

1 NEW DEVELOPMENTS

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INTRODUCTION

The 2013 Governmental GAAP Guide incorporates all of the pronouncements issued by the Governmental Accounting Standards Board (GASB) through November 2012. This chapter is designed to keep the reader up to date on all pronouncements recently issued by the GASB and their effective dates, as well as to report on the Exposure Drafts, Preliminary Views, and Invitations to Comment for proposed new statements or interpretations that are currently outstanding. This chapter also includes relevant information on the GASB's Technical Agenda for the upcoming year to give readers information as to potential areas for future GASB requirements.

RECENTLY ISSUED GASB STATEMENTS AND THEIR EFFECTIVE DATES

<u>GASB Statement</u>	<u>Effective Date</u>	<u>Where in this book</u>
57 <i>OPEB Measurements by Agency Employers and Agent Multiple-Employer Plans</i>	Periods beginning after 6/15/2011 (provisions related to the use and reporting of the alternative measurement method are effective immediately)	Chapter 17
58 <i>Accounting and Financial Reporting for Chapter 9 Bankruptcies</i>	Periods beginning after 6/15/2009	Chapter 15
59 <i>Financial Instruments Omnibus</i>	Periods beginning after June 30, 2010	Chapters 12, 13, 22

<u>GASB Statement</u>	<u>Effective Date</u>	<u>Where in this book</u>
60 <i>Accounting and Financial Reporting for Concession Agreements</i>	Periods beginning after December 15, 2011	Chapter 14
61 <i>The Financial Reporting Entity Omnibus—An Amendment of GASB Statements No. 14 and 34</i>	Periods beginning after June 15, 2012	Chapter 11
62 <i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</i>	Periods beginning after December 15, 2011	Chapter 2
63 <i>Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position</i>	Periods beginning after December 15, 2011	Chapter 9
64 <i>Derivative Instruments: Application of Hedge Accounting Termination Provisions—An Amendment of GASB Statement No. 53</i>	Periods beginning after June 15, 2011	Chapter 13
65 <i>Items Previously Reported as Assets and Liabilities</i>	Periods beginning after December 15, 2012	Chapter 9
66 <i>Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62</i>	Periods beginning after December 15, 2012	Chapters 2 and 21
67 <i>Financial Reporting for Pensions Plans—An Amendment of GASB Statement No. 25</i>	Periods beginning after June 15, 2013	Chapter 22
68 <i>Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27</i>	Periods beginning after June 15, 2014	Chapter 17

EXPOSURE DRAFTS

The GASB has a number of Exposure Drafts and Preliminary Views that it has issued which will affect future accounting and financial reporting requirements when final standards are developed. The following provides a brief synopsis of what is being covered by each Exposure Draft and Preliminary Views document. Readers should always be aware that the GASB often modifies proposal stage literature based upon its continuing deliberations and consideration of comments that it receives on each Exposure Draft and Preliminary Views Document.

Exposure Draft—*Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions*

In June 2012, the GASB issued this Exposure Draft to address certain reporting issues with certain guarantee transactions. Some governments guarantee financial obligations of other governments or nongovernmental entities in which equal value is not received in return for the guarantee—a nonexchange transaction. When a government extends a financial guarantee that is a nonexchange transaction, the government has agreed to indemnify a

third party if the entity that issued the guaranteed obligation does not fulfill its requirements under the obligation. Generally, these types of guarantees are extended by governments as part of their mission to assist other governments, nongovernmental entities, or individuals within the government's jurisdiction. Similarly, a government may receive a financial guarantee for an obligation it has issued in which equal value is not provided by the government in return. The Exposure Draft uses the example of a school district that receives a financial guarantee from the state for the district's debt service payments on construction bonds the school district has issued.

The Exposure Draft would establish accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a government. A financial guarantee extended that is a nonexchange transaction is a guarantee of an obligation of a legally separate entity that requires the guarantor to indemnify a third-party entity, the obligation holder, under specified conditions.

Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions

A standard resulting from the Exposure Draft would require that a government that has extended a nonexchange financial guarantee consider qualitative factors in assessing the likelihood that the government will make a payment in relation to the guarantee. Examples of such qualitative factors relevant to the entity that has issued the guaranteed obligation that are included in the Exposure Draft include, but are not limited to, the following:

1. Initiation of the process of entering into bankruptcy or a financial reorganization
2. Breach of a debt contract in relation to the guaranteed obligation, such as a failure to meet rate covenants, failure to meet coverage ratios, or default or delinquency in interest or principal payments
3. Indicators of significant financial difficulty, such as the failure to transfer deposits from debt service funds to paying agents or trustees; the draw on a debt service reserve fund; the initiation of the process by a creditor to intercept receipts to make a debt service payment; debt holder concessions; significant investment losses; loss of a major revenue source; significant increase in noncapital disbursements in relation to operating or current revenues; or commencement of financial supervision by another government.

The Exposure Draft notes that some governments extend similar nonexchange guarantees to more than one individual or entity. The Exposure Draft provides the example of a state government that guarantees debt issued for construction of capital assets for qualifying school districts within the state. When a government extends similar guarantees to a group, the government should consider applicable qualitative factors in relation to the issuers in the group or should consider relevant historical data to assess the likelihood that the

government will make a payment in relation to those guarantees. For example, a government that has historical data on the default frequency of a group of guarantees should consider that data in relation to its outstanding guarantees to assess the likelihood that it will make a payment on one or more of the guarantees within the group.

Recognition and Measurement in Economic Resources Financial Statements

When qualitative factors or historical data as discussed above indicate that it is more likely than not that a government will make a payment on nonexchange financial guarantees it extended, the government would recognize a liability and an expense in financial statements prepared using the economic resources measurement focus. The amount recognized should be the best estimate of the discounted present value of the future outflows expected to be incurred as a result of the guarantee. As used in the Exposure Draft, the term *more likely than not* means a likelihood of more than 50%. If there is no best estimate of the future outflows expected to be incurred, but a range of estimated future outflows can be established in which no amount within that range appears to be a better estimate than any other amount, the minimum amount in that range would be recognized.

Recognition and Measurement in Current Financial Resources Financial Statements

When qualitative factors or historical data as discussed above indicate that it is more likely than not that a government will make a payment on nonexchange financial guarantees it extended, the government would recognize a fund liability and an expenditure in financial statements prepared using the current financial resources measurement focus to the extent the liability is normally expected to be liquidated with expendable available financial resources. Liabilities for nonexchange financial guarantees extended are normally expected to be liquidated with expendable available financial resources when payments are due and payable on the guaranteed obligation.

Governments Receiving a Financial Guarantee

When a government is required to repay a guarantor for payments made on the government's obligations, the government would reclassify that portion of its liability for the guaranteed obligation as a liability to the guarantor. The government that issued the guaranteed obligation should continue to report the obligation as a liability until all or a portion of the liability is legally released, such as when a Plan of Adjustment is confirmed by the court in the case of bankruptcy. Interest expense/expenditures reported should be reduced by the interest-related payments made by the guarantor that are not required to be repaid.

When a government is legally released as an obligor from its own obligations and from any liability to the guarantor, the government would recognize revenue to the extent of the reduction of guaranteed liabilities.

Disclosures

The Exposure Draft includes a number of disclosure requirements.

A government that extends nonexchange financial guarantees should disclose the following information about the guarantees by type of guarantee:

1. A description of the obligations that are guaranteed identifying:
 - a. The legal authority and limits for providing financial guarantees
 - b. The relationship to the entity or entities issuing the obligations that are guaranteed
 - c. The length of time of the guarantees
 - d. A description of arrangements for recovering payments from the issuers of the obligations that are guaranteed
2. For guarantees extended that have been recognized as liabilities in the financial statements, a brief description of the timing of recognition and measurement of the liabilities and a table presenting the changes in recognized guarantee liabilities, including the following:
 - a. Beginning-of-year balances
 - b. Increases, including initial recognition and adjustments increasing estimates
 - c. Guarantee payments made and adjustments decreasing estimates
 - d. End-of-year balances
3. The amount of outstanding guarantees
4. For outstanding guarantees in which indemnification payments have been made:
 - a. Cumulative amounts that have been paid
 - b. Amounts expected to be recovered

