

Analysis of Guidance in Questions in
Recent Comprehensive Implementation Guides

Question Topic, Number and Year Added	Analysis
DEPOSITS AND INVESTMENTS	
Custodial Credit Risk (Question 1.33.2, 2004)	Deposits covered by irrevocable standby letters of credit issued by the Federal Home Loan Bank are not exposed to custodial credit risk. An irrevocable letter of credit is treated as a form of insurance if <ul style="list-style-type: none"> • The bank or bank's affiliate did not issue it and • The scope of coverage is substantially the same as that provided by federal deposit insurance
Foreign Currency Risk (Question 1.65.6, 2005)	Investments in stocks of U.S. corporations with offshore operations do not expose a government to foreign currency risk per GASBS 40. <ul style="list-style-type: none"> • Foreign currency risk is limited to investments denominated in a foreign currency. • Example given—Investments in debt denominated in a foreign currency • Example given—Investments in equity securities traded on foreign stock exchange with buying and selling using a foreign currency
PUBLIC ENTITY RISK POOLS	
Applicability of GASBS 10 to Retiree Health Benefits (Question 3.50.3R, 2005)	After implementation of GASBS 45 , GASBS 10 applies only to those health benefits provided to active employees (and their dependents and beneficiaries), not to retiree health benefits.
THE FINANCIAL REPORTING ENTITY	
Disclosures for Fiduciary Component Units (Question 4.39.5, 2006)	The requirement to disclose whether component units are blended or discretely presented does <i>not</i> apply to fiduciary component units.
Presenting Nongovernmental Component Units General Guidelines (Question 4.33.3, 2004)	Questions 4.33.3 and 4.33.4, 2004 address issues regarding the presentation of nongovernmental component units (CUs) in a government's financial report. Question 4.33.3 addresses primarily general guidelines and Question 4.33.4 focuses essentially on reporting a discretely presented nongovernment fund-raising foundation in the financial statements of a university reported as an enterprise only activity. <ul style="list-style-type: none"> ■ GASBS 14 does not require a nongovernment CU to make changes in its separately issued financial statements. ■ To include a nongovernmental CU in its financial report, a government must <ul style="list-style-type: none"> • Apply GASBS 14 to determine if the CU has any CUs (which would then also be CUs of the government) (Question 4.33.2) • Apply the display provisions of GASBS 14 when incorporating the nongovernmental CU data into the reporting entity financial statements (Question 4.33.1) • If impractical to reformat the nongovernmental CU change statement data to conform to that of the primary government, report its change statement data on a separate following page (Question 4.33.1)

<p>Nongovernmental Foundations as CUs of “Enterprise Only” Government</p>	<ul style="list-style-type: none"> • When presenting a nongovernmental fund-raising organization as a component unit in a separate column of financial statements of a government university reported as an enterprise only activity (Question 4.33.2), reformat and restate the foundation’s financial statements, as necessary, to conform with the GASB display requirements. For example: <ol style="list-style-type: none"> 1) Classify assets and liabilities into current and noncurrent components. 2) Redistribute the foundation’s net assets among the three GASBS 34 net asset components. 3) Distinguish restricted net assets between expendable and nonexpendable and between major categories of restrictions. 4) Realign revenues and expenses as necessary to distinguish between operating and nonoperating revenues and expenses. 5) Present revenues and expenses per the GASBS 34 format—distinguishing between operating and nonoperating for instance. 6) Present the foundation expenses using the natural or functional classification approach chosen by the university for presenting its expenses. 7) Reduce foundation revenues by any related discounts and allowances reported as expenses in the foundation financial statements.
<p>PENSION REPORTING AND DISCLOSURE</p>	
<p>Pension Obligation Bonds (Question 5.45.13, 2004)</p>	<p>What is the proper treatment of Pension Obligation Bonds issued by sole employer government to eliminate the unfunded actuarial accrued liability of its pension trust fund? (The pension trust fund receives the proceeds directly and is included in the government’s financial statements. Nothing flows through the general fund.)</p>
<p>General Fund Perspective</p>	<p>The transaction is treated as a transaction with an external entity.</p> <ul style="list-style-type: none"> ■ From the General Fund perspective, the government has <ul style="list-style-type: none"> • <i>Other financing sources</i> from the issuance of the bonds • <i>An equivalent amount of pension expenditures</i> • <i>No General Fund assets or liabilities</i> related to the transaction
<p>Government-wide Perspective</p>	<ul style="list-style-type: none"> ■ From the government-wide perspective, the government has <ul style="list-style-type: none"> • A net pension asset equal to the difference between the expenses based on the ARC and the contribution amount • A liability for the pension obligation bonds • The pension expense is based on the ARC, not on the actual pension contribution. <p>Note: The GASB’s answer to this question does not discuss the component(s) of net assets affected by the net pension asset or the pension obligation bonds. However, question 7.24.7 does. The calculation is illustrated in Worksheet C of Appendix 7-4 and shows:</p> <ol style="list-style-type: none"> 1) Net pension assets added in the computation of restricted net assets, 2) Pension obligation bonds equal to the net pension assets

