State of North Carolina
Office of State Controller

Accounting Standards Update

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Gerry Boaz, CPA, CGFM

- Gerry has been with the Tennessee Comptroller of the Treasury, Division of State Audit, since January 1995. He is a Certified Public Accountant and a Certified Government Financial Manager (CGFM). He was a Legislative State Auditor for five years before becoming State Audit's Technical Manager. As the Technical Manager, he is primarily responsible for monitoring GASB, FASB, AICPA, OMB, and GAO accounting, auditing, and compliance standards relating to financial statement and financial-related audits. He reviews financial statement audits for adherence to the above principles and standards, as well as to AICPA auditing standards. He serves as a representative of the National Association of State Auditors, Comptrollers, and Treasurers (NASACT) by observing and writing an account of the Governmental Accounting Standards Board (GASB) meetings.
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- He served as a member of the Government Finance Officers Association's (GFOA) Committee on Accounting, Auditing, and Financial Reporting (CAAFR) for two three-year terms (2004-2009) and serves on the Special Review Committee for its certificate of achievement program. He represents State Audit on the National State Auditors Association's Single Audit Committee and Auditing Standards and Reporting Committee (ASRC). He is also an active member in the Association of Government Accountants (AGA). He was president of the Nashville AGA chapter for the 2006-07 program year. He currently is serving in his third year as the Chair of AGA's Professional Certification Board (PCB). He has been a member on the PCB since July 2007. He is also a 2011 alumni of the Tennessee Government Executive Institute.

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Jerry E. Durham, CPA, CGFM, CFE