A government that has outstanding obligations that have been guaranteed by another entity should disclose the following information about the guarantees by type of guarantee:

1. The name of the entity providing the guarantee
2. The amount of the guarantee
3. The length of time of the guarantee
4. The amount paid by the entity extending the guarantee on obligations of the government during the current reporting period
5. The cumulative amount paid by the entity extending the guarantee on outstanding obligations of the government
6. A description of requirements to repay the entity extending the guarantee
7. The amount required to repay the entity providing the guarantee

Effective Date and Transition

The Exposure Draft expects the provisions of a final statement to be effective for periods beginning after June 15, 2013, with earlier application encouraged.

Exposure Draft—*Government Combinations and Disposals of Government Operations*

In March 2012, the GASB issued an Exposure Draft to address accounting and financial reporting issues related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* refers to a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The final standard resulting from this Exposure Draft would provide guidance for identifying government combinations. The standard would require identification of whether a government combination is a *government merger* or a *government acquisition*. The distinction between a government merger and a government acquisition would be based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. The standard would require the use of carrying values to measure the assets and liabilities in a government merger.

Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. The standard would require measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values.

The standard also would provide accounting and financial reporting guidance for combinations that occur in the government environment that do not involve combinations of legally separate entities and in which no significant consideration is provided. These arrangements are combinations that include *transfers of operations* to continuing governments or that form the basis of new governments. The standard would define the term *operations* for purposes of determining the applicability of the standard, which would require the use of carrying values to measure the assets and liabilities in a transfer of operations.

Because disposals of a government's operations result in the removal of those specific activities of a government, the standard would provide accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

In addition, the standard would require disclosures to be made about government combination and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

Effective Date

The requirements of a standard resulting from this Exposure Draft are expected to be effective for financial statements for periods beginning after December 15, 2013, and would be applied on a prospective basis. Earlier application would be encouraged.

PRELIMINARY VIEWS

In June 2011 the GASB issued a Preliminary Views document entitled *Recognition of Elements of Financial Statements and Measurement Approaches*. This PV document would result in the issuance of a GASB Concepts Statements related to recognition of elements of financial statements and measurement approaches.

NOTE: Before the reader decides that this is only a Preliminary Views document and that it will “only” lead to a Concepts Statement and takes the potential impact lightly, be advised that the concepts being addressed are the basis of accounting and the measurement focus as they are applied to financial statements, which could ultimately have a profound impact on both fund and government-wide financial reporting, particularly for governmental funds, where the modified accrual basis and current financial resources measurement focus are under particular scrutiny.

The PV document presents the Board’s preliminary views on recognition of elements of financial statements and measurement approaches. The PV document states that recognition concepts encompass two aspects of state and local government financial statements. The measurement focus of a specific financial statement determines *what* items should be reported as elements of that financial statement. The related basis of accounting determines *when* those items should be reported. A measurement approach is a broad concept focusing on whether an asset or liability presented in a financial statement should be reported at an amount that reflects the value when the asset was acquired or the liability incurred or whether the asset or liability should be remeasured and reported at an amount that reflects the value at the date of the financial statements.

Recognition of Elements of Financial Statements

The PV document proposes a recognition framework for both the economic resources measurement focus and the near-term financial resources measurement focus. One component of this framework is that an item, on a conceptual basis, should be recognized, and therefore reported as an element of financial statements prepared using the economic resources measurement focus, if the item both meets the definition of an element and is measurable with a sufficient degree of reliability.

Because of various inconsistencies in the current financial resources measurement focus model, the framework being proposed would include a component that, on a conceptual basis, would replace that model with the near-term financial resources measurement focus, which recognizes balances from a near-term perspective and flows of financial resources for the reporting period. Near term refers to the period subsequent to the end of the reporting period during which financial resources at period-end can be converted to cash to satisfy obligations for spending for the reporting period. Consistent with the objective of developing a conceptually sound model, the near-term financial resources measurement focus is based on a symmetrical concept: assets include resources that are nor-

mally *receivable at period end and due* to convert to cash within the near term (as well as cash and financial resources that are available to be converted to cash within the near term) and liabilities include those normally *payable at period-end and due* within the near term.

