulated decrease in fair value of hedging derivatives	—	127,520	127,520	—
LIABILITIES				
Accounts payable and accrued expenses	7,538,543	659,592	8,198,135	1,803,332
Advances from grantors	1,435,599		1,435,599	38,911
Forward contract		127,520	127,520	
Long-term liabilities:				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	101,512,520	79,695,671	181,208,191	30,375,033
DEFERRED INFLOWS				
Accumulated increase in fair value of hedging derivatives	1,040,482	—	1,040,482	—
NET POSITION				
Net investment in capital assets	103,711,386	79,088,574	182,799,960	15,906,392
Amounts Restricted for:				
Transportation and public works	10,655,737	—	10,655,737	—
Debt service	3,076,829	1,451,996	4,528,825	—
Housing and community redevelopment	6,845,629	—	6,845,629	—
Other purposes	1,483,387	—	1,483,387	492,445
Unrestricted Amounts (deficit)	(1,567,785)	6,816,410	5,248,625	2,829,790
Total net position	$ 124,205,183	$ 87,356,980	$211,562,163	$ 19,228,627

Governmental Fund Financial Statements

- **The statements of financial position for these financial statements should continue to be referred to as the *Balance Sheet*.**

- **Required reporting format is: *assets* + *deferred outflows* = *liabilities* + *deferred inflows* + *fund balance.***

- **Equity section continues to be referred to as fund balance.**
  - Report in fund balance classifications required by GASB Statement No. 54.

Disclosures

- **Required disclosures:**
  - Details of the different types of deferred outflows of resources and deferred inflows of resources in the notes to the financial statements if significant components of the total deferred balances are obscured by aggregation.
  - If the amount reported for a component of net position is significantly affected by deferred outflows of resources or deferred inflows of resources, disclose an explanation of the effect of the deferred amounts on the component.

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

Overview

- **Statement No. 65 issued in March 2012.**
- **Objective is to determine whether certain balances currently reported as assets and liabilities should continue to be reported as such or instead should be reported as:**
  - A deferred outflows of resources, or
  - An outflow of resources (expense/expenditure);

    Or
  - A deferred inflows of resources, or
  - An inflows of resources (revenue).
- **Effective for periods beginning after December 15, 2012.**
  - Early Application is encouraged.

Approach to Development of the Statement

- **Scope**
  - The Board identified, in the existing authoritative literature, requirements to report assets or liabilities that may appear to meet the definitions in CONS 4 of a deferred outflow of resources or a deferred inflow of resources, respectively.
    - Searched the GASB Codification for terms such as:
      - Deferred,
      - Deferral,
      - Defer,
      - Amortize, or
      - Allocate.
    - Any word that would indicate a balance should be recognized over more than one period.

Reported as a *Deferred Outflow of Resources*

- Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when time requirements are the only eligibility requirements that have not been met by the other government (GASB 33).
- Deferred loss from the refunding of debt (GASB 23)
- The purchase of future revenues within the same financial reporting entity (GASB 48)
- Deferred loss resulting from sale-leaseback transactions (GASB 62)
- Net balance (debit) of direct loan origination costs, including any portion related to points, for mortgage loans held for resale prior to the point of sale (GASB 62)
- Fees paid to permanent investors to ensure the ultimate sale of loans prior to the point of sale (GASB 62)

Reported as an *Outflow of Resources*

- Acquisition costs for insurance entities and public entity risk pools (GASB 10 and GASB 62)
- Initial direct costs incurred by the lessor for operating leases (GASB 62)
- Debt issuance costs (GASB 7 and GASB 62)
- Net balance (debit) of direct loan origination costs, including any portion related to points, related to lending activities (GASB 62)
- Fees paid related to a purchased loan or a group of loans (GASB 62)
- Net balance (debit) of direct loan origination costs, including any portion related to points, for mortgage loans held for investment (GASB 62)
- Net balance (debit) of direct loan origination costs, including any portion related to points, for mortgage loans held for resale after the sale occurs (GASB 62)
- Fees paid to permanent investors to ensure the ultimate sale of loans after the ultimate sale occurs (GASB 62)

Reported as a *Deferred Inflow of Resources*

- Resources received in advance in relation to an imposed nonexchange transaction (GASB 33)
- Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when time requirements are the only eligibility requirements that have not been met by the receiving government (GASB 33)
- Deferred gain from refunding of debt (GASB 23)
- Proceeds from sale of future revenues (GASB 48)
- Unavailable revenue related to application of modified accrual accounting (GASB 33)