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- *Jerry is an Assistant Director for the State of Tennessee, Comptroller of the Treasury, Division of Local Government Audit. The division has statutory responsibility for audits of local governments in Tennessee. A 29-year veteran of the division, Jerry has served as an auditor, audit supervisor, training instructor, technical manager, and assistant director. Jerry is a Certified Public Accountant (CPA), Certified Government Financial Manager (CGFM), and a Certified Fraud Examiner (CFE). In his role as assistant director, he is responsible for developing professional compliance procedures and monitoring the division's quality performance under GASB, AICPA, OMB, and GAO accounting and auditing standards. Jerry also has responsibility for the supervising the contract review process within the division. Most recently, Jerry assisted the division in implementing the new Clarity Standards. In addition, Jerry teaches training classes for the Tennessee Department of Audit (Yellow Book and Audit Findings) and has made training presentations for several other professional organizations including the Tennessee Society of Certified Public Accountants; Tennessee Government Finance Officers Association; National Association of State Auditors, Comptrollers and Treasurers; Association of Government Accountants; County Technical Assistance Service; Southeastern Intergovernmental Audit Forums, and various county official's associations. He has served the National State Auditors Association External Peer Review program as a reviewer, team leader, and concurring reviewer and serves on the Special Review Committee for GFOA's Certificate of Achievement for Excellence in Financial Reporting program. Jerry has also provided training for the New York City Comptroller's Office and state auditors in Kentucky, Minnesota, North Dakota, Idaho, and North Carolina. In addition to these duties, Jerry currently serves on the state's Interagency Cash Flow Committee which operates under the authority of the Tennessee State Funding Board.*
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- *Jerry was a partner in the accounting firm of Crosthwaite Durham and Associates. He also served as controller for Rural Healthcare of America, Inc., and taught accounting as a member of the adjunct faculty for Columbia State Community College and Austin Peay State University.*
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- *Jerry received his accounting degree from the University of Tennessee at Martin. He is a member of the American Institute of Certified Public Accountants (AICPA); the Association of Government Accountants (AGA) where he serves as chair of the CGFM committee for the Nashville chapter; the Tennessee Government Finance Officers Association (TGFOA) where he serves as state liaison to the Board of Directors; and the Association of Certified Fraud Examiners (ACFE). Jerry is also a graduate from the Tennessee Government Executive Institute (TGEI) which is a training program for government leaders through the University of Tennessee.*
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- *Jerry is married and has three children and two grandchildren.*
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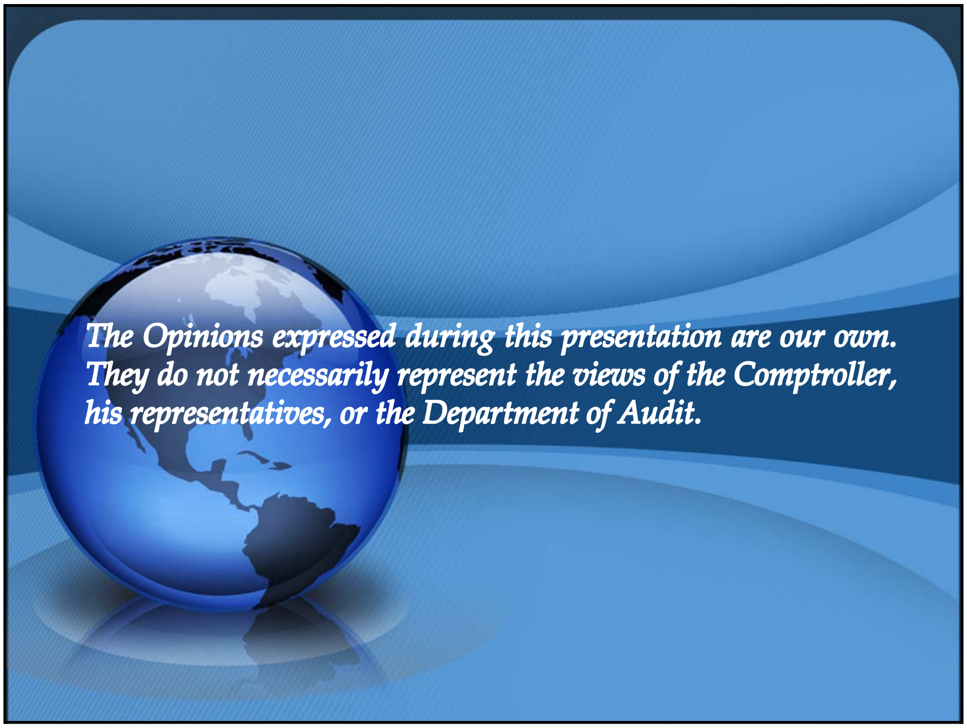
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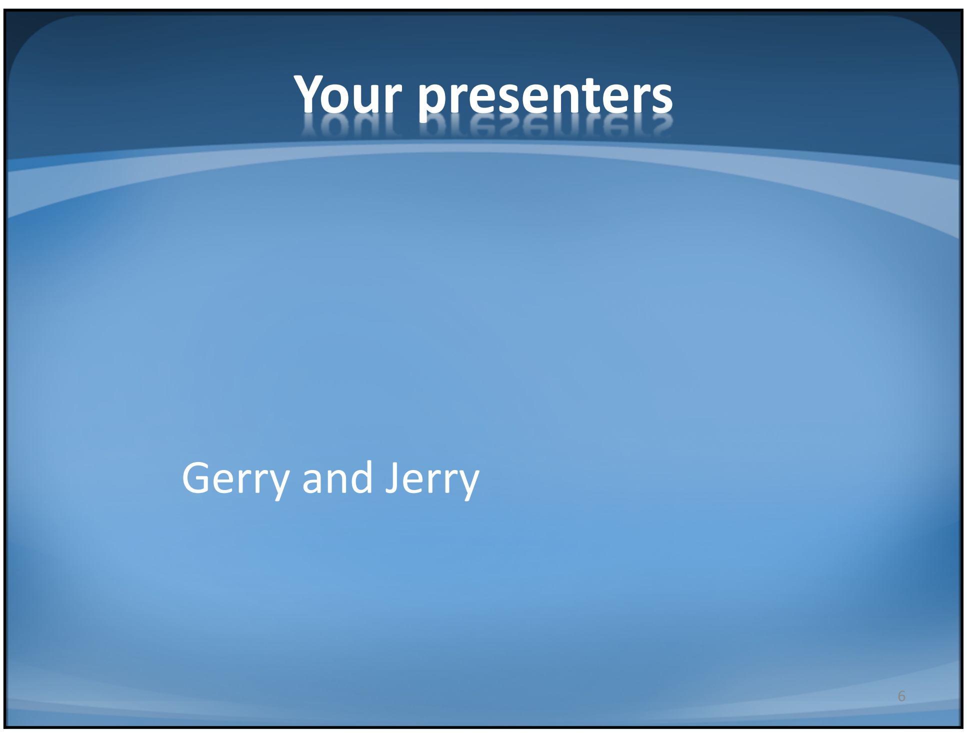
Your presenters
Gerry and Jerry
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Your presenters

- Two of the best singer songwriters ever to go into accounting!

