American Association of Port Authorities – 2008 Port Finance Seminar
GASB Update

Jim Lanzarotta
Moss Adams LLP
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What we will cover

- Recent activities of the AICPA SLG Expert Panel
- Review of implementation dates for new GASBs
- Review applicability of FASB standards
- Review certain new GASBs
- Review other current GASB projects

Current Topics addressed by the SLGEP

- ASB task force working on SI/RSI audit standard
  - GASB wants auditor report modifications in cases RSI has significant errors/omissions
- Discussed A&A implications of sub-prime mortgage issue
  - AICPA A&A guidance just issued
- Watching developments in Texas, Connecticut, potential other states – that are not wanting to follow GAAP for OPEB or other issues
- Task force responding to GASB ED on Fund Balance reporting
- Task force has been working on revisions to the AICPA SLG A&A Guide
- Previously responded on the Derivatives ITC
- Previously responded to the ED on Intangible Assets

Where Are We Now?

Effective Dates—December 31

- December 31, 2007
  - Statement 34—Retroactive infrastructure—Phase II
  - Statement 43—Phase II
  - Statement 45—Phase I
  - Statement 48
- December 31, 2008
  - Statement 43—Phase III
  - Statement 45—Phase II
  - Statement 49
- December 31, 2009
  - Statement 45—Phase III
  - Statement 52
- December 31, 2010
  - Statement 51

Effective Dates—June 30

- June 30, 2008
  - Statement 43—Phase II
  - Statement 45—Phase I
  - Statement 48
  - Statement 50
- June 30, 2009
  - Statement 43—Phase III
  - Statement 45—Phase II
  - Statement 49
  - Statement 52
- June 30, 2010
  - Statement 45—Phase III
  - Statement 51

How many of you follow post 1989 FASBs?

FASB Pronouncements—Applicability under GASB Statement 20, paragraph 7

- GASB Website – Technical Issues, GASB 20 Guidance
  - http://www.gasb.org/tech/index.html
  - FASB exhibit

Statement 49

Accounting and Financial Reporting for Pollution Remediation Obligations

Recognition Threshold

- Determine whether one of more components of a pollution remediation obligation are recognizable as a liability when . . .
  - Government knows or reasonably believes that a site is polluted, and
  - Obligating event occurs (the criteria effectively serve as a safe harbor)

Obligating Events

a. Compelled to take remediation action because of pollution-caused imminent endangerment
b. Violate pollution-prevention permit—for example, RCRA permit
c. Named, or evidence indicates government will be named, as responsible party or potential responsible party for remediation (or cost sharing)

Obligating Events

d. Named, or evidence indicates government will be named, in lawsuit to participate in remediation
   - Excludes lawsuits having no merit (and legal precedent supports that assertion)

e. Government commences, or legally obligates self to commence
   - Limited to portion legally required to complete

Recognition Overview

- Component recognition approach
- Cost accumulation, not fair value
- Current value, not present value
- Expected cash flow technique

Two Contingencies— Expected Cash Flow (Liability = $160)

Permutations of Potential Payments			Joint Probabilities
Contingency 1	Contingency 2	Total	
$0	$0	$0	36%
$0	$200	$200	24%
$200	$0	$200	24%
$200	$200	$400	16%

Capitalization Permitted in Limited Circumstances

a. Cleanup to prepare property for sale (limited to fair value)
b. Polluted property bought and cleaned for use (limited)
c. Asset impaired and cleanup restores lost service utility (limited)
d. Acquired capital assets have future alternative use. For example, land (limited to future service utility)

For a. & b.—capitalize only if incurred within reasonable period

Expected Recoveries

- Two types
  - Payments expected from other Potential Responsible Parties (PRPs)
  - Expected insurance recoveries
- Measurement—based on expected cash flows and current value

Expected Recoveries

- Reduce expense (and expenditure, if available) and . . .
- If not realized or realizable—
  - Net against remediation liabilities
- When realized or realizable
  - Accrete liability and report separate recovery assets (cash or receivable)

Annual Adjustment

- Adjust liability annually for changes
  - Inflation or deflation
  - Price increases/decreases for specific cost elements
  - Changes in technology
  - Changes in laws or regulations
- Same approach used in Statement 18

Disclosures

- For recognized liabilities and recoveries
  - Nature and source of the pollution remediation obligation—for example, federal or state law
  - Liability, if not apparent on statement
  - Methods and assumptions
  - Potential for change in estimate
  - Estimated recoveries reducing the liability

Disclosures

- For liabilities (or portions thereof) not yet recognized because not reasonably estimable
  - General description of nature of the pollution remediation obligation
  - Supersedes FASB Statement 5 disclosure of "reasonably possible"

Effective Date

- Fiscal periods beginning after December 15, 2007

Other Postemployment Benefits

What Are the Big Issues?