Reported as an *Inflow of Resources*

- **Net balance (credit) of loan origination fees, excluding any portion related to points, related to lending activities (GASB 10 and GASB 62)**
- **Commitment fees realized upon exercise or expiration of the commitment (GASB 62)**
- **Commitment fees charged for entering into an agreement that obligates the government to make or acquire a loan or to satisfy an obligation of the other party under a specified condition when exercise is considered remote (GASB 62)**
- **Fees received related to a purchased loan or a group of loans (GASB 62)**

Items Where the Classification was Not Changed

- **In the Basis for Conclusion the Board affirmed the items resulting from the following transactions should be classified as an asset:**
  - Prepayments (NCGA 1)
  - Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than time requirements have not been met (GASB 33)
  - The purchase of future revenues from a government outside the financial reporting entity (GASB 48)
  - Circumstances in which a pension plan's net position exceeds the total pension liability (Exposure Draft, *Accounting and Financial Reporting for Pensions,* an amendment of GASB Statement No. 27).

Items Where the Classification was Not Changed

- **In the Basis for Conclusion the Board affirmed the items resulting from the following transactions should be classified as a liability:**
  - Resources received in advance in relation to a derived tax revenue nonexchange transaction (GASB 33)
  - Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than time requirements have not been met (GASB 33)
  - Resources received in advance of an exchange transaction (GASB 62)
  - Excess of initial hookup revenue over of direct selling costs in relation to cable television systems (GASB 62)
  - Premium revenues for insurance entities and public entity risk pools received in advance (GASB 10 and GASB 62)

Other Areas Addressed by Statement 65

- **Use of the term deferred should be limited to deferred inflows and deferred outflows of resources**

- **Major fund calculation guidance will be amended:**
  - Use aggregate assets/deferred outflows and aggregate liabilities/deferred inflows in the calculation

GASB Statement No. 66, *Technical Corrections—2012*

Overview

- **Statement No. 66 issued in March 2012**
- **Objective of this project is to resolve conflicting accounting and financial reporting guidance that resulted from the issuance of GASB Statement No. 54 and GASB Statement No. 62 impacting:**
  - GASB Statement No. 10
  - GASB Statement No. 13
  - GASB Statement No. 48
- **Effective for periods beginning after December 15, 2012**
  - Early application is encouraged

Provisions of Statement 66

- **Deletes requirement in GASB Statement No. 10 that requires an entity's risk-financing activities be accounted for in either the general fund or an internal service fund**
  - With new fund definitions in GASB 54, it is possible that such activities would meet the definition of a special revenue fund
- **Deletes language in GASB 62 regarding the following:**
  - A provision that does not permit the fair value method for recording expenses associated with an operating lease that varies from a straight-line basis as provided for in GASB 13
  - The reporting of the purchase of loans that could be perceived as in conflict with GASB 48
  - Guidance for adjustments to sales price of mortgage loan when stated service fee rate differs from current (normal) servicing fee rate. The deleted language conflicts with provisions in GASB 48

Other GASB Agenda Projects

GASB Technical Agenda

- **Postemployment Benefit Accounting and Financial Reporting**
- **Government Combinations**
- **Other Major Projects**
  - Comprehensive Implementation Guide Update
  - Conceptual Framework—Recognition and Measurement Attributes
  - Economic Condition Reporting: Fiscal Sustainability
  - Financial Guarantees
  - Fair Value Measurement
  - Other Post Employment Benefit Accounting and Financial Reporting (Re-examination of GASB 45)

Postemployment Benefit Accounting and Financial Reporting Project Overview

- **Project undertaken to reexamine standards related to postemployment benefits in order to improve:**
  - Accountability and transparency related to postemployment benefits
  - Decision-making usefulness of information related to postemployment benefits for users of the financial statements
- **Project is in 2 phases:**
  - Phase 1 deals with pension benefits
  - Phase 2 deals with OPEB (added to current agenda in April 2011)
- **Phase 1 timeline:**
  - Invitation to Comment issued in March 2009
  - Preliminary Views document issued in June 2010
  - Exposure Drafts (Employer and Plans) issued June 2011
  - Final standards (Employer and Plans) expected June 2012
- **Phase 2 expected to begin deliberations in June 2012**

Employer Exposure Draft Headlines

- **Key conceptual shift in reporting pension liabilities and expense under the economic resources measurement focus from a "funding" approach to an "earnings" approach:**
  - Currently, no liability is reported if government fully funds its annual required contribution (single-employer and agent plans) or pays its contractually required contribution (cost-sharing plan)
  - Under proposed approach:
    - Pension liability will be reported as employees earn their pension benefits by providing services
    - Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on nature of change
- **No significant changes to accounting for pensions in governmental funds**
- **Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes**
  - The actuarial methods and assumptions allowable under current standards may continue to be used to determine funding amounts

Employer Exposure Draft Headlines (continued)