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GASB Standards

- Effective for FYE 6/30/14:
  - GASB 65, Items Previously Reported as Assets and Liabilities
  - GASB 66, Technical Corrections
  - GASB 67, Financial Reporting for Pension Plans
  - GASB 70, Accounting and Reporting for Nonexchange Financial Guarantees
- Effective for FYE 6/30/15:
  - GASB 68, Accounting and Financial Reporting for Pensions
  - GASB 69, Government Combinations and Disposals of Government Operations
  - GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date

GASB Concept Statement # 4 and Beyond

GASB Concept Statement # 4

- Concepts Statements
  - GASB Currently has 6 Concept Statements
    - No. 1 Objectives of Financial Reporting
    - No. 2 Service Efforts and Accomplishments Reporting
    - No. 3 Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements
    - No. 4 Elements of Financial Statements
    - No. 5 Service Efforts and Accomplishments Reporting (an amendment of Concept Statement No. 2)
    - No. 6 Measurement of Elements of Financial Statements

GASB Concept Statement # 4

- Concepts Statements
  - Provide GASB with a framework to evaluate existing standards and for establishing future standards.
  - Helpful to accountants and auditors to know how GASB thinks.
  - Existing practice and pronouncements may be inconsistent with Concept Statements (they are)
  - No changes are required by Concept Statements (i.e non-authoritative as they relate to financial reporting)

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GASB Concept Statement # 4

- Concept Statement #4 identifies five elements of statements of **financial position**.
  - Assets
  - Liabilities
  - Deferred Outflows of Resources
  - Deferred Inflows of Resources
  - Net Position

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GASB Concept Statement # 4

- Concept Statement #4 also identifies two elements of **resources flows statements**.
  - Outflows of resources (expenses/expenditures)
  - Inflows of resources (revenues)
- The names of these elements are neutral with respect of measurement focus and do not necessarily reflect account titles that must be used in financial statements.

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GASB Concept Statement # 4

- Central to all the definitions is a “resource”.
  - Resource: An item that can be drawn on to provide services to the citizenry.

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GASB Concept Statement # 4

- Definitions
  - Asset = resources with present service capacity that the government presently controls.
  - 1980 GAAFR Definition
    - Resources owned or held by a government which have monetary value.

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GASB Concept Statement # 4

- Definitions
  - Liability = a present obligation to sacrifice resources that the government has little or no discretion to avoid
  - An Obligation is a social, legal, or moral requirement (i.e. duty, contract, promise that compels one to follow or avoid a particular course of action)
  - 1980 GAAFR Definition
    - Debt or other legal obligations arising out of transactions in the past which must be liquidated, renewed, or refunded at some future date.

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GASB Concept Statement # 4

- Definitions
  - Outflow of resources = a consumption of net assets (i.e. assets netted with liabilities) by the government that is applicable to the reporting period)
  - Consumption means a decrease in assets or increase in liabilities such that net assets is decreased
  - 1980 GAAFR Definition
    - Expenditure – Decreases in net financial resources.

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GASB Concept Statement # 4

- Definitions
  - Inflow of resources = an acquisition of net assets by the government that is applicable to the reporting period.
  - Applicable to the reporting period relates to the concept of Interperiod Equity
    - Interperiod Equity is the state in which current period inflows of resources equal current period costs of services (Paragraph 27)

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GASB Concept Statement # 4

- Definitions
  - Deferred Outflows of Resources = a consumption of net assets by the government that is applicable to a future period.
  - Deferred Inflow of Resources = an acquisition of net assets by the government that is applicable to a future reporting period.
  - Recognition of Deferred Outflows and Inflows should be limited to those instances identified by GASB in authoritative pronouncements.

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GASB Concept Statement # 4

- Definitions
  - Did you feel the ground shift just a little as we read the definitions of Deferred Outflows and Inflows?
  - Are Deferred Outflows (DR) and Inflows (CR) Assets or Liabilities???
  - Any balance that is not specifically defined by GASB as a Deferred Outflow or Inflow should be presented as we currently present deferred items. For example, prepaid rent (DR) or Grant Advances (CR)
  - **However, GASB suggests (Paragraph 59) that the caption "deferred revenue" would be best reserved for items that meet the definition of deferred inflows of resources.**

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GASB Concept Statement # 4

- GASB is, by Concept Statement #4 and other Proposed Concept Statements, – Changing the definitions of Assets, Liabilities, Inflows and Outflows, and the face of our Financial Statement Models, as well as our measurement focus for financial statements that are presented on the current financial resources measurement focus (Governmental Funds)

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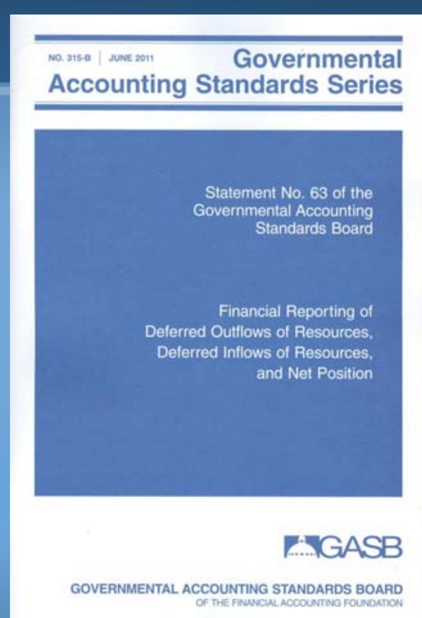
GASB Statement 63