What Is the Substantive Plan?

- Benefits should be projected based on:
  - The current substantive plan (the plan as understood by the employer and plan members), including changes made and communicated to plan members, at the time of the actuarial valuation, and (or including)
  - The historical pattern of sharing of costs between employer and plan members to that point
- Anticipated future changes in plan design should not be included in the projection of benefits
- A legal or contractual benefit cap (as distinguished from a cap on contributions), should be considered in the projection of benefits if the cap is deemed effective

What Is The Required Frequency of Actuarial Valuations?

- Total plan membership (active, terminated/eligible, and retired and currently receiving benefits)
  - 200 or more - at least biennially
  - less than 200 – at least triennially

- An AV should be obtained ahead of schedule if significant changes have occurred since the previous AV that affect the results—for example, significant:
  - Changes in benefit terms
  - Changes in size or composition of plan membership
  - Other changes that affect long-term actuarial assumptions

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Why Are Implicit Rate Subsidies So Important?

- When current employees and retirees are in the same group—costs for retirees generally are significantly higher
- Therefore, retirees that pay for the cost of healthcare benefits through a blended (with current employees) premium may not be actually paying the actual costs of their benefits

Calculation of Implicit Rate Subsidy

	Age-adjusted premium	Common premium	Difference
Active Employees	$1000 per month	$1200 per month	$1000 - $1200 = $200 extra per month
Retired Employees	$1500 per month	$1200 per month	$1500 - $1200 = $300 less per month

Selection of Actuarial Assumptions

- The discount rate
- Actuarial cost method
  - entry age
  - attained age
  - unit credit
  - frozen entry age
  - frozen attained age
  - aggregate
- Healthcare trend rate
- Amortization period for UAL

Annual OPEB Cost

- Is an accrual-basis measure of the periodic cost to the employer of providing defined-benefit OPEB
- Is derived from the ARC (with required adjustments in some circumstances)
- Is the amount recognized as OPEB expense for the period in financial statements prepared on the accrual basis of accounting, regardless of the amount paid

Debits and Credits

- The cumulative difference between amounts expensed and actual contributions made will create a financial-statement liability (or asset) called the net OPEB obligation (or net OPEB asset)

When Has an Employer Contributed to an OPEB Plan?

For accounting purposes, an employer is deemed to have contributed to an OPEB plan *if, and only if,* the employer:

- Made direct payments of benefits,
- Paid insurance premiums, *or*
- (a) **Irrevocably transferred assets** to a (b) **qualifying trust, or equivalent arrangement*** in which the (c) **assets are dedicated to payment of plan benefits** as they come due in the future and are (d) **protected from creditors** of the employer(s) and the plan administrator

* That is, effectively, to a trusteed entity legally separate from the employer(s)—which could include either a situation in which plan assets are held and administered in trust by the employer and included in the employer's CAFR or a situation in which the plan assets are held and administered in trust by another entity

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Note Disclosures and RSI

Funded Status
Employer Contribution Effort

Note Disclosure - Highlights

- Description of plan
- Assumptions used
- Required disclosure of funded status as of the most recent actuarial valuation (same elements of information required as RSI in Schedule of Funding Progress)
- Linking language to RSI

Funding Progress Schedule

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
6/30/X0	$202,060	$1,883,350	$1,681,290	10.73%	4,789,238	35.11%
6/30/X1	298,400	2,445,810	2,147,410	12.20	4,774,084	44.98
6/30/X2	361,790	2,744,210	2,382,420	13.18	4,632,086	51.43

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/X0	$929,401	100%	$0
6/30/X1	910,042	100	0
6/30/X2	870,517	100	0

Effective Dates

- Staggered implementation based on a government's phase for implementing Statement 34
- For a Phase 1 government (more than $100 million total revenue as defined in Statement 34):
  - Statement 45 will be effective for the employer's fiscal year ending December 31, 2007
  - Statement 43 will be effective for a plan that includes a Phase 1 employer for the plan's fiscal year ending December 31, 2006
- Earlier implementation is encouraged
- Employers may apply the measurement requirements of Statement 45 prospectively—that is, the employer may report zero beginning net OPEB obligation as of the beginning of the year in which it implements Statement 45

Statement 48

Sales and Pledges of Receivables and Future Revenues

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Scope

- Government receives proceeds in exchange for the rights to future cash flows from:
  - Receivables:
    - Delinquent property taxes
    - Uncollected fines
    - Mortgages
    - Student loans
  - Future revenues
    - Tobacco settlement
- Valuation of transfers of assets or future revenues

Is the Transaction a Sale or Borrowing?

