



Accounting Update: GASB/FASB/AICPA/COSO

American Association of Port
Authorities

April 17, 2012



Section 1

GASB/ Nonprofit Update

GASB Standards-Old standards

GASB Statement		Effective Periods Beginning After
54	Fund Balance Reporting and Governmental Fund Type Definitions	6/15/2010
55	Hierarchy of GAAP for State and Local Governments	On issuance (3/09)
56	Codification of Accounting and Financial Reporting Guidance Contained in AICPA SASs	On issuance (3/09)
58	Accounting and Financial Reporting for Chapter 9 Bankruptcies	6/15/09
59	Financial Instruments Omnibus	6/15/2010

GASB Standards-New

GASB Statement		Effective Periods Beginning After
57	OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans	6/15/11
60	Accounting and Financial Reporting for Service Concession Arrangements	12/15/11
61	The Financial Reporting Entity: Omnibus	6/15/12

GASB Standards-New (Continued)

GASB Statement		Effective Periods Beginning After
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	12/15/11
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position	12/15/11
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions	6/15/11

GASB 58-Chapter 9 Bankruptcy

- Provides guidance for governments that have petitioned for protection from creditors
- Remeasure liabilities that are adjusted in bankruptcy
- Disclosure requirements

Road to Bankruptcy

- City of Harrisburg, Pennsylvania
- Jefferson County, Alabama
- Central Falls, Rhode Island
- Boise County, Idaho
- Vallejo, California



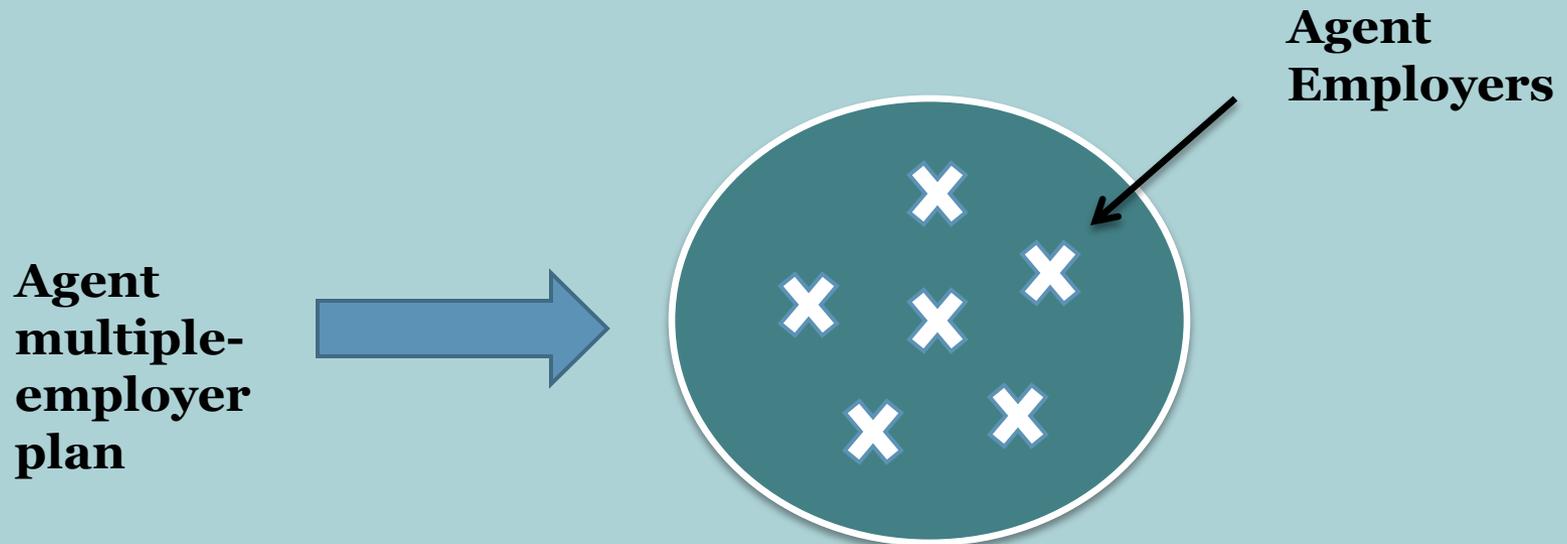
Vallejo: 2008-November 2011

- Nation's largest city to declare bankruptcy
- Mayor Davis, "If you can possibly avoid it, bankruptcy is not the way to go."
 - **City's GF Budget down 20%**
 - **Police officers down 40%**
 - **Firefighters down 36%**
 - **Home prices down 50%**
 - **Commercial Development, zero**
- Vallejo has now had a balanced budget for three years



GASB 57- OPEB Measurements

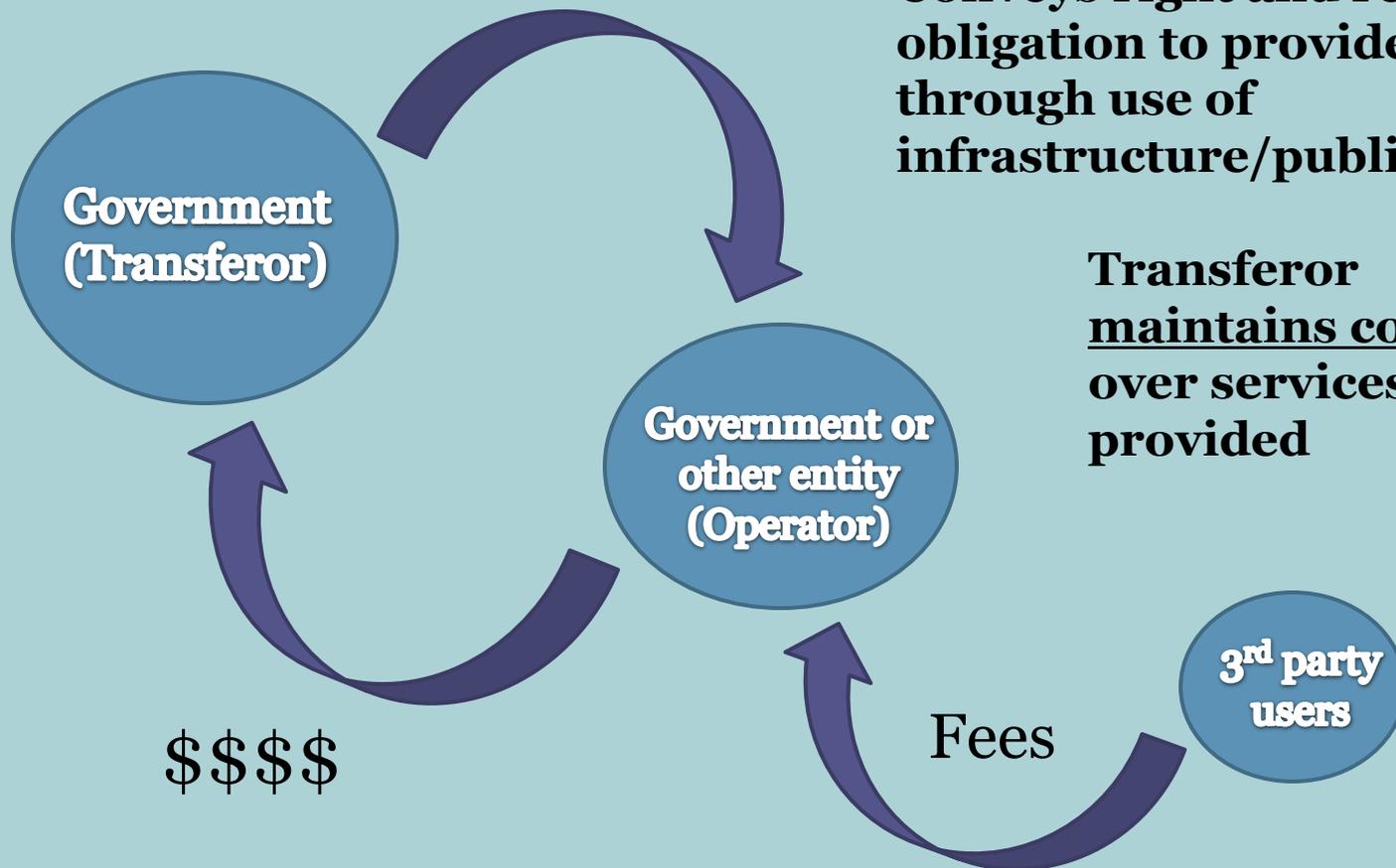
- Applies to agent employers and agent multiple-employer plans



GASB 57-OPEB Measurements (Continued)

- Permits alternative measurement method if < 100 total plan members
- Permits reporting aggregation of actuarial valuation results
- Actuarial measurement at common date

GASB 60- Service Concession Arrangements



Conveys right and related obligation to provide services through use of infrastructure/public asset

Transferor maintains control over services provided

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Fees

3rd party users

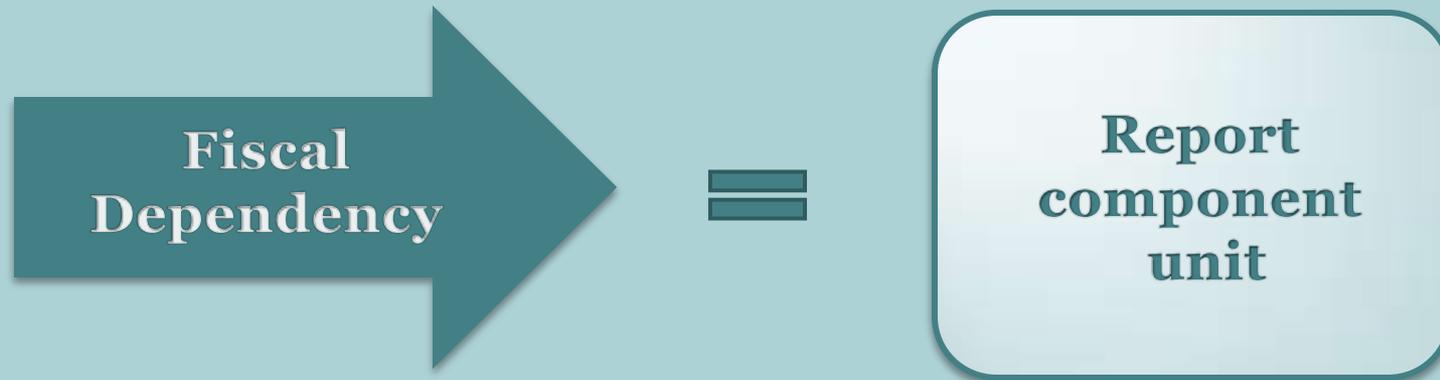
GASB 60- Service Concession Arrangements