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

Issued
June 2011

Effective for periods beginning after December 15, 2011


NO. 315-B | JUNE 2011

Governmental Accounting Standards Series

Statement No. 63 of the Governmental Accounting Standards Board

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

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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Statement of Net Position

Objectives of the project:

- ❑To operationalize the introduction of the deferred inflows of resources and deferred outflows of resources financial statement elements through display guidance
- ❑To consider the effects of these changes on other elements presented in the existing statement of net assets
- ❑Will determine what amendments, if any, should be made to the requirements of Statement No.34

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Background

- ➢Concepts Statement 4 identifies 5 elements that make up a statement of financial position:
  - -Assets
  - -Liabilities
  - -Deferred outflows of resources
  - -Deferred inflows of resources
  - -Net position
- ➢This differs from the composition currently required by Statement 34, which requires the presentation of assets, liabilities, and net assets in a statement of financial position
- ➢Statements 53 and 60 identify deferrals of resources

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Definitions

- **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, a positive effect on 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, a negative effect on net position, similar to liabilities

- **Net position**

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

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Provisions

- 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
  - -Restricted
  - -Unrestricted
- Allowed to report subtotals for:
  - Combination of assets and deferred outflows of resources, and
  - Combination of liabilities and deferred inflows

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Financial Statement Reporting Format

- Economic Resources Measurement Focus
  - 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
- Governmental Fund Financial Statements
  - Required reporting format is: assets + deferred outflows = liabilities + deferred inflows + fund balance

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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

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Financial Statement Items Renamed

Pre GASB 63	Post GASB 63
Statement of Net Assets	Statement of Net Position
Invested in Capital Assets, Net of Related Debt	Net Investment in Capital Assets
Statement of Revenues, Expenses, and Changes in Net Assets	Statement of Revenues, Expenses, and Changes in Net Position

Effective Date

- Effective for financial statements for periods beginning after December 15, 2011
- Earlier application is encouraged
- Accounting changes adopted to conform to the provisions of the Statement should be applied retroactively by reclassifying the statement of net position and balance sheet information, if practical, for all prior periods presented.
- In the period this statement is first applied, the financial statements should disclose the nature of any reclassification and its effect

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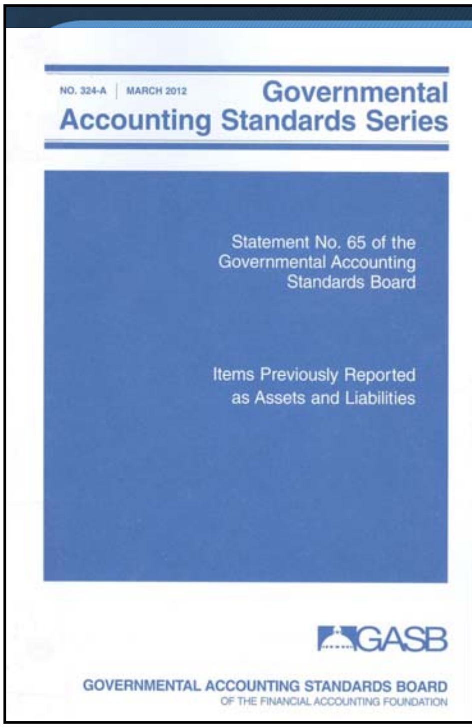

NO. 324-A | MARCH 2012

Governmental Accounting Standards Series

Statement No. 65 of the Governmental Accounting Standards Board

Items Previously Reported as Assets and Liabilities

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD OF THE FINANCIAL ACCOUNTING FOUNDATION

Statement 65

Items Previously Reported as Assets and Liabilities

Changes Considered

- Effect on assets
  - Continue to report as assets
  - Reclassify as deferred outflows
  - Treat as current period expenditure/expense
- Effect on liabilities
  - Continue to report as liabilities
  - Reclassify as deferred inflows
  - Treat as inflow of current period

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Reclassify as deferred inflows

- Advance of revenue from imposed nonexchange transaction
- Grants received in advance of meeting timing requirement
- Deferred amounts from refunding of debt (credits)
- Proceeds from sale of future revenues
- "Regulatory" credits

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Reclassify as deferred inflows
[continued]

- Deferred gain from sale-leaseback
- "Unavailable" revenue related to the application of modified accrual accounting
- Loan origination fees (excluding points) for mortgage loans held for resale prior to sale

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Reclassify as deferred inflows
[continued]

- Loan origination fees for points for lending activities and mortgage loans held for investment
- Resources generated by current rates intended to recover costs that are expected to be incurred in the future (regulated industries)
- Gains or other reductions of net allowable costs intended to reduce rates over future periods (regulated industries)

