

# GASB/ACCOUNTING UPDATE June 5, 2006

## Overview

- GASB
  - New Statements
  - Current Agenda Projects
  - Practice Issues
  - Research Projects
- Other
  - New Auditing Standards
  - Proposed Auditing Standards

## Statement No. 42

- *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
  - Establishes accounting and financial reporting standards for the impairment of capital assets
  - Clarifies and establishes accounting requirements for insurance recoveries

## Statement No. 42 (cont)

- Capital asset is considered impaired when its service utility has declined significantly and unexpectedly
- Service utility – usable capacity expected at acquisition
- Need to evaluate prominent events or changes in circumstances affecting capital assets to determine if impairment has occurred

## Statement No. 42 (cont)

- How do we determine impairment?
  - Two-step process
    - Identify potential impairments
    - Test for impairment

## Statement No. 42 (cont)

- Identifying Potential Impairments
  - Evidence of physical damage
  - Changes in laws or regulations
  - Changes in manner or duration of use
  - Technological changes
  - Evidence of obsolescence
  - Construction stoppages

## Statement No. 42 (cont)

- Testing for Impairment – 2 factors
  - Magnitude of decline in service utility must be significant
  - The decline in service utility is unexpected

## Statement No. 42 (cont)

- Impairment losses
  - Permanent
    - Recognize in Statement of Activities as a program or operating expense in year of loss
    - Insurance recoveries should be netted against loss
    - Note disclosure required if the impairment is not apparent in the face of the financial statements

## Statement No. 42 (cont)

- Impairment losses
  - Temporary
    - No recognition required
    - Note disclosure not required unless asset is idle

## Statement No. 42 (cont)

- Effective for fiscal periods beginning after December 15, 2004
- Effective for June 30, 2006

## Statement No. 43

- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
  - Establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans
  - OPEB includes postemployment healthcare, life insurance and other forms of benefits

## Statement No. 43 (cont)

- Effective in three phases based on a government's total annual revenues.
- Similar to the implementation of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*

## Statement No. 43 (cont)

- Phase 1 – total annual revenues of \$100 million or more
  - Effective for periods beginning after December 15, 2005
  - Effective for June 30, 2007

## Statement No. 43 (cont)

- Phase 2 – total annual revenues of \$10 million or more but less than \$100 million
  - Effective for fiscal years beginning after December 15, 2006
  - Effective for June 30, 2008

## Statement No. 43 (cont)

- Phase 3 – total annual revenues of less than \$10 million
  - Effective for fiscal years beginning after December 15, 2007
  - Effective for June 30, 2009

## Statement No. 44

- *Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1*
  - Enhances and updates the statistical section that accompanies a state or local government's basic financial statements

## Statement No. 44 (cont)

- Why the change?
  - Three shortcomings in NCGA Statement 1
    - Included a list of 15 required schedules with no additional explanation of the content which lead to inconsistencies among government's statistical section
    - Oriented to general purpose governments only
    - Does not include the new information that GASB 34 requires governments to present

## Statement No. 44 (cont)

- Five Specific Objectives
  - Financial Trends
  - Revenue Capacity
  - Debt Capacity
  - Demographic and Economic
  - Operating Indicators

## Statement No. 44 (cont)

- Financial Trends Data
  - Net Assets (10 years)
  - Changes in Net Assets (10 years)
  - Fund Balances (10 years)
  - Changes in Fund Balances (10 years)

## Statement No. 44 (cont)

- Revenue Capacity Data
  - Revenue Base (10 years)
  - Revenue Rates (10 years)
  - Principal Revenue Payers (current period and period 9 years prior)
  - Property Tax Levies and Collections (10 years)

## Statement No. 44 (cont)

- Debt Capacity
  - Ratio of Outstanding Debt (10 years)
  - Ratio of General Bonded Debt (10 years)
  - Direct and Overlapping Debt (current year)
  - Debt Limitations (most recent year for calculation, 10 years for results)
  - Pledged-Revenue Coverage (10 years)

## Statement No. 44 (cont)

- Demographic and Economic Data
  - Demographic and Economic Indicators (10 years)
  - Principal Employers (current period and period 9 years prior)

## Statement No. 44 (cont)

- Operating Indicators
  - Employees by Function
  - Activities by Function
  - Capital Asset Statistics by Function

## Statement No. 44 (cont)

- Effective for statistical sections prepared for periods beginning after June 15, 2005
- Effective for June 30, 2006

## Statement No. 45

- *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
  - Addresses how to account for and report costs and obligations related to postemployment healthcare and other nonpension benefits or OPEB

## Statement No. 45 (cont)

- Reporting Requirements
  - Annual Cost of OPEB
  - Outstanding Obligations
- Similar to Pension Accounting and Reporting
- Use of Actuaries

## Statement No. 45 (cont)

- Why the change?
  - Recognize the cost of benefits in periods when the employee performs services for the employer
  - Provide information about the actuarial accrued liabilities for promised benefits and the extent to which those liabilities are funded
  - Provides information for assessing future cash flows.