- Essential to understand scope and applicability of standard
- Provides accounting and financial reporting for:
 - **Transferor**
 - **Governmental operator**

GASB 60- Service Concession Arrangements

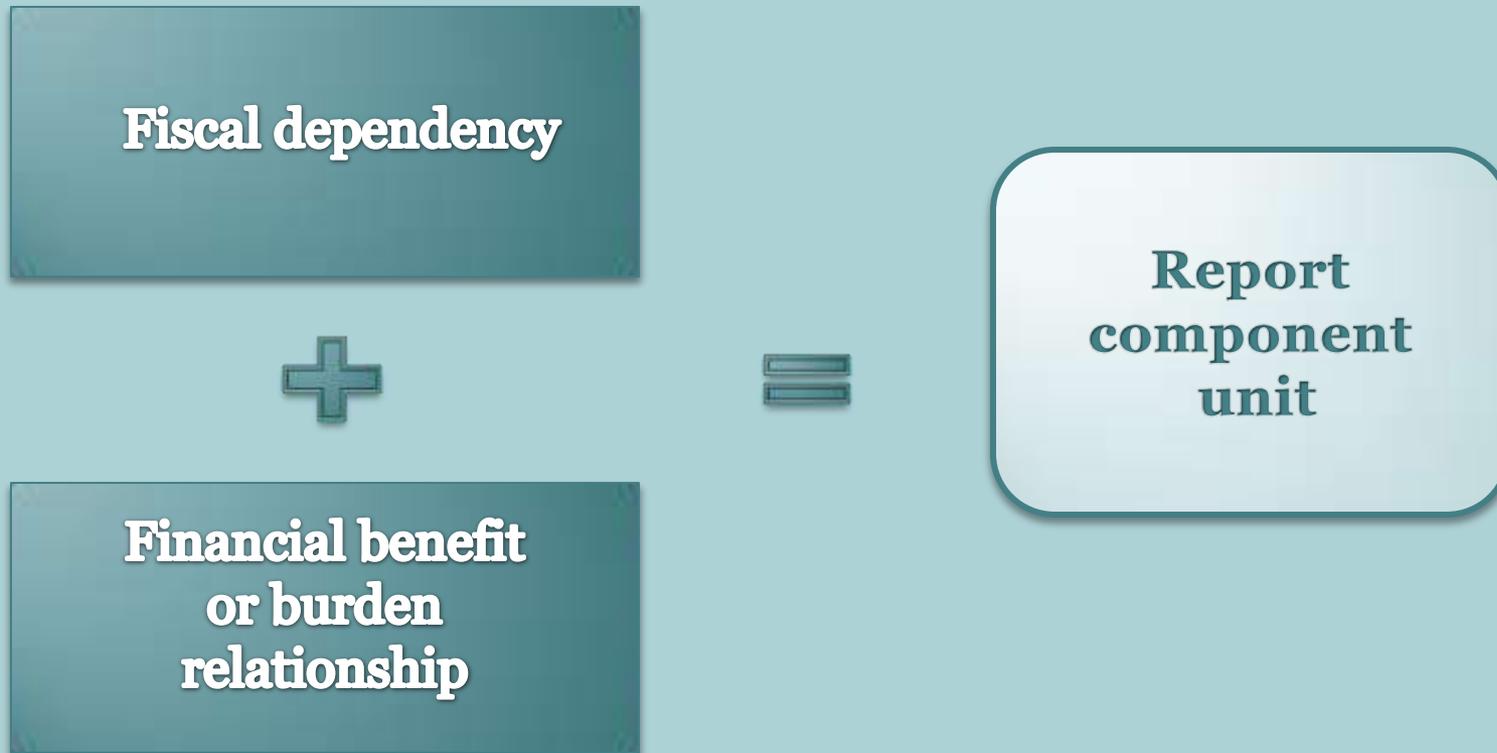
- Up-front payment received by transferor
 - **Deferred inflow of resources**
 - **Revenue recognized over term of arrangement**
- Governmental operator reports intangible asset for right to:
 - **Access the facility**
 - **Collect third-party fees**