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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)
- Loss from sale-leaseback

Outflows of Resources

- Debt issuance costs (other than insurance)
- Initial costs incurred by lessor in an operating lease
- Acquisition costs for risk pools
- Loan origination costs

Treat as current inflows

- Loan origination fees (excluding points) related to lending activities
- Commitment fees realized upon exercise or expiration of commitment
- Commitment fees charged (with obligation to make or acquire a loan or to satisfy an obligation when exercise is considered remote)

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Treat as current inflows [continued]

- Fees received for purchased loans
- Loan origination fees (excluding points) for mortgage loans held as investments
- Loan origination fees (including points) for mortgage loans held for resale after sale

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Treat as current inflows [continued]

- Fees realized after the funding of mortgage loans has occurred or after commitment to guarantee the funding of mortgage loans expires
- Fees realized when a commitment is arranged directly between a permanent investor and a borrower

Continue to report as assets

- Prepayments
- Capitalized incurred costs for regulated activities
- Net pension plan position in excess of employer's total liability
- Cable TV initial subscriber installation costs

Continue to report as liabilities

[continued]

- Commitment fees (with the obligation to make or acquire a loan)
- Fees to guarantee funding of mortgage loans
- Fees to arrange commitment directly between permanent investor and borrower
- Refunds imposed by a regulator

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Continue to report as liabilities

- In General, any payment received in advance that would have to be refunded to a customer if service was not performed, is a liability.

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Other Items

- Criteria for determining major funds will include deferred items
- Use of the term “deferred” limited to deferred outflows and deferred inflows

- Which of the following could properly be described as deferred revenue ?
- A. Unearned rental income
- B. Advance related to an expenditure-driven grant
- C. Property taxes collected in advance of year being
- funded
- D. All of the above
- E. None of the above

- How should bond issuance costs be
- classified?
- A. Asset
- B. Outflow of resources
- C. Either A or B

- If a fund is legally designated as a special revenue fund, but must be reported as part of the general fund pursuant to GAAP, how should its budgetary comparison be presented?
- A. Integral part of general fund budget
- B. Treated as special revenue fund in combining
- and individual fund statements
- C. No budgetary comparison required

- Questions?

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GASB 66, *Technical Corrections – 2012—an amendment of GASB Statements No. 10 and No. 62*

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Objective of this project

- Resolve conflicting accounting and financial reporting guidance that resulted from the issuance of GASB 54 and GASB 62 impacting:
- GASBs 10, 13, and 48.
- Effective for periods beginning after December 15, 2012.
- Early application is encouraged.

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GASB 10 Amendments

- Removes the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type.
- As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in GASB 54 and GASB 34.

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Provisions of GASB 62

- Deletes requirement in GASB 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.

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Provisions of GASB 62 (cont.)

- 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, and
  - Guidance for adjustments to a sales price of a mortgage loan when the stated service fee rate differs from the current (normal) servicing fee rate. The deleted language conflicts with provisions in GASB 48.

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GASB 69
Government Combinations and Disposals of Government Operations

Effective Date
July 1, 2014 to June 30, 2015
Earlier Application is Encouraged

GASB Statement 69

Government Combinations and Disposals of Government Operations

Project Objectives

- Consider the financial reporting requirements for government combinations that are accomplished through mergers, acquisitions, and transfers of operations
  - Addresses government's unique conditions and circumstances
- Analysis of government combinations that have taken place in both the general government area (ex. city/county consolidations), and the business type activities area (ex. healthcare organizations)
- Address certain spin-off issues (ex. A library district that was formerly a department in a primary government) – a transfer of operations

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Existing Guidance

- Accounting Principles Board (APB) Opinion No. 16, *Business Combinations*
  - This guidance was never intended for the public sector and its application to the public sector has proven to often be problematic.
  - Addresses conditions and circumstances that are not normally encountered in government combinations
- Because this separate project was on the Board's agenda, did not incorporate into Statement 62

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Scope

- Combinations in which NO consideration is provided
  - Government mergers
  - Transfers of operations
- Combinations in which consideration is provided
  - Government acquisitions
- Disposals of government operations

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Government Combinations

- To be considered a government combination, the arrangement should result in the **continuation of a substantial portion of the services provided** by the previously separate entities or their operations after the transaction has occurred.
  - Terms of arrangement usually establish whether service continuation was intended
  - If not, professional judgment should be used
- This distinguishes a combination from a contribution or purchase of assets and related liabilities

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Overall Approach

- The requirements distinguish between government combinations that involve significant (or lack) of financial consideration
  - **Government merger—**combinations of legally separate entities *without* the exchange of significant consideration
  - **Government acquisitions**—transactions in which a government acquires another entity, or its operations, in exchange for the payment of significant consideration
- Combinations not involving entire legally separate entities and in which no significant consideration is exchanged (shared service arrangements, reorganizations, redistricting, annexations, arrangements where an operation is transferred to a new government created to provide those services) – **transfer of operations**

