

**AGA-Austin Chapter  
Program & Luncheon Meeting Minutes  
Meeting Date: October 13, 2011**



The meeting was called to order at 11:45 a.m.

**Regular Business**

Paul Morris, President-Elect, welcomed everyone to the luncheon.

Paul's announcements:

- The Chapter is collecting baby food and cash donations for the Baby Food Drive to benefit the Capital Area Food Bank.
- Thanks to John Amidon for creating an outstanding Citizen Centric Report for the Chapter covering the 2010-2011 chapter year

Lynda Baker, Community Services Chair asked for volunteers for Play Bingo night being held on October 29<sup>th</sup> to benefit the Centers for Child Protection. Volunteers will serve 2-hour shifts between 9 a.m. and 3 p.m.

Debi Weyer, Education Chair, announced that the next CPE event would be two back-to-back AGA audio conferences for a total of four CPE hours. The event will take place in the ERS board room on November 9<sup>th</sup>. The cost will be less than \$15 per hour of CPE. Topics of the audio conferences are Statements on Auditing Standards for attestations and the CFO Act. Look for the flyer arriving in your inbox soon.

**Program Speaker**

Debi Weyer introduced Irene Lee, Manager of the Financial Reporting Section at the Texas Comptroller of Public Accounts.

Irene has been leading special projects in the financial reporting section for the past nine years. The major projects she has led include the compilation of the State of Texas Comprehensive Annual Financial Report (CAFR) and the implementation of the GASB 34 Financial Reporting Model. She also performs research on governmental accounting and reporting.

Irene has worked with the Comptroller's Office since 1990 in the area of Financial Reporting, the Fiscal Systems Change Management section, and the Integrated Statewide Administrative System (ISAS). Before joining the Comptroller's Office, she worked with the Texas State Auditor's Office for five years. Irene earned her Master of Professional Accounting (MPA) degree from the University of Texas at Austin and she is a CPA and CGFM.

**GASB Statement (GASBS) Implementations – Fiscal Year 2011**

- GASBS 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

The State of Texas is facing a very busy fiscal year end due to the implementation of GASBS 54. This statement impacts the reporting of fund balances in all governmental funds, which includes general, special revenue, debt service, and capital projects funds. The objective of GASBS 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. GASBS 54 eliminates the *reserved* component of fund balance. The new classifications focus on constraints and the extent to which a government is bound to observe the constraints imposed upon the use of the resources reported in governmental funds.

As you can imagine, the impact of this statement is huge. Irene's team of financial reporting analysts reviewed each and every fund in the State that was classified as a governmental fund to determine the appropriateness of its classification. Each fund balance had to be re-assigned to:

- Nonspendable – inventories, prepaid items, long-term amounts of loans and notes receivable, property for resale, corpus of a permanent fund
- Restricted – amounts that can only be spent for specific purposes imposed by constitution, enabling legislation, or external parties

**AGA Austin Chapter**  
**Program & Luncheon Meeting Minutes**  
**Meeting Date: October 13, 2011**  
Page 2 of 4

- Committed – amounts that can be used only for specific purposes determined by a formal action at the highest level of decision-making authority, but which are separate from legislation creating the revenue source
- Assigned – amounts intended to be used for specific purposes but that do not meet the criteria of *restricted* or *committed*; uses of fund are internally constrained based on an expression of intent; includes all other positive remaining fund balance other than the *unassigned* category
- Unassigned – the residual classification for the general fund and for all spendable amounts not classified into another category

Encumbrances should be assigned if not already restricted or committed, and should be disclosed in the notes.

Classification of fund balances requires review and analysis of relevant statutes (such as appropriations bills), ordinances, and bylaws. Determination of spendable components are based on categorization of inflows and the agency's spending policy regarding whether *restricted* or *unrestricted* amounts are spent first when both are available. In the event there is no policy, the order should be *committed*, *assigned*, then *unassigned*.

To be considered a special revenue fund, *restricted* or *committed* revenues should continually comprise 35-40% of the inflows. Transfers are not considered when assessing criteria.

- GASBS 59, *Financial Instruments Omnibus*, is also effective for fiscal year 2011. This statement amends:
  - GASBS 25 and GASBS 43 – removes the fair value exemption for unallocated insurance contracts
  - GASBS 31 – “2a7-like” pools meet SEC Rule 2a7 external investment pool criteria
  - GASBS 40 – requires interest rate risk disclosure only for non “2a7-like” pools
  - GASBS 53 – limits financial guarantee contracts to derivatives that are primarily for income or profit

#### **GASB Statement Implementations – Fiscal Year 2012**

Fiscal year 2012 will be a much welcomed “uneventful” year for statewide GASB implementations.

- GASBS 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, allows alternative measurement methods to produce actuarially based information for financial reporting.

Because neither the Employees Retirement System nor Teacher Retirement System is agent employer plan, this statement has little impact on the CPA's financial reporting section.

- GASBS 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement 53*

This statement clarifies the termination provisions for an effective hedging relationship related to interest rate swap or commodity swap agreements. The focus of this statement is the event whereby the swap counterparty or credit support provider commits or experiences an act of default or a termination event as described in the swap agreement.