Pre-GASB 61: Reporting Entity

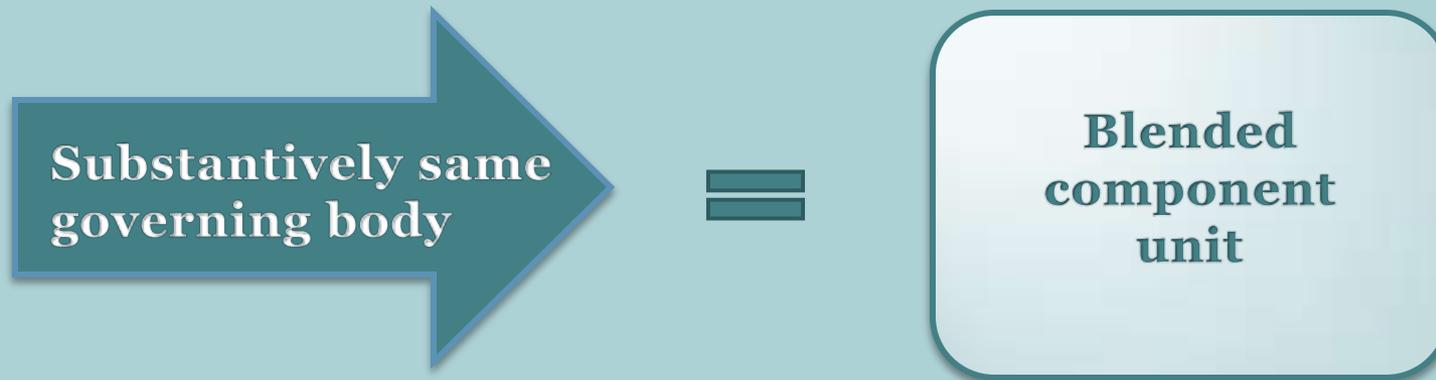


- **Authority over budget**
- **Setting taxes/charges**
- **Issuance of debt**

GASB 61: Reporting Entity

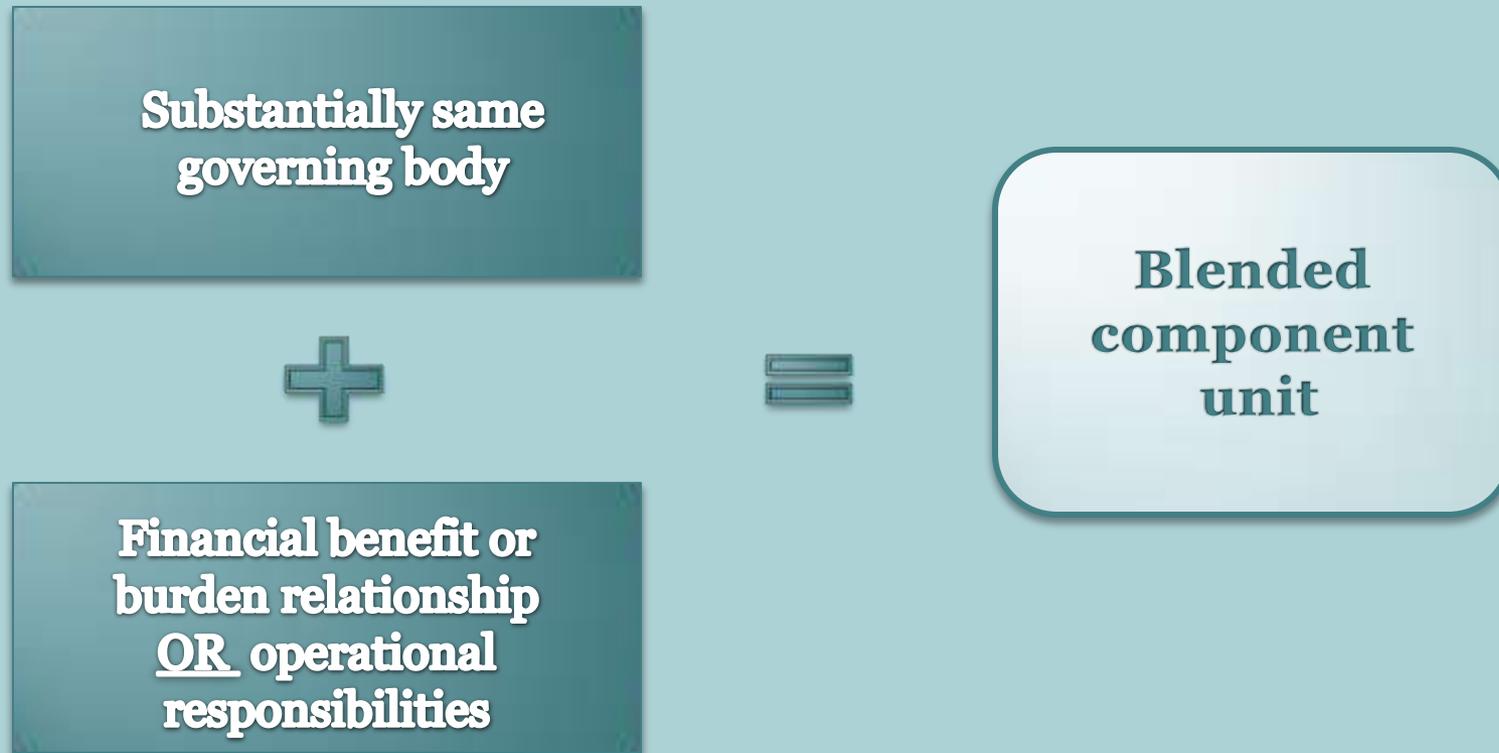


Pre-GASB 61: Blended Component Unit

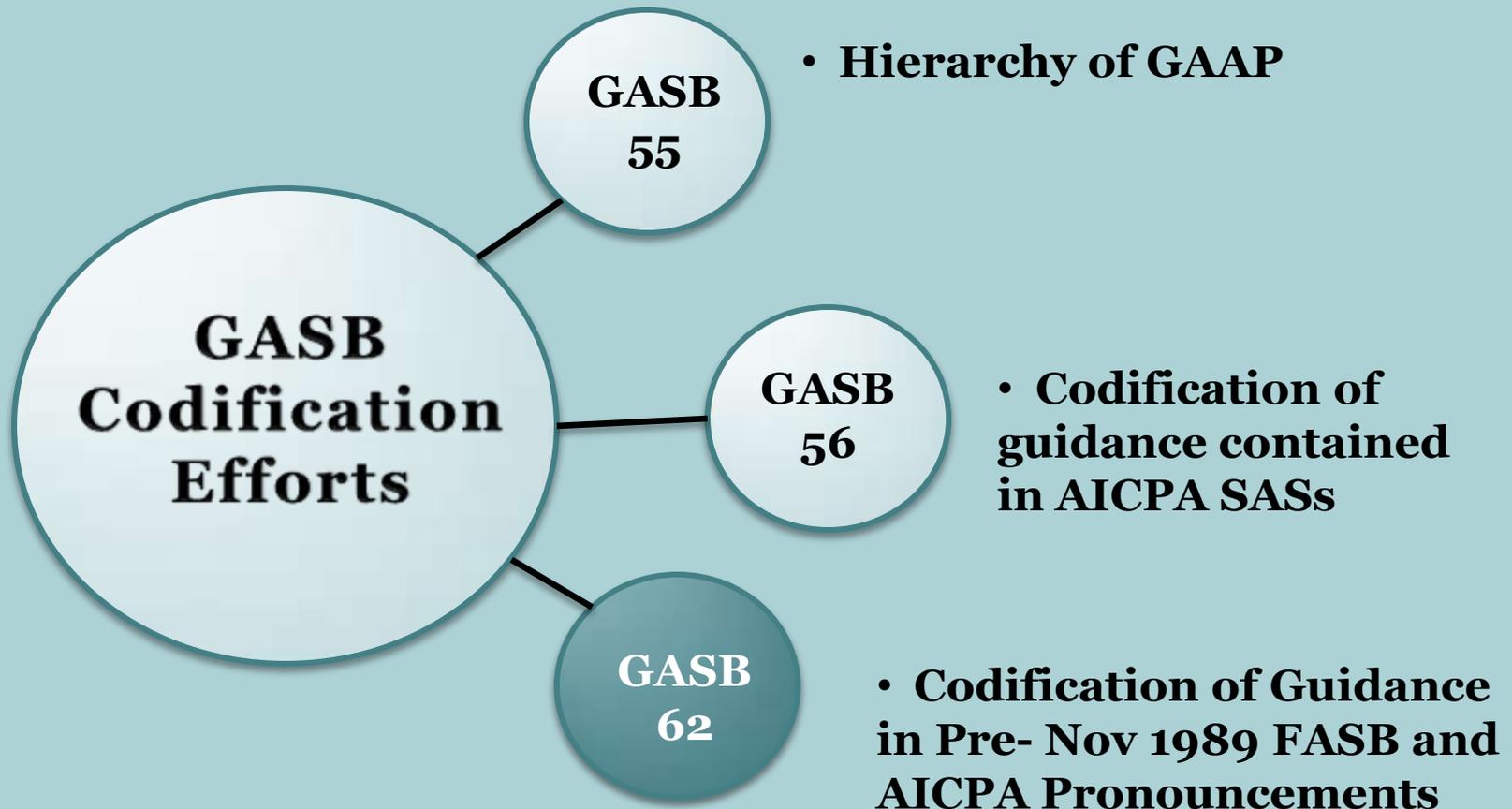


**Sufficient
representation to effect
complete control**

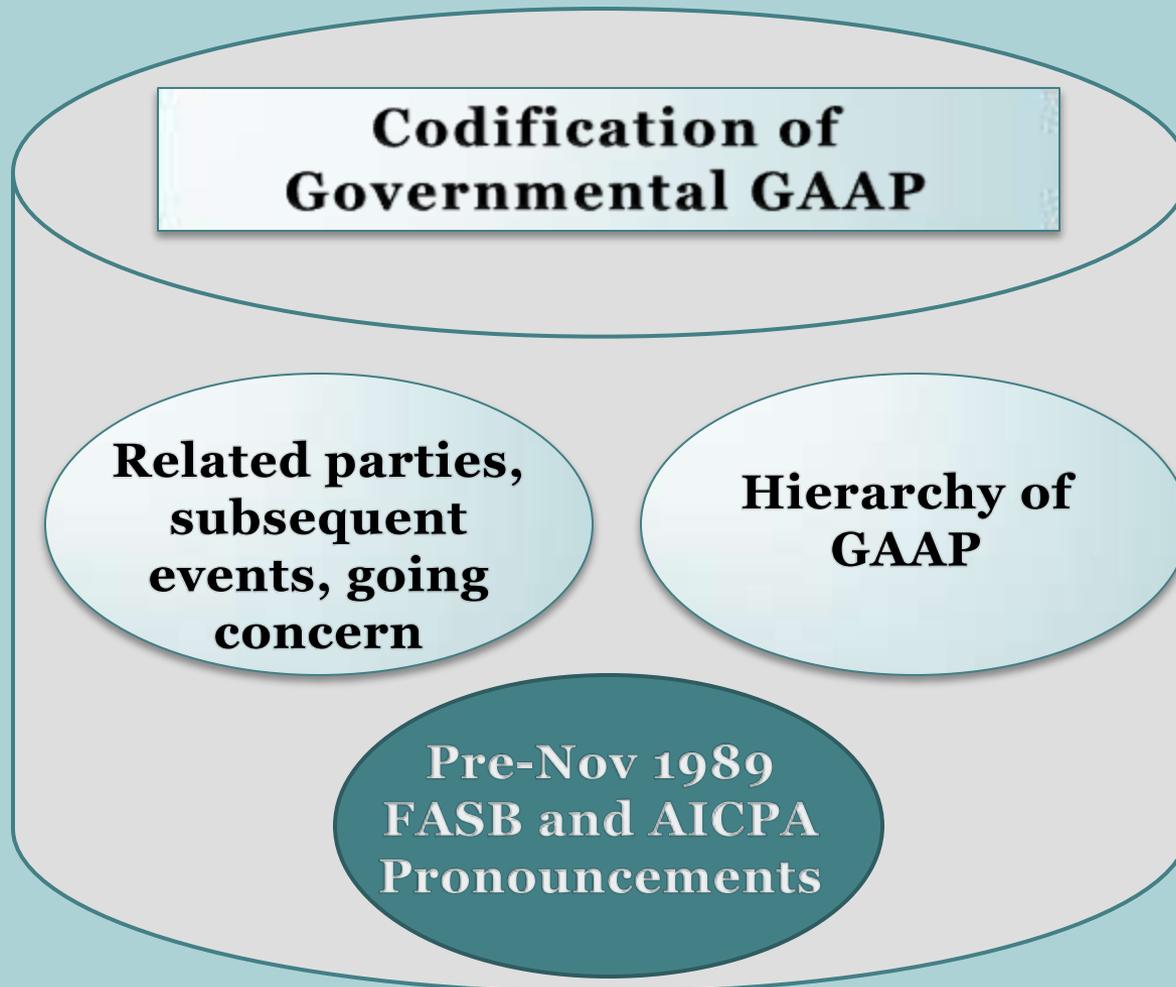
GASB 61- Blended Component Unit



GASB Codification Efforts



GASB 55, 56, and 62- Codification Efforts



GASB 63- Deferred Outflows/Inflows

- Amends net asset reporting requirements in GASB 34
- Deferred outflow/inflow of resources
 - consumption/acquisition of net assets applicable to a future reporting period
- Net position- a residual

**Issued:
June 2011**

GASB 63- Financial Reporting of Deferred Outflows and Inflows of Resources

Statement of Net Position:

+ Assets

+ Deferred outflows of resources

- Liabilities

-Deferred inflows of resources

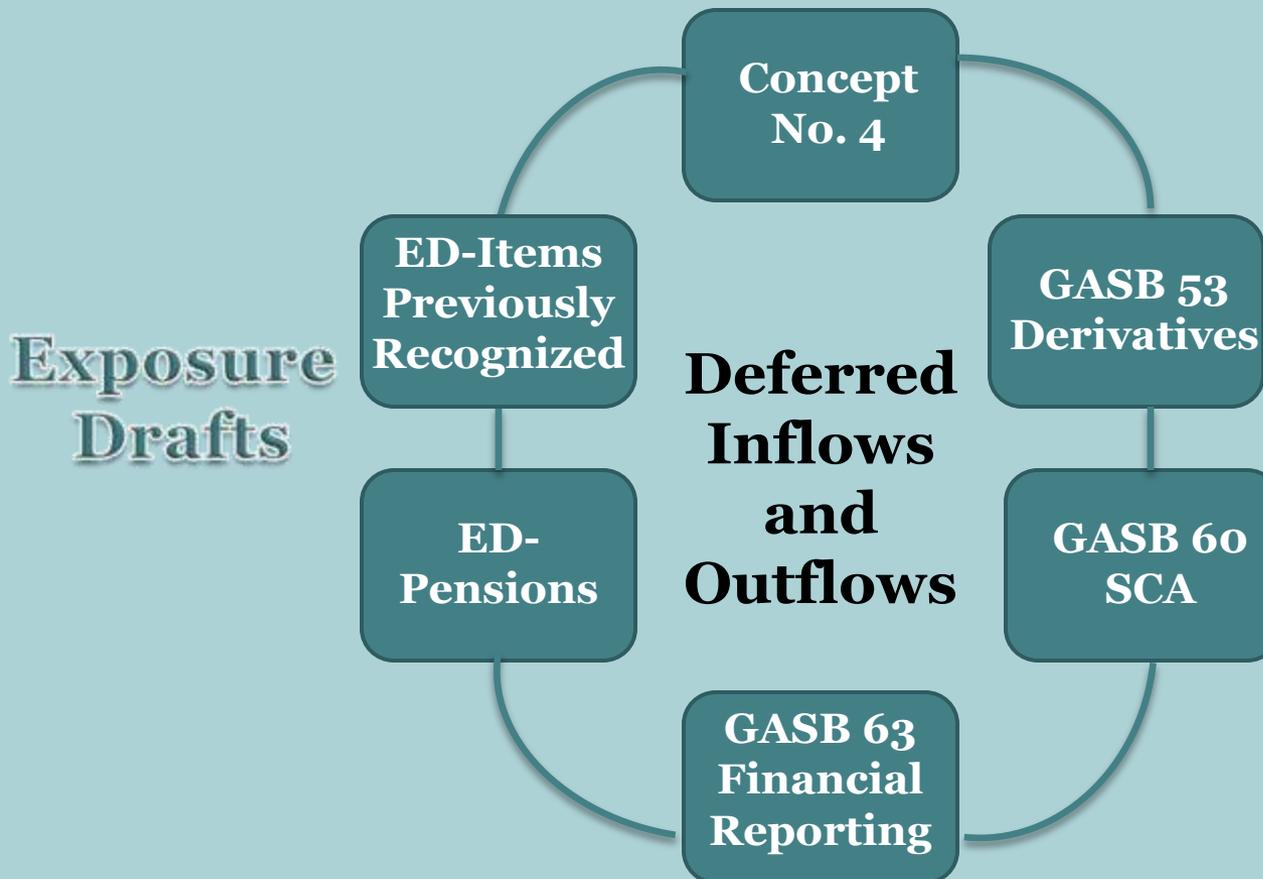
= Net position:

Net investment in capital assets

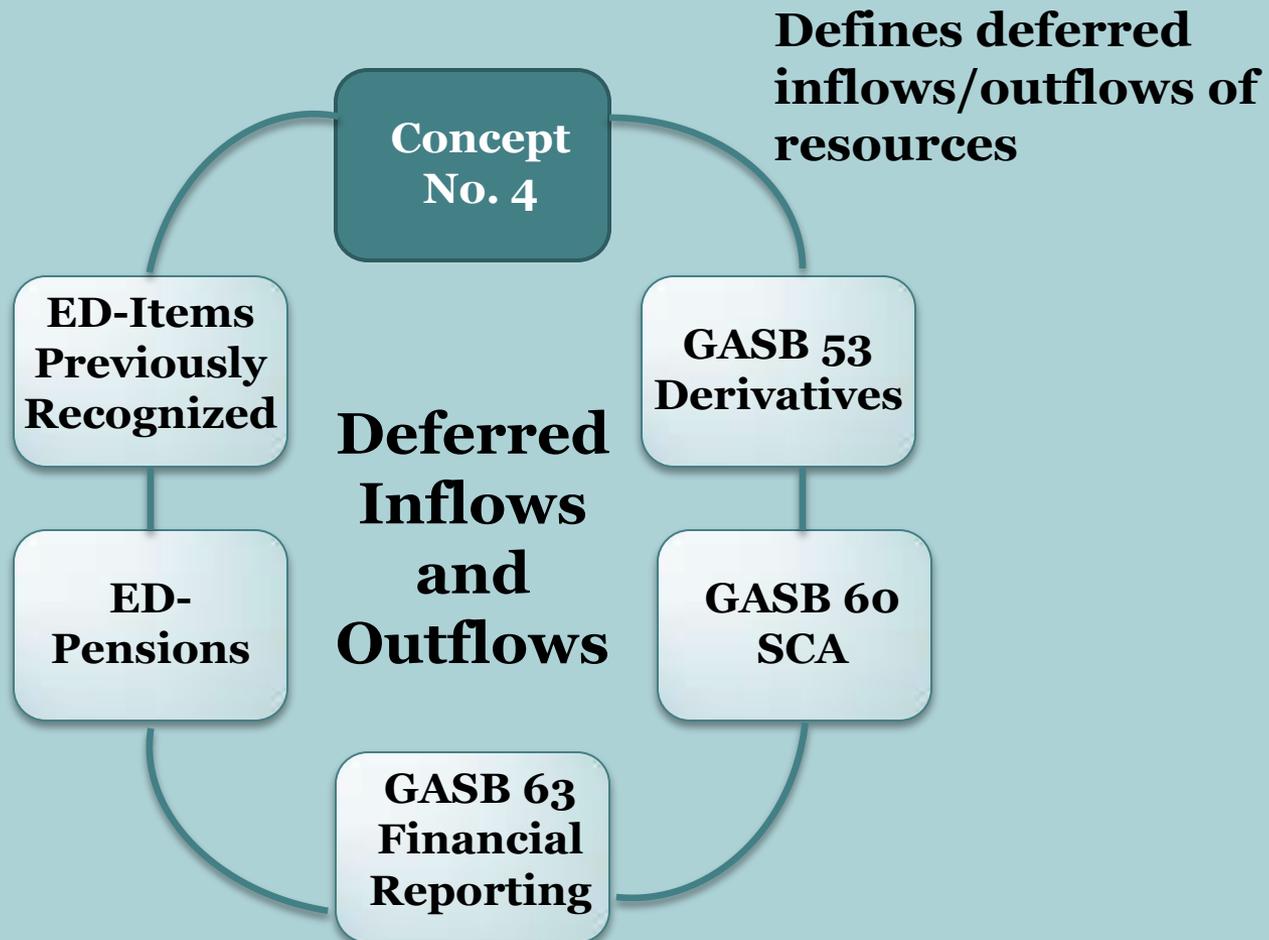
Restricted

Unrestricted

A Common Thread



A Common Thread



Concept Statement No. 4- Elements of Financial Statements

- Deferred outflow of resources
 - **Consumption of net assets applicable to a future reporting period**
- Deferred inflow of resources
 - **Acquisition of net assets applicable to a future reporting period**
- Not assets or liabilities

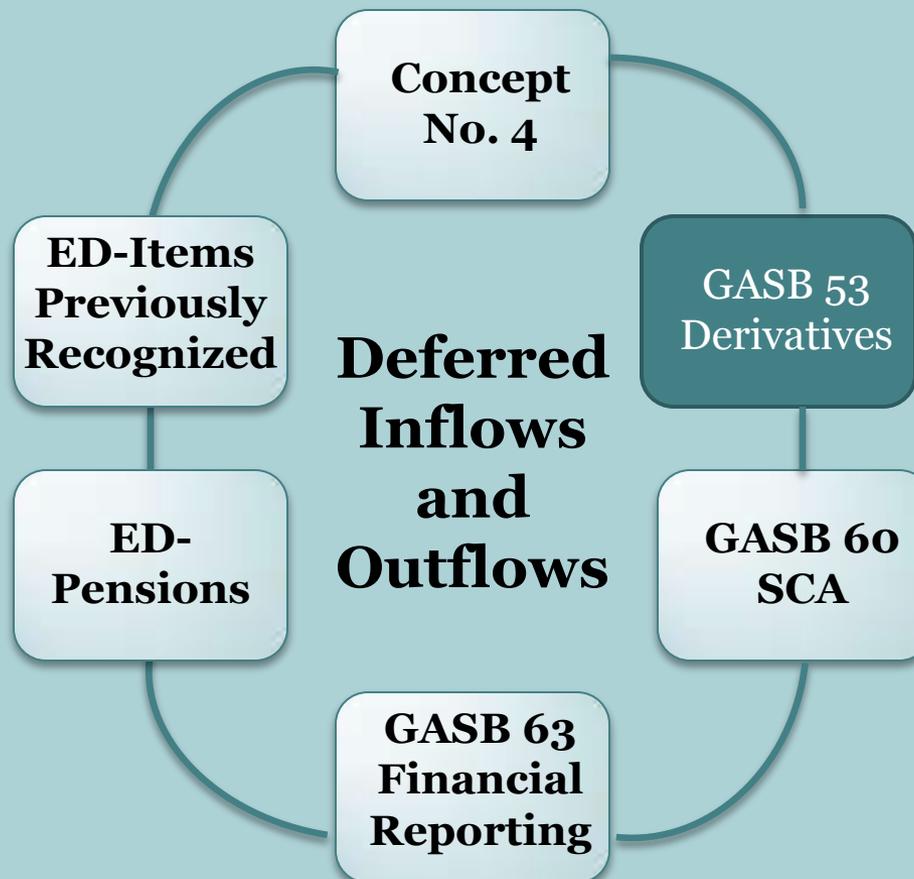
Concept Statement No. 4- Elements of Financial Statements (Continued)



- An important note:

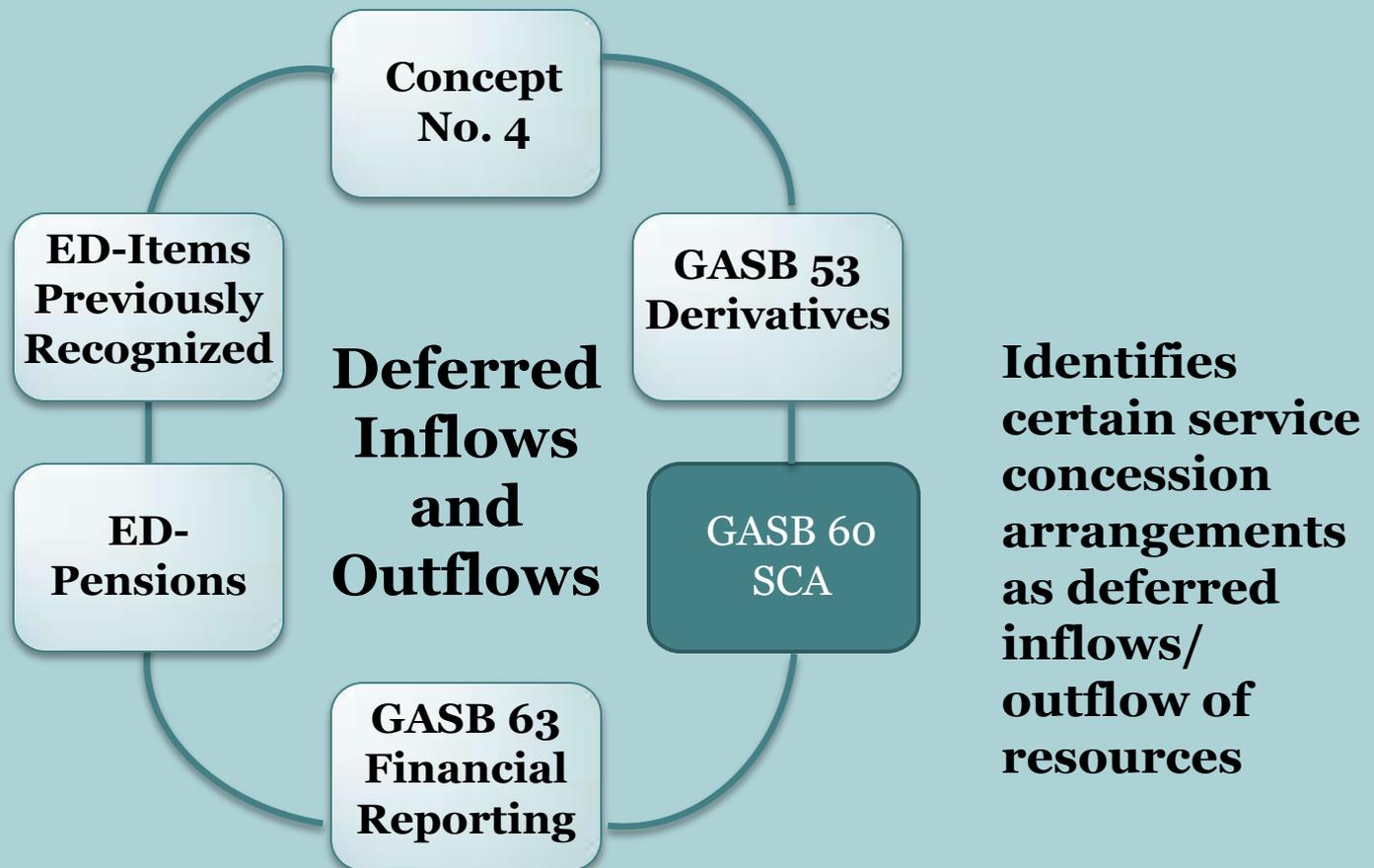
**Recognition of deferred outflow/
deferred inflow of resources is
limited to instances identified by
GASB in authoritative
pronouncements.**

A Common Thread

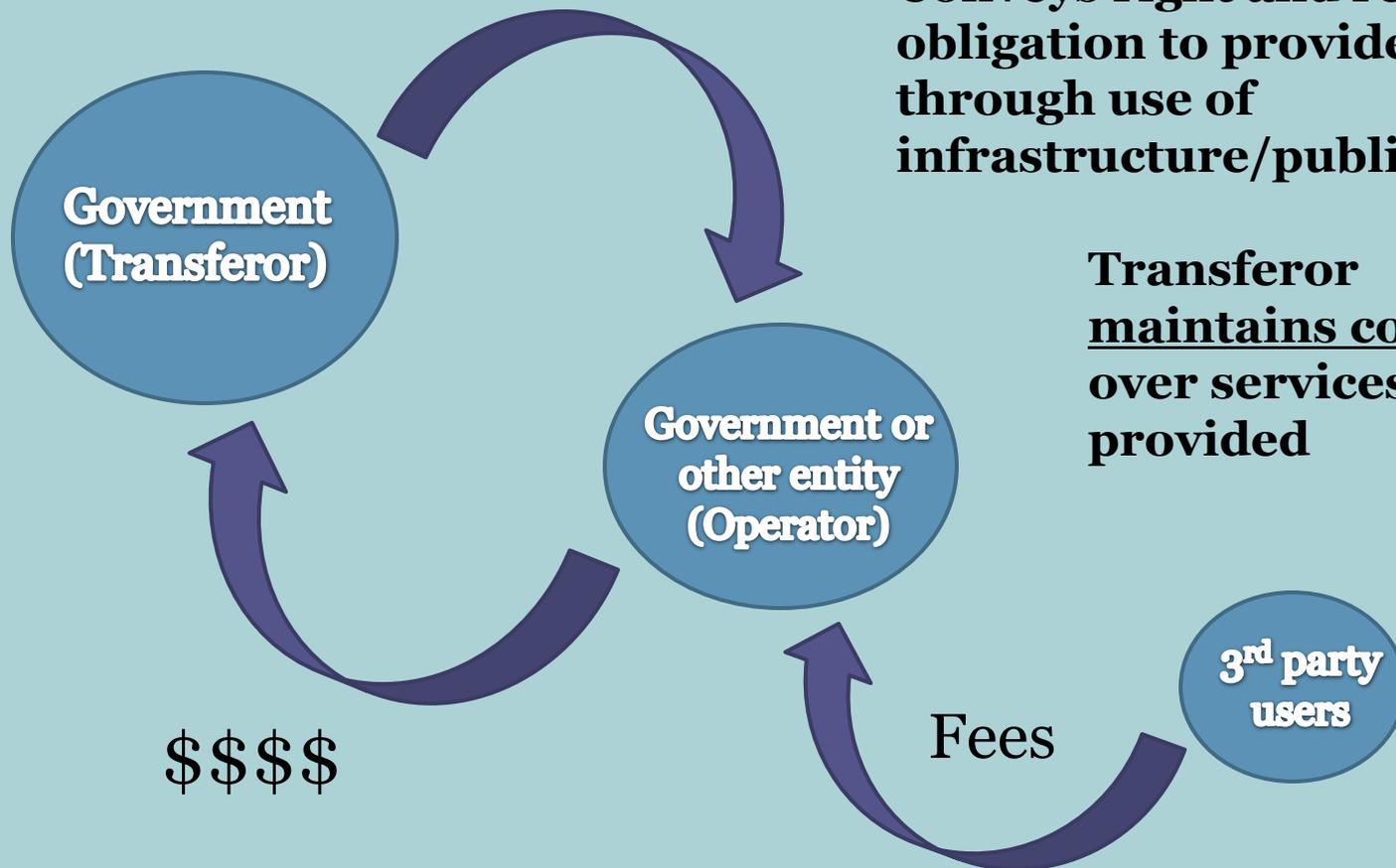


Identifies changes in FV of qualified hedging derivatives as deferred inflows/outflows of resources

A Common Thread



GASB 60- Service Concession Arrangements



Conveys right and related obligation to provide services through use of infrastructure/public asset

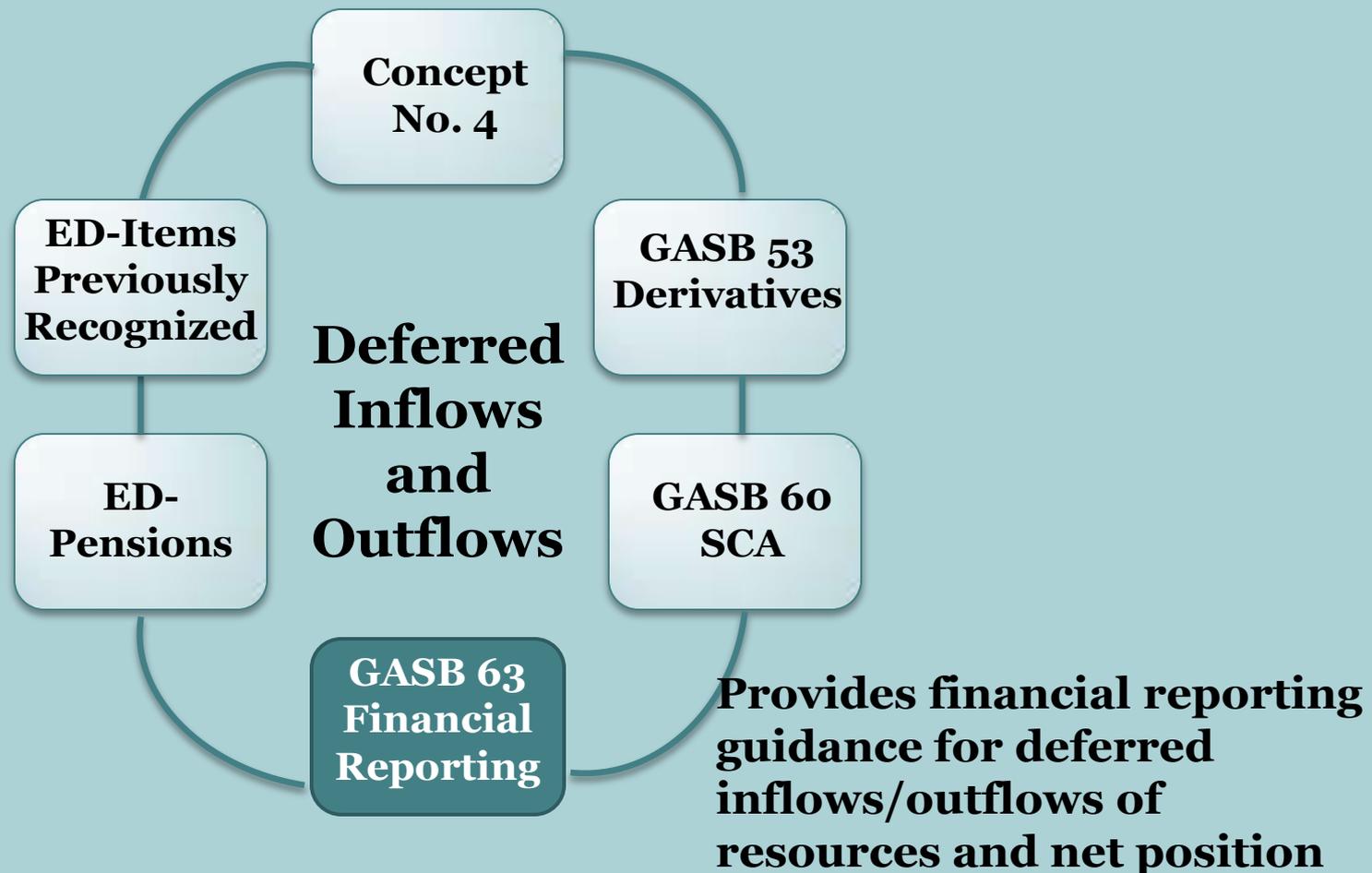
Transferor maintains control over services provided