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Government Mergers

- Government combination of legally separate entities in which insignificant or no financial consideration is exchanged and which includes one of the following:
- An entirely new government is formed (A+B=C) OR
  - 2 or more governments (or one or more governments and one or more nongovernmental entities) cease to exist as legally separate entities and are combined to form one or more new governments
    - Merger date is the date the combination becomes effective
    - Initial reporting period of the new government begins on the merger date
    - The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities would be recognized and measured in the statement of net position at their "carrying value" as of the merger date

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Government Mergers

- If the merging entities decide before the merger date to dispose of capital assets and the new government will use those capital assets until the disposal occurs
  - Capital assets should be measured and reported at their carrying values by the new government
- If the new government will not use the capital assets that have been identified for disposal or if the merging entities decide before the merger date that the manner or duration of use of capital assets will change
  - Capital assets should be evaluated for impairment in accordance with provisions of Statement 42, as amended to determine if the carrying values should be adjusted

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Government Mergers

- A single continuing government remains (A+B=B+)
  - 1 or more legally separate governments or nongovernmental entities cease to exist and their operations are absorbed into, and provided by, one or more continuing governments
    - Merger date is the beginning of the reporting period in which the combination occurs, (as though the entities were already combined as of that date) regardless of the actual date of the merger
    - The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities would be measured in the statement of net position at their "carrying value" as of the merger date

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Government Mergers

- If the merging entities decide before the actual date of the merger to dispose of capital assets of the dissolving government but the continuing government will use those capital assets until the disposal occurs
  - Capital assets should be measured and reported at their carrying values by the continuing government
- If the continuing government plans to dispose of the capital assets that it will not use or if decisions are made before the actual date of the merger that the manner or duration of use of specific capital assets of the dissolving government will change
  - Capital assets should be evaluated for impairment in accordance with provisions of Statement 42, as amended

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Government Acquisitions

- Acquisition date is the date the acquiring government obtains control of the acquired entity's assets or becomes obligated for its liabilities or its operations (typically when consideration is paid)
- Assets and liabilities normally would be recorded at their acquisition value as of the acquisition date – price that would be paid for acquiring similar assets, having similar service capacity, or discharging the liabilities assumed as of the acquisition date
- Deferred outflows of resources and deferred inflows of resources should be brought forward at their carrying values

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Government Acquisitions

- Consideration Given:
  - If exceeds the net position acquired, the difference would be treated as a deferred outflow of resources
    - Attributed to future periods in a systematic and rational manner, based on professional judgment
  - If net position exceeds the consideration given
    - Considered a contribution – if the seller accepted the lower amount for the purpose of providing an economic benefit to the acquiring government
      - If not – the difference would be eliminated by reducing the acquisition values assigned to noncurrent assets (other than investments reported at fair value).
      - If the difference exceeded the acquisition value of all noncurrent assets (other than investments reported at fair value), the remainder would be treated as a special item in the flows statement.

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Transfers of Operation

- Government combination involving the operations of a government or nongovernmental entity, rather than a combination of legally separate entities, and in which no significant consideration is exchanged.
  - Operation-an integrated set of activities with associated assets and liabilities that is conducted and managed for the purpose of providing identifiable services.

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Transfers of Operations

- Entered into for similar reasons as government mergers
- Transfer date is the date the transferee government obtains control of the acquired operation's assets or becomes obligated for its liabilities.
  - If the transfer of operations results in the formation of a new government – the new government's initial reporting period begins at the effective transfer date
  - If the transfer of operations results in a continuing government – the continuing government should report the transfer as a transaction in the financial statements for the reporting period in which it occurs

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Transfers of Operations

- Assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the transferred operation would be incorporated at their carrying value as of the effective transfer date

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Disposals of Government Operations

- The disposing government would report a special item for any gain or loss on the disposal of operations in the period in which the disposal occurs, based on either
  - Effective transfer date of the transfer of operations, or
  - The date of sale for operations that are sold

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Disclosures

- The following disclosures are required for all government combinations:
  - Brief description of the combination that
    - Identifies the entities involved and the primary reasons for the combination
    - Mentions whether the entities combined were part of the same financial reporting entity
    - Discloses the date of the combination
- Additional disclosures for
    - Mergers and transfers of operations
    - Acquisitions
    - Disposals of Operations

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Effective Date and Transition

- Effective for financial statements for periods beginning after December 15, 2013
- Applied prospectively
- Earlier application is encouraged

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- Which of the following would qualify as a
- government combination ?
- A. Merger
- B. Acquisition
- C. Transfer of operations
- D. All of the above
- E. Both A and B