When the swap agreement has been reported as a hedging instrument, GASBS 53 required the government to cease hedge accounting upon termination, resulting in immediate recognition of the deferred outflows/deferred inflows of resources as investment income. GASBS 64 clarifies whether an effective hedging relationship continues after the replacement of the swap counterparty/credit support provider and sets criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

#### **GASB Statement Implementations – Fiscal Year 2013**

- GASBS 60, *Accounting and Financial Reporting for Service Concession Arrangements*

This statement will have relatively little impact on reporting for the State of Texas.

- GASBS 61, *The Financial Reporting Entity Omnibus-an amendment of GASB Statements No. 14 and No. 34*

Another statement that impacts the CPA's financial reporting section is this modification to certain requirements for inclusion of component units (CU) in the financial reporting entity including existence of a financial benefit or burden relationship that must be present to meet the "fiscal dependency" criteria. The statement also amends criteria for reporting blended component units (BCU) that have substantively the same governing body by requiring that the primary government have operational responsibility and that the total debt of the BCU is expected to be repaid entirely (or almost entirely) with primary government resources.

- GASBS 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

This statement's objective is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This effort brings the authoritative accounting and financial reporting literature together in one place.

- GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

This statement amends the net asset reporting requirements in GASBS 34, and will have a big impact on Statewide financial reporting. It requires that the display on the Statement of Net Position (currently Statement of Net Assets) be presented as:

Assets + *Deferred outflows of resources* – Liabilities – *Deferred inflows of resources* = Net Position

*Deferred Outflows* are defined as consumption of net assets applicable to a future period. *Deferred Inflows* are defined as the acquisition of net assets, which have a negative effect on "net" assets.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements. GASBS 63 includes guidance for reporting those financial statement elements, which are distinct from assets and liabilities. In addition, an exposure draft is currently available for comment that reclassifies certain items currently reported as assets and liabilities into the new financial statement elements.

### **GASB Exposure Drafts**

Exposure Drafts for both of the following were published on June 27, 2011.

- *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* (for employers).

An excellent plain-language summary is located at

[http://www.gasb.org/cs/ContentServer?site=GASB&c=Document\\_C&pagename=GASB%2FDocument\\_C%2FGASBDocumentPage&cid=1176158723597](http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176158723597).

The main focus of the exposure draft, and the area of biggest impact for the State, is the concept of *Net Pension Liability*. The argument is that "Pensions are a form of compensation, like salaries, which governments provide to their employees in return for work. Consequently, like salaries, the costs and obligations associated with pensions should be recorded as they are earned by the employees, rather than when contributions are made by the government to a pension plan or when benefit payments are made to retirees." (Source: GASB Exposure Draft)

The GASB defines a liability as "a present obligation to sacrifice resources that a government has little or no discretion to avoid." GASB further states that "if an item meets the definition of a liability, it should be recognized in the financial statements, rather than disclosed in the notes to the financial statements." The fact that pensions

earned today are not received by the employees until some point in the future when they retire means that a government has an obligation *now* to provide those benefits at that future time. (Source: GASB Exposure Draft)

Governments would report in financial statements a net pension liability equal to the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits to current employees, retirees, and their beneficiaries.

Other major components of the exposure draft cover:

- Measuring Total Pension Liability and Expense
  - Note Disclosures and RSI
  - Special Funding Situations (i.e. public schools)
  - Define Contribution Plans
  - Cost-sharing Multiple Employer Plans
- *Financial Reporting for Pension Plans – an amendment of GASB Statement 25* (for plan administrators).

This standard would outline the basic framework for the separately issued financial reports of defined benefit pension plans and specify the required approach to measuring employer obligations associated with pensions, depending upon the type of plan administered: single-employer, agent, or cost-sharing. The standard would also detail the note disclosures required for defined contribution pension plans.

Requirements that are different from current GASB requirements include:

- Two financial statements—a statement of plan *net position* (same requirements as outlined above for GASBS 63) and a statement of changes in plan *net position*.
- Notes to financial statements changes: time-weighted and money-weighted rates of return; total and net pension liability and applicable ratios; significant actuarial assumptions used to calculate the total pension liability; assumptions used in calculating the discount rate, the basis for selecting the long-term expected rate of return, and the municipal bond index rate (if applicable).
- Ten-year RSI schedules (current requirement is six years) would include the changes in and components of net pension liability and related ratios; actual annual time-weighted and money-weighted rates of return, both net of investment expenses.

## **Conclusion and Adjournment**

Number attending: 31 (including the speaker)

Future CPE events: **November 10, 2011**  
**Audio Conferences**  
4 CPE  
8:30 a.m. – 12:30 p.m. (8:00 a.m. check-in starts)  
Location: ERS Board Room, 200 E. 18<sup>th</sup> Street, Austin

**December 8, 2011**  
**Luncheon**  
1 CPE  
11:50 a.m. – 12:50 p.m.  
Location: Corazon at Castle Hill, Austin

The meeting was adjourned at 12:55 p.m.

Lynne Pfeffer  
Secretary

Date: December 1, 2011