Consistent with the concept of interperiod equity, another component of this proposed framework would include proposed concepts related to the recognition of deferred outflows of resources or deferred inflows of resources in financial statements prepared using the economic resources measurement focus when the following types of transactions occur:

- Outflows of resources that do not meet the definition of an asset and are inherently related to services that the government will provide in future periods.
- Inflows of resources that do not meet the definition of a liability and can only be used in the future.
- Inflows of resources related to items that were not previously recognized as assets in the financial statements (future resources).
- Outflows of resources and inflows of resources related to changes in the fair value of recognized assets and liabilities when the item is related to an outflow of resources or inflow of resources that will occur in the future.

The PV's proposed framework includes a component that, on a conceptual basis, would include recognizing deferred outflows of resources or deferred inflows of resources in financial statements prepared using the near-term financial resources measurement focus when the following transactions occur:

- Outflows of resources that do not meet the definition of an asset and are inherently related to future spending.
- Inflows of resources that do not meet the definition of a liability and can only be used for spending in the future.

Measurement Approaches

The PV document also proposed a framework for when each of two primary measurement approaches, on a conceptual basis, should be used. The primary measurement approaches defined in the PV are:

- ***Initial-Transaction-Date-Based Measurement (Initial Amount)***
The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount, such as through amortization or depreciation.

- ***Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)***

The amount assigned when an asset or liability is remeasured as of the financial statement date, including fair value; current acquisition, sales, and settlement price; replacement cost; and value-in-use.

One component of this proposed framework stated in the PV is that, on a conceptual basis, initial amounts would be the more appropriate measure for assets that are used directly in providing services. This component of the proposed framework was developed after evaluating the effects of each of the measurement approaches on the objectives of financial reporting and recognizing that neither primary measurement approach is best for all objectives. Use of initial amounts would provide better information about the cost of current year services. Use of remeasured amounts would provide better information about the remaining service potential of these assets. The PV is proposing that from a conceptual standpoint, the information about cost of services would have greater relevance for these assets because of the importance of providing information that can be used to assess interperiod equity.

Another component of the PV's proposed framework is that, on a conceptual basis, remeasured amounts would be the more appropriate measure for assets that will be converted to cash (for example, financial assets). The usefulness of financial assets is in their conversion to cash—whether that be through the sale of the asset or its collection in due course—which can then be used to acquire services or to meet existing obligations. A remeasured amount would be most relevant to the objective of assessing financial position and the ability to satisfy obligations as they become due because it presents financial assets using a consistent scale of measurement—that of values related to the date of the financial statements.

Another component of this proposed framework is that, on a conceptual basis, remeasured amounts would be the more appropriate measure for variable-payment liabilities, such as compensated absences. Remeasured amounts for these liabilities would be more relevant to all objectives of financial reporting because they are closer to the amount necessary to settle the liability than are initial amounts.

NOTE: As mentioned above, the impacts of a Concepts Statement that could result from this PV in its present form would conceivably affect many future GASB statements that would have to incorporate the concepts included in a Concepts Statement that might ultimately result from this PV. Given the broad range of areas—replacing the current financial resources measurement focus with the near-term financial resources measurement focus to examining what balance sheet items are better reported at cost or fair value, this is a project that preparers, users, and auditors of governmental financial statements need to carefully monitor.

In March 2012 the GASB issued a Preliminary Views Document titled *Economic Condition Reporting: Financial Projects*.

The GASB believes that decision makers need information with which to assess a government's *economic condition*—its financial position, fiscal capacity, and service capacity. Fiscal sustainability is the forward-looking aspect of economic condition. Fiscal sustainability is 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.

The Preliminary Views document lists five components of information that are necessary to assist users in assessing a governmental entity'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 postretirement 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

The Preliminary Views document provides that financial projections would be (1) based on current policy, (2) informed by historical information, and (3) 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. Inflows and outflows would be projected on a cash basis of accounting, and financial obligations would be projected on an accrual basis of accounting.

The assumptions employed in making projections would be based on relevant historical information, as well as events and conditions that have occurred and affect the projection periods. The assumptions would be (1) consistent with each other (where appropriate) and with the information used as the basis for the assumptions and (2) comprehensive by considering significant trends, events, and conditions. Disclosure of assumptions would be required. Further, annual financial projections would be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting.