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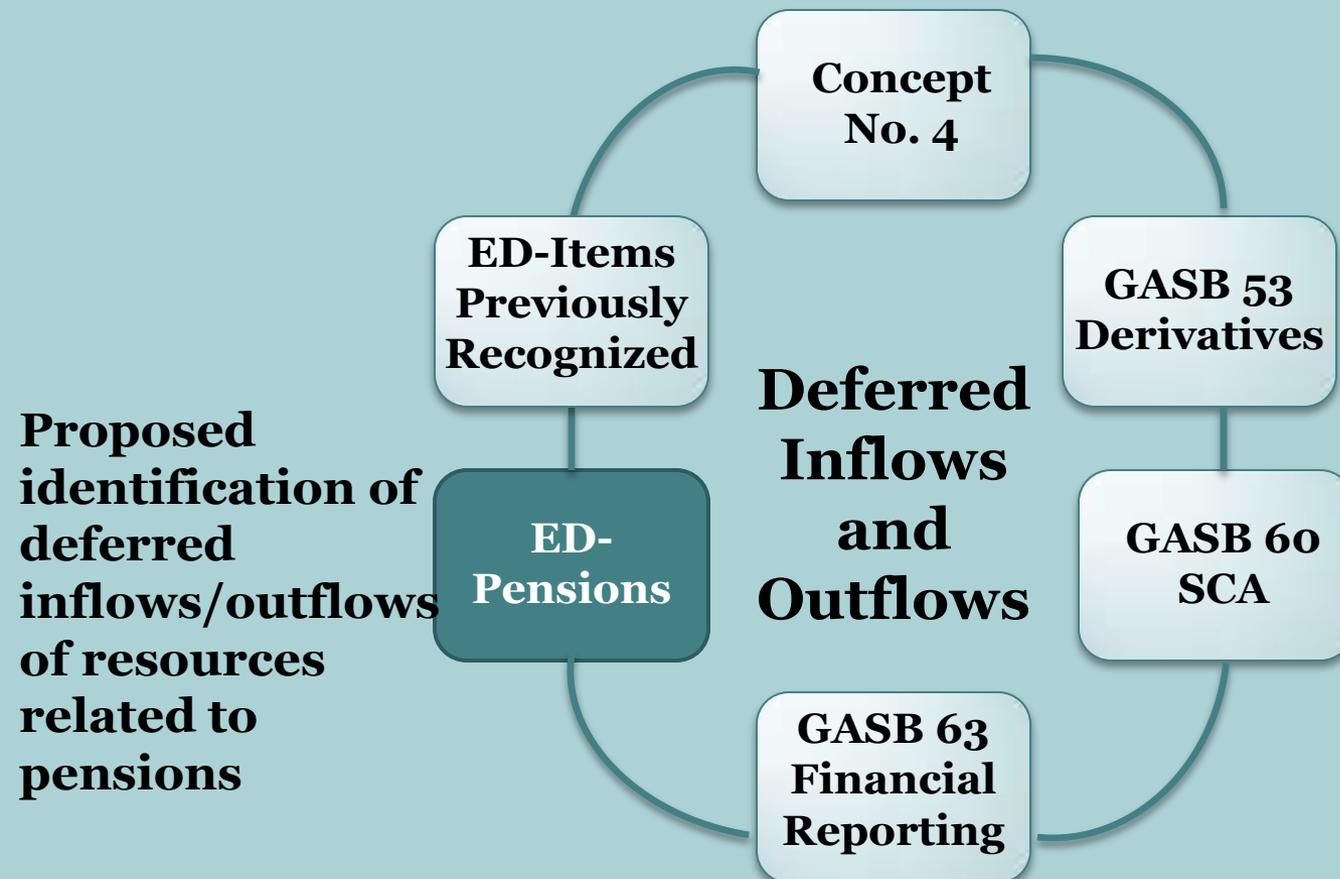
Fees

3rd party users

A Common Thread



A Common Thread



Documents for Public Comment

- Accounting and Financial Reporting for Pensions- Amendments of GASB 27
- Financial Reporting for Pension Plans
 - **Amendment of GASB 25**

**Exposure
Drafts Issued
June 28, 2011**

Accounting and Financial Reporting for Pensions

Current

- **Recognize pension liability when contribution is < annual required contribution**

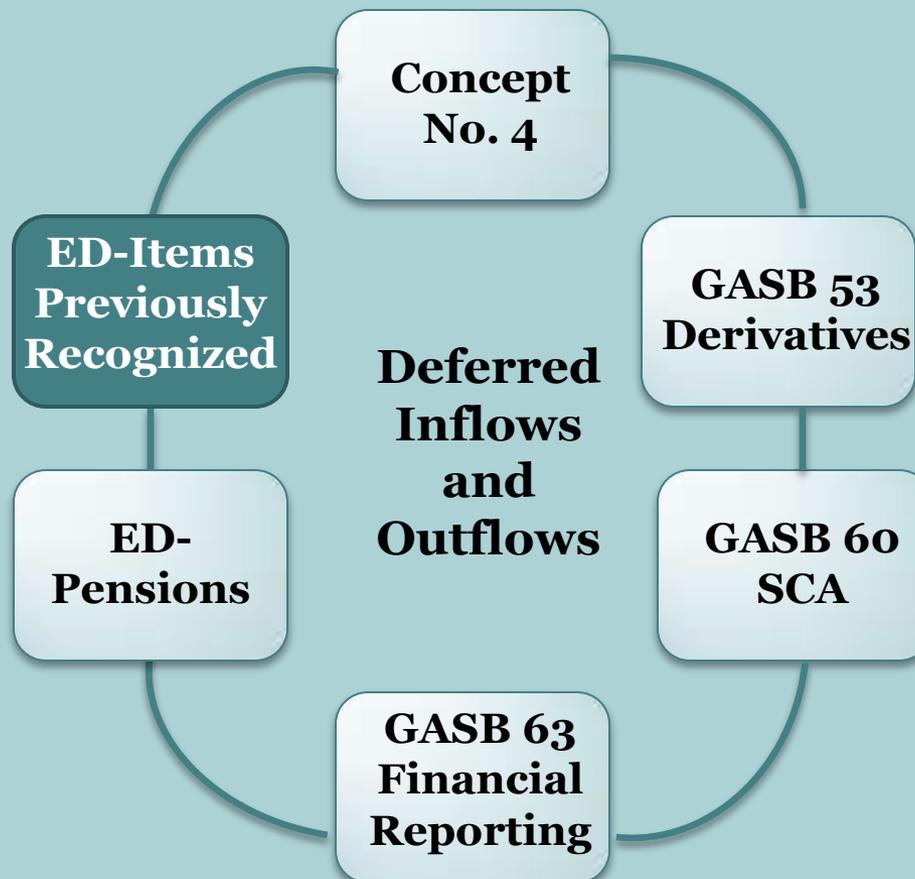
Proposed

- **Recognize entire net pension liability**

**Exposure
Drafts Issued
June 28, 2011**

A Common Thread

**Proposed
modification
of financial
reporting
classification
of certain
items
previously
reported as
assets or
liabilities**

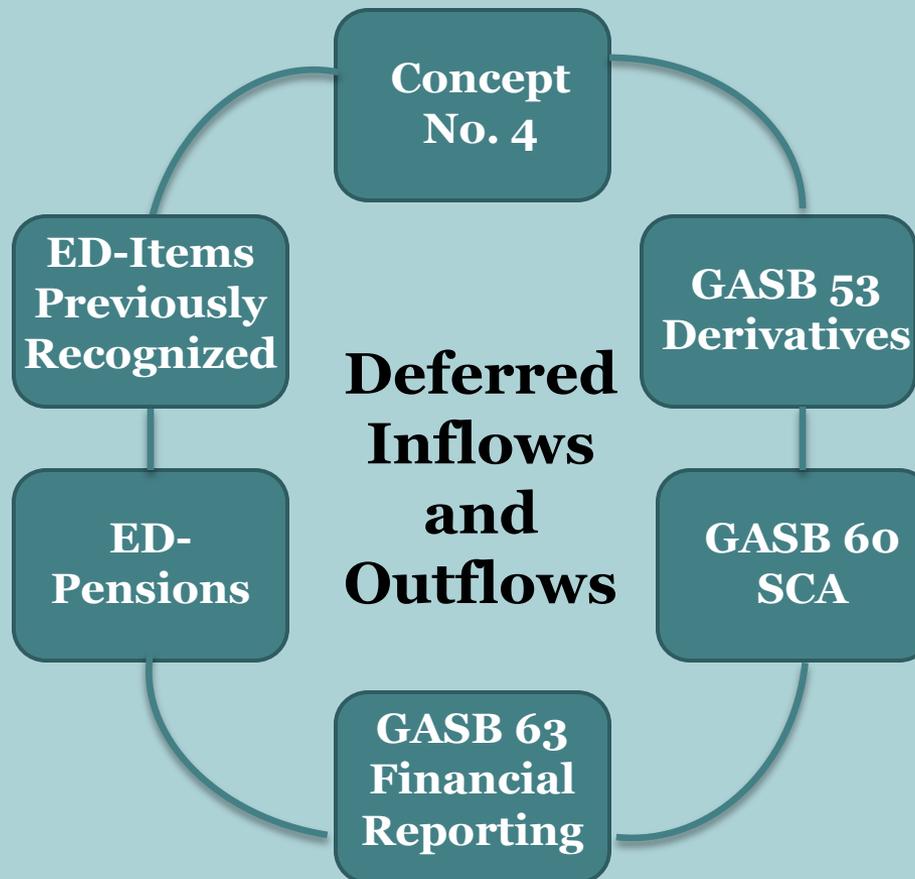


Reporting Items Previously Recognized as Assets and Liabilities

- Proposed reclassification of certain items to deferred outflows/inflows of resources:
 - **Refunding of debt resulting in defeasance**
 - **Non-exchange transactions**
 - **Debt issuance costs**