- Borrowing by default, unless specific criteria are met
- Continuing involvement—control
  - Does the transferor government retain control, or is control relinquished?
    - Criteria for receivables
    - Criteria for future revenues

Future Revenues

Are ***future revenues*** sold or pledged?

- Transferee's ability to sell or pledge
- Transferor's continuing *active* involvement in the generation of the revenues
  - Excludes own-source revenues
    - Taxes
    - User charges
  - Grants, entitlements, shared revenues could be sold or pledged, depending on *active* involvement

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Transfers Within the Entity

- Assets transferred should be reported at the carrying value of transferor
- Difference between amount paid and carrying value of recognized asset should be reported as a gain or loss
- The amount paid by the transferee for a future revenue should be reported as a deferred charge. The transferor should reported the amount received as a deferred revenue.

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Disclosures

- Identification of specific revenue pledged and approximate amount of the pledge
- General purpose of the related debt
- Term of the commitment
- Proportion of the revenue stream (for example, 80%), if it can be estimated
- Pledged revenue (net) recognized compared to related principal and interest

Effective Date

- Periods beginning after December 15, 2006

Statement 50

Pension Disclosures

Pension Disclosures

- Objective is to conform the pension disclosures with the OPEB disclosures
- Notes to financial statements would disclose the funded status of the plan as of the most recent actuarial valuation date.
  - Defined benefit pension plans also would disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to RSI.

Effective Date

- Periods beginning after June 15, 2007

Statement 51

Intangible Assets

Description

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

Common Types of Intangible Assets

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

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Basic Guidance

- All intangible assets subject to Statement should be classified as capital assets:
  - All existing authoritative guidance related to capital assets should be applied to these intangible assets
- Scope exceptions:
  - Intangible assets acquired or created primarily for directly obtaining income or profit
  - Capital leases
  - Goodwill from a combination transaction

Internally Generated

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

Internally Generated

- Specific guidance on applying the specified-conditions approach for recognition of internally generated computer software is provided
- Guidance generally based on development stages similar to AICPA SOP 98-1

Amortization

- Existing guidance for depreciation of capital assets generally applies to amortizing intangible assets
- Exception for intangible assets with indefinite useful lives:
  - No factors currently exist that limit the useful life of the asset
  - Intangible assets with indefinite useful lives should not be amortized

Effective Date and Transition

- Effective date is fiscal periods beginning after June 15, 2009
- Provisions generally should be retroactively applied
- Exceptions for retroactively reporting intangible assets:
  - Permitted but not required for IGIA and intangible assets with indefinite useful lives at transition
  - Required for all other intangible assets acquired in fiscal years ending after June 30, 1980 by phase 1 or 2 governments
  - Encouraged but not required for all other intangible assets of phase 3 governments

Statement 52

Land and Other Real Estate Held as Investments by Endowments

Other Projects

- Fund balance
- Derivatives
- Concepts
- SEA
- Research projects

Derivatives

Final Standard is on the Horizon

Examples of Derivatives

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

Proposal

- Fair value with hedge accounting
  - Changes in fair value of derivative are deferred for qualifying transactions
  - Changes in fair value of derivative would not be deferred if the related asset (for example, investment) is reported at fair value
- How is that operationalized?

Hedge Effectiveness

- Consistent critical terms
- Quantitative techniques
  - Synthetic instrument
  - Dollar offset
  - Regression
  - Other qualifying quantitative methods

Project Timetable

- Final statement—June 2008
- Implementation guide to follow—February 2009

Other Current Projects

- Concepts Statements
  - Recognition and Measurement Attributes
    - Deliberations began in December 2007
- Service Efforts and Accomplishments Reporting
  - Guidelines—due process document (Part A)
  - Concepts 2 update (Part B)
- AICPA Omnibus—accounting guidance currently presented only in the SASs
- Postemployment Benefits Accounting and Reporting
- Public and Private Partnerships
- Reporting Units/Statement 14 Revisited

Other Projects

Research Agenda

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

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Other Issues

Questions?

<u>Contact Information:</u>

541-225-6070

James.Lanzarotta@mossadams.com

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