## Statement No. 45 (cont)

- Effective in 3 phases
  - Phase 1 – total revenues of \$100 million or more
    - Effective for periods beginning after December 15, 2006
    - Effective for June 30, 2008

## Statement No. 45 (cont)

- Effective in 3 phases (cont)
  - Phase 2 – total revenues of \$10 million or more but less than \$100 million
    - Effective for periods beginning after December 15, 2007
    - Effective for June 30, 2009

## Statement No. 45 (cont)

- Effective in 3 phases (cont)
  - Phase 3 – total revenues of less than \$10 million
    - Effective for periods beginning after December 15, 2008
    - Effective for June 30, 2010

## Statement No. 46

- *Net Assets Restricted by Enabling Legislation-an amendment of GASB Statement No. 34*
  - Clarifies the meaning of “legally enforceable” when reporting restricted net assets

## Statement No. 46 (cont)

- A legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor
- Effective for periods beginning after June 15, 2005
- Effective for June 30, 2006

## Statement No. 47

- *Accounting for Termination Benefits*
  - Types
    - Voluntary (i.e. early-retirement incentives)
    - Involuntary termination benefits (severance benefits)
  - Recognition requirements
    - Accrual
    - Modified Accrual

## Statement No. 47 (cont)

- Accrual Basis
  - Voluntary Termination Benefits
    - Offer is accepted
    - Amount can be estimated

## Statement No. 47 (cont)

- Involuntary Termination Benefits
  - Plan of Termination has been approved
  - Plan has been communicated to the employees
  - Amount can be estimated

## Statement No. 47 (cont)

- Modified Accrual Basis
  - Recognize to the extent the liabilities are normally expected to be liquidated with expendable available financial resources

## Statement No. 47 (cont)

- Effective Date
  - Termination benefits provided through an existing defined benefit OPEB plan – implement with GASB No. 45
  - Other termination benefits effective for periods beginning after June 15, 2005 (June 30, 2006)

## Current Agenda Projects

- Conceptual Framework – Elements and Recognition and Measurements Attributes
- Derivatives
- Fund Balance Reporting
- Intangible Assets
- Pollution Remediation Obligations
- Sales and Pledges of Receivables/Future Revenues

## Practice Issues

- Accounting for Medicare Part D Payments
- Comprehensive Implementation Guide - Update

## Research Projects

- Economic Condition Reporting – Phase III
- Electronic Financial Reporting
- Intergovernmental Financial Risks
- Pension Accounting and Reporting
- Reporting Unit Presentation
- Statement 14 Reexamination
- Service Efforts and Accomplishments Reporting

## New Auditing Standards

- 8 Risk Assessment Standards (SAS)
- Issued by the Auditing Standards Board (ASB)
- Establish standards and provide guidance concerning the auditor's assessment of the risk of material misstatement (either by fraud or error)

## New Auditing Standards (Cont)

- Objectives in Development of Standards
  - Greater understanding of the entity, including its environment and internal control
  - More rigorous assessment of the risks of where and how the financial statements could be materially misstated
  - Improved linkage between the auditor's assessed risks and audit procedures performed

## New Auditing Standards (Cont)

- Effective Date
  - Audits of Financial Statements for Periods Beginning on or after December 15, 2006
  - Early Implementation is Permitted

## Proposed SAS

- Communication of Internal Control Related Matters Noted in an Audit
  - To enhance the auditor's ability to identify and communicate to management and those charged with governance, significant deficiencies and material weaknesses in internal control identified in a financial statement audit

## Proposed SAS (cont)

- Definition of new terms
  - Control Deficiency
  - Inconsequential Deficiency
  - Significant Deficiency (replaces Reportable Condition)
  - Material Weakness

## Proposed SAS (cont)

- Consistent with terms in PCAOB Auditing Standard No. 2
- Control Deficiency
  - design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements due to fraud or error on a timely basis

## Proposed SAS (cont)

- Inconsequential
  - Misstatements that are clearly immaterial to the financial statements
- Significant Deficiency
  - A control deficiency that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP that may not be prevented or detected

## Proposed SAS (cont)

- Material Weakness
  - A Significant Deficiency by definition
  - Magnitude is large
  - Could potentially result in a material misstatement of the financial statements

Questions????

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