**Exposure
Drafts Issued
August 2011**

A Common Thread



GASB 64- Derivative Instruments: Application of Hedge Accounting Termination Provisions



Issued in
response to
financial crisis

Clarifies when hedge accounting should continue upon replacement of swap counterparty or swap counterparty credit support provider

GASB- Current Projects

- Conceptual framework- Recognition and measurement approaches
- Reporting items previously recognized as assets and liabilities: Omnibus
- Economic condition reporting: Financial projections
- Fair value measurement

**Being
Deliberated**

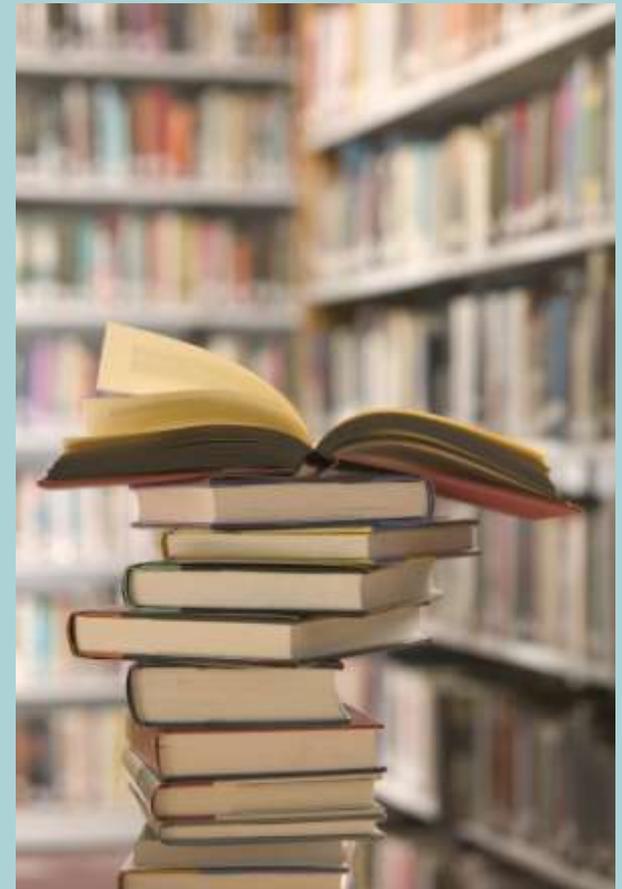
GASB- Current Projects (Continued)

**Being
Deliberated**

- Financial guarantees
- Government combinations
- Other postemployment benefit
- Postemployment benefit
- Technical corrections- GASB 54 and 62

GASB- Research Projects

- Electronic financial reporting
- Fiduciary responsibilities
- GAAP hierarchy
- Lease accounting





Section 2

New Accounting Standard for
Leases (Topic 840)

Last update- March 9, 2012

- August 2010, FASB proposed a new approach to lease accounting with significant changes.
- There will no longer be a distinction between capital leases and operating leases.
- All leases must be recorded as capital leases.



Lease Accounting- Existing Model

Lease Accounting

Operating

Capital

Not recognized on
balance sheet

Recognized on
balance sheet

Reason for change



- Model criticized
- Understatement of assets and liabilities reported on the balance sheet.
- Fails to meet needs of users

Scope

Includes:

- Right-of-use assets in a sublease
- Leases of noncore assets
- Long-term leases of land

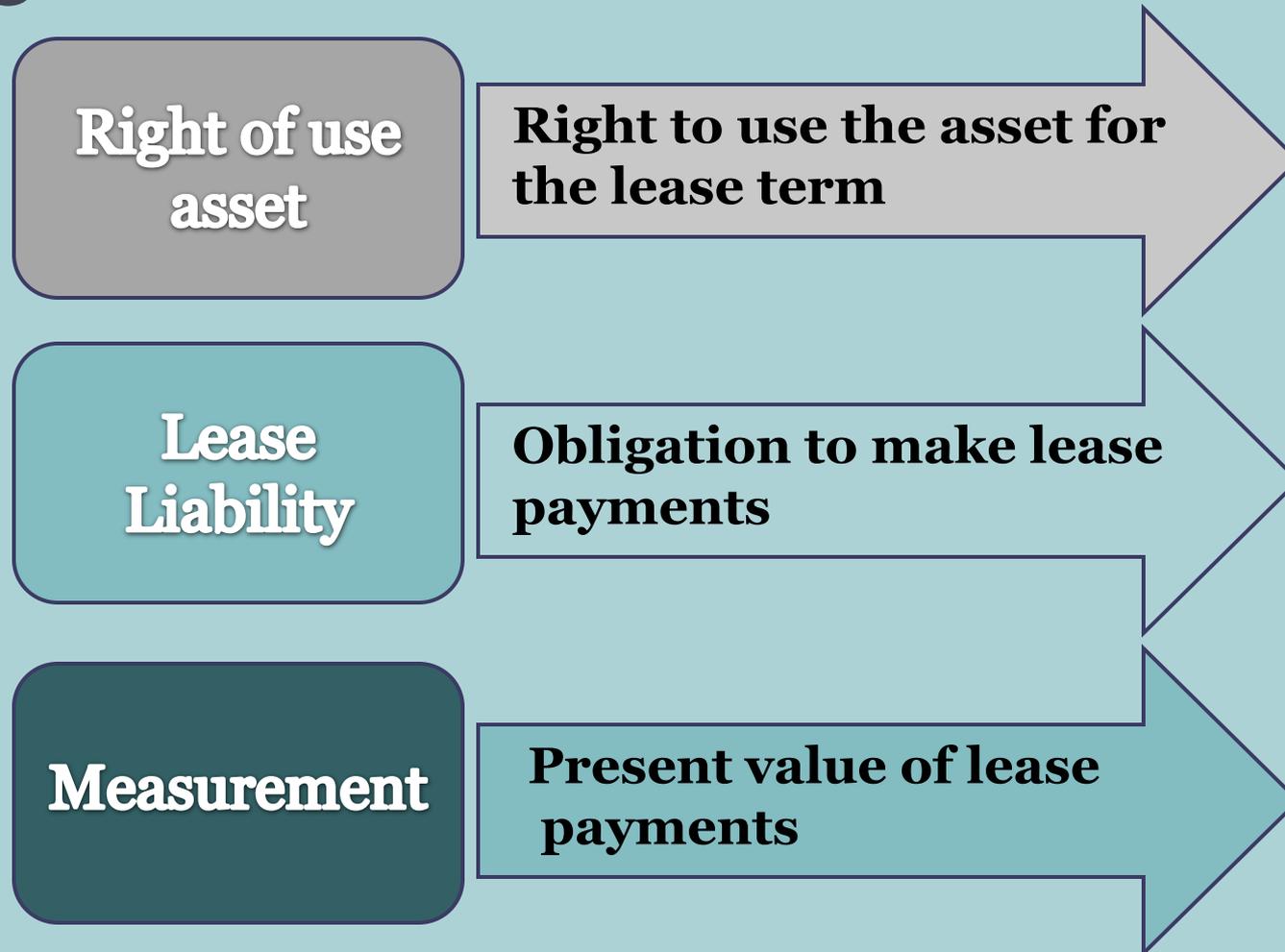


Scope (Continued)

Excludes :

- Leases of intangible assets
- Leases to explore for or use minerals, oil, natural gas, etc.
- Leases of biological assets
- A contract that represents a purchase or sale of an underlying asset.
- A lease after the lessee has exercised a purchase option specified in the lease.

Right of Use Model



Measurement



- Commencement
- Asset and liability = present value of lease payments
- Subsequent accounting
- Asset: straight-line basis
- Liability: interest method

Lease assets and liabilities would be measured on a basis that:

- Assumes the longest possible lease term that is more likely than not to occur.
- Uses an expected outcome technique to reflect the leases payments (contingent rentals, payments, residual value guarantees, etc.)
- Updated when changes in facts or circumstances indicate a significant change occurred.

Effect on Business Operations

- Financial ratios
- Loan covenants
- Financing arrangements
- Regulatory agreements
- IT systems
- Lease contracts



Tax considerations

How Big of a Deal?

FedEx has far less debt than rival UPS. If proposed FASB is adopted, reported debt at FedEx will balloon.

Before inclusion of operating leases	FedEx	UPS
Total debt (in billions)	\$1.93	\$10.85
Debt/market capitalization	7%	15%
After inclusion of operating leases	FedEx	UPS
Debt + operating leases (in billions)	\$ 16.28	\$15.96
Debt + operating leases/ market cap	56%	22%

Source: Barrons.com June 4, 2011 (Out of the footnotes into the spot light)

Lessee Accounting

Initial Recognition	Dr	Cr
Right to use asset	XX	
PV of Obligation to make lease payments		XX

Subsequent Lease Payments	Dr	Cr
Obligation to make lease payments	XX	
Interest expense	XX	
Cash		XX

Amortize Right to Use Asset (under debate)	Dr	Cr
Amortization expense	XX	
Right to use asset		XX

Disclosures for the Lessee

- All lease expenses
- Lease interest expense and lease interest paid
- Expenses recognized for variable lease payments not included in the lease liability.

Disclosures for Lessee (Continued)

- Reconciliation of the opening to the closing balance of the right-of-use asset and liability
- Maturity analysis - subsequent 5 years & thereafter
- Information re any significant leases in progress
- Information re effect of short-term leases on the next reporting period – if material

Presentation in the SoCFs

- Lease payments related to principal - financing activities
- Lease payments related to interest - operating activity
- Lease payments for short-term leases and variable lease payments - operating activities
- Acquisition of a leased asset for a lease liability - supplemental noncash transaction

Lessors Accounting: Receivable and Residual Approach

Initial Recognition	Dr	Cr
Residual Asset, net of discount	XX	
PV of Right to receive lease payments	XX	
Derecognition of leased asset		XX

Subsequent Lease Payments received	Dr	Cr
Cash	XX	
PV of Right to receive lease payments		XX
Interest income		XX

	Dr	Cr
Residual asset discount	XX	
Interest income		XX

Presentation and Disclosures for the Lessor

- Lease receivable and residual asset shown separately
- Lease receivable and lease liability measured at the sum of the PV of the lease payments
- A table of all lease related income recognized

Presentation and Disclosures for the Lessor (Continued)

- Accretion of the residual asset as interest income.
- Amortization of initial direct costs as an offset to interest income
- Lease income and lease expense (gross or net)
- Cash inflows from a lease - operating activities

Presentation and Disclosures for the Lessor (Continued)

- Information re basis and terms wrt variable lease payments
- Information re renewal and termination options
- Description of lease purchase options
- A reconciliation of the opening to the closing balance of the right to receive lease payments and residual assets.