The Preliminary Views document provides that all of the components of fiscal sustainability information are believed to be essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context and therefore

would be required and communicated as required supplementary information (RSI). All governmental entities would be required to report the components of fiscal sustainability information.

The components of fiscal sustainability information would be reported for the primary government, including both governmental activities and business-type activities with net subtotals (inflows less outflows) for the general fund, other governmental activities, total governmental activities, total business-type activities, and a net total for the entire primary government. Notes to RSI would be necessary in instances when one or more activities may significantly affect (positively or negatively) the fiscal sustainability of the primary government.

In addition, an individual cash inflow, cash outflow, and financial obligation of a governmental or business-type activity would be separately projected if it is considered major, meaning it represents at least 10% of total cash inflows, total cash outflows, or total financial obligations, respectively, for all activities of that type in any of the projection periods reported. All cash outlays for capital and capital-related cash inflows from bond proceeds, capital grants, or other sources restricted or committed to capital outlays would be considered major and reported separately. Any other cash inflow, cash outflow, or financial obligation may be reported as major if the government believes that information is particularly important to users when making an assessment of the primary government's economic condition, including fiscal sustainability. Determining which intergovernmental service interdependencies are major is a matter of professional judgment.

The Preliminary Views document notes that projections based on current policy do not represent a forecast or a prediction of the most likely outcome. Financial projections may be based upon assumptions regarding changes in social, economic, and demographic events and conditions that are inherently subject to uncertainties. Therefore, a cautionary notice would precede the displayed financial projections and related narrative discussions advising readers that actual results may vary from the financial projections reported.

OBSERVATION: This Preliminary Views document has received quite a bit of push-back from government financial statement preparers. The main objection is that the requirements for preparing the projections cannot assume that the government will make changes that will impact its future cash receipts or disbursements. This is in contrast to how governments actually budget, which takes such changes into consideration.

GASB PROJECT PLAN

The GASB has a number of important projects on its agenda that will likely affect governmental accounting and financial reporting in the future. Some of the more significant projects are as follows.

Postemployment Benefits Other Than Pensions (OPEBs). Earlier in this chapter, the GASB's Exposure Draft on employers' accounting for pensions is described. As that project progresses and moves toward conclusion, the GASB will turn its attention to address how and if the changes related to pension accounting should be applied to employers' accounting for OPEB benefits.

Fair Value Measurements. This is a project on the current agenda to further develop the definition of fair value, the methods used to measure fair value, and potential disclosures about fair value measurements. Fair value of investments is cited in the GASB Technical Plan as a specific issue to be reviewed, including fair values of alternative investments, such as private placements and hedge funds, real estate investment trusts, state land trusts, and partnership issues.

Electronic Financial Reporting. This research project is in response to the growing use of electronic media to deliver information to users. The project will determine whether the GASB needs to develop standards for financial reports intended for the use of electronic media.

Fiduciary Responsibilities. This is a research project to assess whether additional guidance should be developed regarding the application of the fiduciary responsibility criterion in deciding whether and how governments should report fiduciary activities in their financial reports.

GAAP Hierarchy. This research project would consider possible modifications to the GAAP hierarchy, as set forth in Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It would reexamine the hierarchy levels to assess whether the standards-setting process and the governmental financial reporting environment have sufficiently evolved since the establishment of the original hierarchy by the AICPA in 1992 to warrant reconsideration or reconfiguration of certain aspects of the structure.

Lease Accounting. This research project would reexamine issues associated with lease accounting, considering improvements to existing guidance. The research project would provide a basis for the GASB to consider whether operating leases meet the definitions of assets or liabilities.

Tax Abatement Disclosures. This research project would address the potential need for additional disclosures for governments that have granted tax abatements and subsidies.

SUMMARY

The GASB, as always, maintains an active agenda, and the accounting and financial reporting standards for governments are consistently evolving. Financial statement preparers need to keep an eye on emerging new GASB pronouncements to ensure that they have adequate time to plan for their implementation, as well as to inform financial statement users about their potential impacts.