- A government combination always involves
- A. At least one entity losing its separate legal identity
- B. The creation of a new legal entity
- C. Both A and B
- D. None of the above

- Which of the following always involves the
- exchange of significant consideration?
- A. Merger
- B. Acquisition
- C. Transfer of operations
- D. All of the above
- E. Both A and B

- Which of the following is a precondition for a
- transfer of operations?
- A. The operation must provide identifiable services
- with associated assets or liabilities
- B. The transferred operation must continue to provide
- the same services
- C. There must be a significant exchange of
- consideration
- D. All of the above
- E. Both A and B

- If a merged entity is absorbed into a ontinuing
- government, when does reporting begin?
- A. As of the merger date
- B. As of the start of the merging government's fiscal
- period
- C. Either A or B

- An entity obtains a capital asset through a merger. It intends to dispose of the asset eventually, but meanwhile plans to use it. When would the entity need to assess whether a capital asset impairment had occurred?
- A. When the capital asset is first obtained
- B. At the time of disposal

- In an acquisition, how should financial statement elements be measured?
- A. Fair value
- B. Acquisition value
- C. Disposal value
- D. Either A or B

- Acquisition value is based on
- A. Historical entry price
- B. Historical exit price
- C. Market-based entry price
- D. Market-based exit price

- Deferred outflows/inflows of resources in a
- merger are
- A. Always reported at carrying value
- B. Normally reported at carrying value
- C. Sometimes reported at carrying value
- D. Never reported at carrying value

- Consideration includes
- A. Assets remitted
- B. Liabilities incurred
- C. Both A and B

- In an acquisition, how should a disparity between the amount of consideration given and the net position acquired be treated?
- A. Deferred outflow of resources
- B. Contribution
- C. Reduction in amount reported for noncurrent
- assets
- D. Special item
- E. All of the above

- Acquisitions within the financial reporting entity may involve some assets being reported at carrying value rather than at acquisition value.
- A. True
- B. False

Government dissolution (Z.69.1)

- Situation
- ◦ Government dissolves
- ◦ Operations form basis for new government
- ◦ No significant consideration
- ▯ Question
- ◦ Treatment?
- ▯ Answer
- ◦ Transfer of operations
- ▯ Not a merger because only one existing entity is
- involved
- ▯ Transferor government does not have to continue to
- exist

Merger impairment (Z.69.2)

- Situation
- ◦ Township merges into village
- ◦ Some capital assets of township will not be used by
- village
- ▯ Question
- ◦ How to report impairment?
- ▯ Answer
- ◦ Disclosure only
- ▯ Carrying value prior to merger
- ▯ Impairment adjustment
- ▯ Explanation

- Questions??

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GASB 70
Accounting and Financial Reporting for Nonexchange Financial Guarantees

Effective Date
July 1, 2013 to June 30, 2014
Earlier Application is Encouraged

GASB 70, Nonexchange Financial Guarantees

- "Nonexchange" Transaction
  - A transaction where one party to the transaction does not receive equal or approximately equal value in exchange.
- Financial Guarantee
  - A government guarantees the obligations of another government. The Guarantor government commits to indemnify the holder of the obligation if the Debtor government does not fulfill its payment requirements. No cash at origination.

GASB 70, Nonexchange Financial Guarantees

- Guarantee for Legally Separate Entity
- Includes:
  - Discretely Presented Component Units
  - Blended Component Units
  - And Individuals

GASB 70, Nonexchange Financial Guarantees

- Liability
  - Record a liability when the Guarantor Government determines that **"more likely than not"** a payment under the Financial Guarantee Contract will be made.
  - **"More likely than not" = greater than 50% (i.e. 51%).**
  - "More likely than not" is more than **probable** which is defined as "likely to occur". **Significantly greater than 50%**. (GASB 62)

GASB 70, Nonexchange Financial Guarantees

- Qualitative Liability Recognition Factors:
  - Initiation of Bankruptcy or Financial Reorganization Proceedings
  - Breach of debt contract - default or delinquency in making debt payments, failure to meet covenants, etc.
  - Indicators of significant financial difficulty (cont'd)

GASB 70, Nonexchange Financial Guarantees

- Qualitative Liability Recognition Factors:
  - Significant Financial Difficulty (cont'd)
    - Failure to make payments to paying agents or trustees on a timely basis
    - Drawing on a reserve fund to make payments
    - Intercepting receipts to make payments
    - Debt holder concessions
    - Significant investment losses
    - Loss of a major revenue source
    - Increase in operating expenidtures
    - Supervision by another government

GASB 70, Nonexchange Financial Guarantees

- Economic Resources Measurement Focus:
  - Record Expense and Fund Liability
  - Discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee, **or**
  - If that estimate is not possible, and a range of future outflows can be established, use the best estimate within the range **or** the minimum amount in that range.