- **The following amounts will be required to be determined related to a defined-benefit pension plan as of the employer's fiscal year-end:**
  - Net pension liability (asset)
  - Pension expense
  - Pension deferred outflows of resources and deferred inflows of resources
- **Employers participating in single-employer or agent multiple-employer plans will recognize 100 percent of the above amounts for each plan**
- **Employers participating in cost-sharing, multiple-employer plans will recognize their proportionate share of the collective amounts for the plan as a whole**

Net Pension Liability

- **Employers should report in their financial statements a *<u>net pension liability (asset)</u>* determined as of their fiscal year-end for each defined-benefit pension plan in which they participate**
  - Net pension liability (asset) equals the *<u>total pension liability</u>* for the pension plan, net of the *<u>plan net position</u>*:
    - Total pension liability is the actuarial present value of projected benefit payments attributed to past employee service
    - Plan net position is accumulated plan assets net of any financial statement liabilities of the plan
- **Approach based on governments having a liability for pension benefits as employees earn them through service, not as funding comes due**
    - Impact of Concepts Statements No. 3 and 4 on change in approach

Projecting Future Benefit Payments

Future Benefits

- Automatic COLAs and postemployment benefit changes
- Projected future ad hoc COLAs and ad hoc postemployment benefit changes to extent considered to be substantively automatic
- Projected future salary increases when pension formula is based on future compensation level
- Projected future service credits

Current standards do not require incorporation of ad hoc COLAs and ad hoc postemployment benefit changes into projection—this will increase projected future benefits for some plans thereby increasing total pension liability

Projecting Future Benefit Payments (continued)

Key Factors/ Assumptions

- Number of employees expected to receive benefits
- Length (years) of expected employment
- Salaries and expected rate of growth
- Life expectancy of employees after retirement

All assumptions should be consistent with Actuarial Standards of Practice unless otherwise specified

Discounting Future Benefit Payments to Present Value

- **A single blended rate should be used to discount projected future benefit payments based on:**
  - The long-term expected rate of return on plan investments that are expected to be used to finance the payment of pension benefits to the extent that projected plan net position is expected to be available for the payment of pension benefits and to be invested using a long-term strategy; *and*
  - An index rate for 30-year tax-exempt municipal bonds rated AA or higher to the extent that the conditions in (a) above are not met

Current standards require the expected rate of return on plan investments be used to discount projected future benefit payments
The proposed ED will likely result in a lower discount rate for plans that are underfunded, thus increasing total pension liability

Discounting Future Benefit Payments to Present Value (continued)

- **To determine extent that projected plan net position is expected to be available for the payment of pension benefits, cash flows into and out of the plan will have to be projected for each future period comparing:**
  - The amount of benefit payments projected to occur in the period; and
  - The plan's projected net position:
    - Consider all employer contributions intended to fund benefits of current and former employees and all contributions from current employees based on current contribution policies
    - Consider projected investment earnings on projected plan net position
    - Consider projected benefit payments and administrative expenses
    - Do not consider employer contributions intended to fund service costs of future employees or contributions of future employees
- **Discount rate will be the single rate of return that when applied to all projected future benefits results in a present value equal to the aggregate present values calculated for each future period based on projected net position and projected benefits**

Discounting Future Benefit Payments to Present Value – Example Single Discount Rate Calculation (continued)

			Projected Benefit Payments		Present Value of Projected Benefit Payments		
Year	Projected Plan Net Position	Projected Benefit Payments	Funded Portion of Benefit Payments	Unfunded Portion of Benefit Payments	Present Value of Funded Benefit Payments	Present Value of Unfunded Benefit Payments	Present Value of Benefit Payments Using Single Discount Rate
(a)	(b)	(c)	(d)	(e)	(f) = (e) / (1+7.5%)	(g) = (e) / (1+4%)	(h) = (e) / (1+5.35%)
1	1,431,956	109,951	109,951		109,951		109,951
2	1,500,197	116,500	116,500		108,372		110,586
3	1,565,686	123,749	123,749		107,084		111,504
4	1,628,547	131,690	131,690		106,005		112,635
25	547,880	322,779	322,779		52,929		97,752
26	316,985	326,326	316,985	9,341	48,352	3,369	84,213
27	64,800	328,997		328,997		114,402	80,592
28	0	330,678		330,678		110,274	76,892
29	0	331,266		331,266		106,221	73,118
30	0	330,744		330,744		101,975	69,297
95	0	1		1			0
96	0	0					0
Total					2,315,885	1,679,188	3,995,073

Attributing the Present Value of Projected Future Benefit Payments to Past and Future Periods

- **The *Entry Age Normal* method would be the only allowable actuarial cost method and payments would be attributed solely based on a level percentage of payroll:**
  - This method is the most representative of pension benefits being earned over an employee's period of employment in amounts comparative to projected salaries over that period
  - Use of a single method improves the comparability of pension information across governments