Presentation and Disclosures for the Lessor (Continued)

- Maturity analysis - subsequent 5 years and thereafter
- Risk management strategy, residual asset covered by value guarantees and whether the lessor has any other means of reducing its exposure to residual asset risk.

Leases of Investment Property

- Lessor should continue to recognize the underlying asset and lease income over the lease term.
- Recognize rental income on a straight-line basis or another systematic basis if that basis is more representative of the pattern in which rentals are earned.



Relief Options





Transition

Transition

- An entity should recognize and measure all outstanding contracts within scope of this guidance as of the date of initial application using a simplified *retrospective* approach.
- Another exposure draft will be issued in the second half of 2012, due to the first draft receiving an extensive amount of feedback.
- The August 2010 exposure draft does not give an effective date, some believe that the final standard will be effective, at the earliest, in 2013 and would require comparative periods.

Transition -Lessees

- For capital/finance leases existing at the beginning of the earliest comparative period presented:
 - **A lessee would not be required to make any adjustments to the carrying amount of lease assets and lease liabilities and should reclassify those lease assets and lease liabilities as right-of-use assets and liabilities to make lease payments.**

Transition-Lessees (Continued)

- For operating leases existing at the beginning of the earliest comparative period presented, a lessee should:
 - **Recognize a liability to make lease payments**
 - **Recognize right-of-use assets**
 - **Record to retained earnings any difference**

Transition-Lessors

- For finance/sales-type and direct finance leases existing at the beginning of the earliest comparative period presented, a lessor would not be required to make adjustments to the carrying amount of the assets associated with those leases.

Transition-Lessors

(Continued)

- For operating leases existing at the beginning of the earliest comparative period presented a lessor should:
 - Recognize a right to receive lease payments, measured at the PV of the remaining lease payments, discounted using the rate charged in the lease determined at the date of commencement of the lease, subject to any adjustments required to reflect impairment.
 - Recognize a residual asset consistent with the initial measurement of the residual asset under the receivable and residual approach, using information available at the beginning of the earliest comparative period presented
 - Derecognize the underlying asset.

Lease Accounting - FASBs Next Step

- Consider feedback
- Redeliberate significant issues
- Intend to re-expose for public comment 2nd half of 2012



Section 3

FASB Update

Benefit Plans

Update	Effective Date
Reporting Loans to Participants by Defined Contribution Pension Plans (ASU 2010-25) Topic 962	Fiscal years ending after December 15, 2010 Early adoption permitted
Disclosure about an Employer's Participation in a Multiemployer Plan (ASU 2011-09) Subtopic 715-80	For nonpublic entities, for fiscal years ending after December 15, 2012

Multiemployer Plans (ASU 2011-09)

- No change in recognition and measurement
- Additional Disclosures
 - **Plan identification**
 - **Most recent certified funded status**
 - **Expiration dates collective bargaining agreements and any minimum funding arrangements**
 - **Other**

Multi vs. Multiple-Employer Plans

Multi

- Assets contributed are **NOT** segregated
- Unfunded obligations of plan may be borne by remaining participating employers

Multiple

- Assets contributed **ARE** segregated. Separate accounts are maintained for each employer
- Contributions provide benefits only for employees of contributing employer

Goodwill Impairment- Topic 350

Accounting Standard Update	Effective Date
When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28)	Fiscal years, and interim periods within those years, beginning after December 15, 2010 One year delay for nonpublic companies
Testing Goodwill for Impairment (ASU 2011-08)	Fiscal years beginning after December 15, 2011

Credit Financing Receivables-

Topic 310

Accounting Standard Update	Effective Date
Disclosure about the Credit Quality and Allowance for Credit Losses (ASU 2010-20)	Fiscal years beginning on or after December 15, 2010 Nonpublic companies have one year deferral
A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring (ASU 2011-02)	Periods beginning on or after June 15, 2011

Fair Value - Topic 820

Update	Effective Date
Improving Disclosures about Fair Value Measurements (ASU 2010-6)	Fiscal years beginning after December 15, 2010, and interim periods within those years
Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04)	Interim and annual periods beginning after December 15, 2011

PP&E - Topic 360

Update	Effective date
Derecognition of in Substance Real Estate Scope Clarification (ASU 2011-10)	Nonpublic entities- fiscal years ending after December 15, 2013 Early adoption permitted

**Issued
December
2011**

Balance Sheet Offsetting - Topic 210

Update	Effective date
Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)	Annual reporting periods beginning on or after January 1, 2013

**Issued
December
2011**

Not-for-Profit...New Agenda Projects

- Standard- setting project
 - **Financial statements and notes**
- Research project
 - **Telling financial story**

**News
Release
11/09/11**

Not-for-Profit...Two Agenda Projects (continued)

- Recommendations by FASBs NFP Advisory Committee
 - **Revisit net asset classification**
 - **Improve statement of activities and cash flows**
 - **Create framework for directors and managers**
 - **Streamline disclosure requirements**

Proposed ASU

Revenue from Contracts With Customers (Topic 605)

Revenue from Contracts with Customers (Proposed ASU)

Objectives:

- Establish revenue recognition principles recognized worldwide
- Simplify U.S. GAAP and expand IFRS
- Converge standards
- Improve disclosures

Core Principles to Recognize Revenue

1 Identify contract(s)

2 Identify separate performance obligations

3 Determine transaction price

4 Allocate transaction price

5 Recognize revenue when performance obligations are satisfied

Revenue from Contracts with Customers (continued)

Current Status

- Re-expose for public comment
 - **Comment period ended March 13, 2012**
- Public roundtables scheduled March to May 2012
- Proposed effective date:
 - **Public: No earlier than annual periods beginning on or after January 1, 2015.**
 - **Nonpublic: Minimum one year after effective date for public entities**

FASB/IASB Convergence

- Working toward convergence since 2002
- Progress report issued April 2011
- Priority to major projects
 - **Leases**
 - **Revenue recognition**
 - **Financial instruments**

Exposure Draft: Financial Instruments

- Potential Differences

Financial Instrument	Current GAAP	Tentative Decision
Investments in marketable equity securities not held for trading	FV-OCI	FV-NI
Loans and receivables held for sale	Lower of cost or fair value	FV-NI
Investments in debt securities that the entity has the intention and ability to hold to maturity	Amortized cost	FV-OCI
Nonmarketable equity investments (i.e. for which there is not a readily determinable fair value) held by public entities	Cost	FV-NI



Section 4

AICPA Update

Recently Issued SASs

SAS Statement No.		Effective for Periods Beginning After
117	Compliance Audits	6/15/2010
118	Other Information in Documents Containing Audited Financial Statements	12/15/2010
119	Supplementary Information in Relation to the Financial Statement as a Whole	
120	Required Supplementary Information	

SAS 118- Other Information in Documents Containing Audited Financial Statements

Auditor's responsibilities:

- Obtain information prior to report release
- Read information (i.e. annual report)
- Identify material inconsistencies, if any
 - **Auditor responsibilities depend on circumstances**

SAS 119- Supplementary Information in Relation to Financial Statements as a Whole

Auditor's responsibilities:

- Inquire about purpose and criteria used
- Determine compliance with criteria
- Understand method used to prepare and consistency with prior period
- Compare and reconcile to accounting and other records used to prepare financials

SAS 119- Supplementary Information in Relation to Financial Statements as a Whole (continued)

Auditor's responsibilities:

- Inquire about significant assumptions and interpretations
- Evaluate appropriateness and completeness
- Obtain written representations

**Auditor's
Report has
changed**

SAS 120- Required Supplementary Information

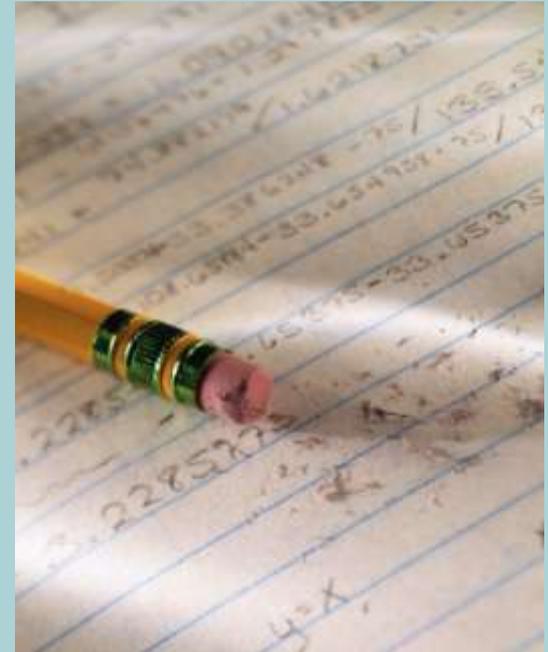
Auditor's responsibilities:

- Inquire about methods to prepare
- Compare for consistency with inquiries, basic financials and other knowledge obtained
- Obtain written representations

**Auditor's
Report has
changed**

Overhaul of AICPA Nonprofit Guide

- Diversity in practice
- Many issues for possible inclusion in revisions
- Exposure draft to be issued mid-2012 with final issuance in 2013



Convergence of Auditing Standards



AICPA Clarity Project

- Goal- make U.S. GAAS easier to read, understand and apply
- Develop standards based on International Standards on Auditing (ISAs)
- Major milestone
- Redrafted SASs using drafting conventions





Section 5

COSO

Revised Integrated Framework

- COSO not updated since 1992
- Big Four want proposal to be fine-tuned before 2013
- Will codify original I/C concepts into 17 principles and supporting attributes
- Transition rules are being debated
- KPMG on March 30, 2012, “We believe that there should be a point at which organizations should no longer be permitted to use the Original Framework to make public assertions about internal control effectiveness.”