GASB 70, Nonexchange Financial Guarantees

- Current Financial Resources Measurement Focus:
  - Record Expenditure and Liability
  - To the extent the liability is normally expected to be liquidated with expendable available financial resources.
  - Payments are due and payable.

GASB 70, Nonexchange Financial Guarantees

- The Debtor government may be required by contract to repay the Guarantor government for payments under the guarantee.
  - Reclassify the debt payments made by the guarantor as a liability due to the Guarantor.
  - The liability should continue to be recognized until legally released such as in bankruptcy court, then the Debtor government should recognize a **revenue** when the liability is written-off.

GASB 70, Nonexchange Financial Guarantees

- A **receivable** should be recognized by the Debtor government when a liability has been recognized by the Guarantor government if the Guarantor government is one of the following:
  - A Blended component unit of the government.

GASB 70, Nonexchange Financial Guarantees

- A **receivable** should be recognized if (continued):
  - A primary government that includes the government that extended the guarantee as a blended component unit within its reporting entity.
  - Within the same reporting entity and both parties are blended component units of the same primary government.

GASB 70, Nonexchange Financial Guarantees

- A **receivable** should be recognized if (continued):
  - **Otherwise a decrease in Net Position would occur because two liabilities would be presented for the same (i.e. related) obligation.**

GASB 70, Nonexchange Financial Guarantees

- Disclosures:
  - Disclosures for the government that extends nonexchange financial guarantees.
  - Disclosures for the government that has recognized a nonexchange financial guarantee liability or made payments.
  - Disclosures for the government that has received the nonexchange financial guarantees.
  - Disclosures for the government that has received payments under a financial guarantee and the guaranteed obligation is no longer outstanding.

GASB 70, Nonexchange Financial Guarantees

- Transactions that <u>do not</u> constitute a financial guarantee:
  - Pledges of Revenue (GASB 48)
  - Joint-and-Several Obligations
  - Obligations that are not legal obligations
  - Exchange or Exchange-like transactions

GASB 70, Nonexchange Financial Guarantees

- Jerry's believe it or not!
  - Assume the Guarantor government has made payments under a financial guarantee?
  - Assume the Guarantor government expects to receive repayment of some or all of the payments made under the guarantee.
  - Should the Guarantor government record a receivable. (Guidance is included in GASB 62, paragraph 112 for gain contingencies.)
    - No. Note disclosure only. Conservative approach.

GASB 70, Nonexchange Financial Guarantees

- Jerry's believe it or not!
  - Assume the Guarantor government and has groups of similar guarantees?
  - Student loan guarantees, or perhaps housing loans.
  - The Guarantor has determined a historical rate of failure for these types of loan guarantees. In other words, the historical rate is "more likely than not" to remain accurate and occur.
  - Should a liability should be recorded.
    - Yes.

GASB 70, Nonexchange Financial Guarantees

- Jerry's believe it or not!
  - There was one dissenting GASB Board member.
  - She believed that "Probable" (i.e. more than likely) was adequate for this standard.
  - She disagreed with adding another level or probability under the "more likely than not" category.

- At a minimum, a financial guarantee involves
- how many parties?
- A. Two
- B. Three
- C. Four

- Guarantors should recognize a liability when
- the likelihood of making payments is
- A. Reasonably possible
- B. More likely than not
- C. Probable

- When should an issuer cease to report a guaranteed obligation?
- A. When it is probable that payments will be made
- by the guarantor
- B. When it is more likely than not that payments will
- be made by the guarantor
- C. When the issuer is legally released as an obligor
- by the guarantor
- D. None of the above

- When should a guarantor report an expenditure
- for a guarantee in a governmental fund?
- A. When it is probable that payments will be made
- by the guarantor
- B. When it is more likely than not that payments will
- be made by the guarantor
- C. When the issuer is legally released as an obligor
- by the guarantor
- D. None of the above

- If a guarantor reports a liability because payment is considered to be more likely than not, the issuer should
- A. Always recognize a receivable
- B. Sometimes recognize a receivable
- C. Never recognize a receivable

- How should an issuer report its legal release
- as an obligor on guaranteed debt?
- A. Reclassification
- B. Revenue
- C. Either A or B

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•GASB Technical Agenda

GASB Due Process

- Conceptual Framework – Measurement
- Fair Value Measurement and Application
- GAAP Heirarchy
- OPEB

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GASB Technical Agenda

- Economic Condition Reporting: Financial Projections
- Fiduciary Responsibilities
- Leases
- Asset Retirement Obligations
- Blending Requirements for Certain BTAs
- Financial Reporting Model Reexamination
- Irrevocable Charitable Trusts

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