Impact of this change is expected to be somewhat limited as the most common actuarial cost method of attribution currently is the Entry Age Normal method using a level percentage of payroll

Timing and Frequency of Measurement of Total Pension Liability

- **Measurement of the total pension liability should be determined as of the *employer's fiscal year-end* through:**
  - An actuarial valuation performed as of fiscal year-end; or
  - The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 24 months earlier than the employer's year-end
- **Proposal to have current measurement as of the employer's fiscal year-end is due to change from "funding" approach to "earnings" approach in determining financial statement liability:**
  - Would require measurement as of the year-end of each employer participating in a multiple-employer plan
- **An actuarial valuation of total pension liability should be performed at least biennially**
- **Use professional judgment in determining extent of update procedures when changes in plan occur between last valuation date and employer's fiscal year-end**
  - Consider whether new actuarial valuation is needed

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Plan Net Position

Total Pension Liability → Less: Plan Net Position → Equals: Net Pension Liability

- Plan net position should be measured at the *employer's fiscal year-end*:
  - Use same valuation methods as used for plan's GAAP financial reporting
  - If plan and employer year-ends are different, procedures to roll forward (or backward) the plan financial statement amounts to the employer's year-end will be required:
    - Would require measurement as of the year-end of each employer participating in a cost-sharing plan
    - Audit implications

Change from current standards that allow smoothing techniques for valuing assets resulting in an "actuarial value of plan assets"

Recognition of Changes in Total Pension Liability

Current period service cost

Interest on the beginning total pension liability

Changes of benefit terms

Effects of actuarial differences and changes in assumptions related to economic or demographic factors attributable to inactive/retired employees

↓

Immediately recognize (or recognize in the period of change) as pension expense

Effects of actuarial differences and changes in assumptions related to economic or demographic factors attributable to active employees

↓

Recognize as deferred outflow/inflow of resources and amortize over a closed period reflecting expected remaining service lives of active employees

Recognition of Changes in Plan Net Position

- ***Projected*** **earnings on plan investments for the period should be incorporated as a reduction of pension expense for the period**
- **Differences between actual and projected earnings on plan investments should be recognized as deferred outflows/inflows of resources:**
  - The difference for the reporting period is incorporated in the calculation of pension expense using a systematic and rational method over five years beginning with the year in which the difference occurred
- **All other changes in plan net position should be included in pension expense in the period of the change**

Participation in Cost-Sharing Multiple-Employer Plans

- **An employer's proportion of a cost-sharing multiple-employer plan should be:**
  - A measure of the employer's expected long-term contribution effort to the plan as compared to the total of all expected long-term contributions of the employers
  - Established at the actuarial valuation date and may be used to roll forward pension amounts to the employer's fiscal year-end assuming no significant changes the employer's expected proportion

- **Application of this proportionate share concept results in two types of potential changes in employer net pension liability unique to cost-sharing multiple-employer plans:**
  - Net effect of a change in the employer's proportion of the plan
  - Difference between actual employer contributions and the employer's proportionate share of collective employer contributions

Economic Conditions Reporting: Financial Projections

Overview

- **Project added to research agenda in April 2004**
- **Project added to current agenda in December 2009**
- **Objective of the project is to consider whether guidance or guidelines should be provided for additional information about economic condition, particularly financial projections, as part of general purpose external financial reporting**
- **Timeline:**
  - Preliminary Views issued December 2011
  - Exposure Draft expected Q1 2013
  - Final Standard expected Q4 2013

Key Preliminary Views

- **GASB believes decision-makers need information with which to assess a government's economic condition:**
  - Financial position
  - Fiscal capacity
  - Service capacity
- **Fiscal sustainability is:**
  - The forward-looking aspect of economic condition
  - Defined as 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

Key Preliminary Views

- **Preliminary view is that five components of information are necessary to assist users in assessing a government's fiscal sustainability:**
  - Projections of the 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
  - Projections of the 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
  - Projections of the 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
  - Projections of annual debt service payments (principal and interest)
  - Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies

Key Preliminary Views

- **All five components of fiscal sustainability should be provided as required supplementary information**
- **Present information for the primary government with net subtotals (inflows less outflows) for:**
    - General fund
    - Other governmental activities
    - Total governmental activities
    - Total business-type activities
    - Net total for primary government
- **Notes to RSI should be presented when one or more activities significantly affect fiscal sustainability**
- **A cautionary notice should precede the projections advising readers that actual results may vary from the projections due to inherent uncertainties**
- **Projections should be made for a minimum of 5 years beyond the current reporting period**

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Research Agenda Projects

- Electronic Financial Reporting
- Fiduciary Responsibilities
- GAAP Hierarchy
- Lease Accounting