	deducted in computing restricted net assets, and 3) The excess of the pension obligation bonds over the net pension assets deducted in computing the unrestricted net assets.
Subsequent Years	If the government fully funds the ARC in subsequent years, <ul style="list-style-type: none"> • Pension expenditures will equal the ARC. • Pension expense, in the government-wide statements, will equal the <ol style="list-style-type: none"> 1) ARC 2) Less interest on the net pension asset 3) Plus an ARC adjustment. • The net pension asset will be reduced by the amount that the expense exceeds the cash contribution. <p>Note that the government also will incur interest expense on the pension obligation bonds.</p>
GASB STATEMENT 34: NEW QUESTIONS, 2006	
Modified Approach—Treatment of Cost of New Bridge to Replace Old Bridge in Bridge Network (Question 7.17.5, 2006)	A government should expense all preservation costs. Preservation costs include the <ul style="list-style-type: none"> • Cost of construction of a new bridge adjacent to similar old bridge being replaced • Cost of tearing down and removing the old bridge <p>Capitalize any portion of the new bridge cost associated with increased capacity or efficiency.</p>
Classification of Liability for Closure and Postclosure Costs of a Municipal Solid Waste Landfill for Net Asset Calculation Purposes (Question 7.22.15, 2006)	<ul style="list-style-type: none"> ■ No portion of the liability for closure and postclosure costs may be deducted from Net Assets Invested in Capital Assets, Net of Related Debt. ■ The liability <ul style="list-style-type: none"> • Reduces restricted net assets if funded with restricted assets • Otherwise, reduces unrestricted net assets
Reporting Corrections of Errors in Previously Issued Financial Statements (Question 7.22.16, 2006)	Report corrections of errors in previously issued financial statements as restatements of beginning net assets/fund equity.
Net Asset Computation—Treatment of Discretely Presented Component Unit Highway Construction Bonds and Primary Government Pledge of Annual Appropriations for Debt Service on Bonds (Question 7.23.12, 2006)	In this question: <ol style="list-style-type: none"> 1) Proceeds of discretely presented component unit (DPCU) bonds remitted to the primary government (PG) were used for infrastructure construction. 2) PG annual appropriations financed from future federal transportation revenues secure the bonds. 3) The DPCU bonds are payable solely from these annual appropriations from the PG.
Primary Government Computation	The PG <ul style="list-style-type: none"> • Has a liability to the DPCU for the obligation to repay the DPCU for the bond proceeds with pledged future revenues. • Liability to the DPCU is capital-related debt except that portion deducted to offset unspent proceeds included in restricted assets.
Component Unit Computation	The DPCU <ul style="list-style-type: none"> • Has a receivable from the PG. • Should deduct its bonds in calculating unrestricted net assets. <p>(The response implies that the receivable is not a restricted asset. If it were a restricted asset, it would seem appropriate to deduct the bonds</p>

	in calculating restricted net assets rather than unrestricted net assets.)
Net Assets Restricted by Enabling Legislation (Question 7.24.24, 2006) Taxing Government Other Governments	Question 7.24.24 states that a restricted tax established by statutes of one government and shared with others: <ul style="list-style-type: none"> • Should be disclosed as restricted by enabling legislation in the report of the taxing governments • Are externally restricted for the other governments with which the tax is shared
Restricted Net Assets from Bond Proceeds Required to Be Used for a Bond and Interest Reserve (Question 7.24.25, 2006)	<ul style="list-style-type: none"> • The portion of bond proceeds required by a bond indenture to be set aside as a bond and interest reserve are restricted assets. • A corresponding amount of the bonds should be used to calculate restricted net assets, not deducted from invested in capital assets, net of related debt.
Restricted Net Assets—Government’s Required Match of a Gift Creating the Nonexpendable Corpus of a Permanent Fund (Question 7.24.26, 2006)	Both the donated assets and the assets used for a required match are externally restricted by the stipulation imposed by the donor and are included in computing restricted net assets.
Budgetary Comparison Required If Legally Adopted Annual Budget (Question 7.91.13, 2006)	<ul style="list-style-type: none"> • The legally adopted budget requirement applies to the General Fund (as well as to major Special Revenue Funds). • If a budget is not required and adopted for the General Fund, a budgetary comparison is not required. • The same is true for major Special Revenue Funds.
Meaning of “Legally Adopted” (Question 7.91.14, 2006)	For a budget to be considered legally adopted, the budget must be required for the government to have the legal authority to spend resources.
Retroactive Reporting Resulting from Implementing the Requirement to Retroactively Report General Infrastructure (Question 7.104.17, 2006)	<ul style="list-style-type: none"> • Retroactive reporting of infrastructure must be presented as a prior period adjustment. • Restatement of beginning net assets and affected note disclosures is required. • Treatment as a current-year addition to capital assets is prohibited.
GASB STATEMENT 34: NEW QUESTIONS, 2005	
Equality of Beginning and Ending Fund Balances of Aggregated Nonmajor Funds (Question 7.55.7, 2005)	Should beginning fund balance of current year nonmajor funds equal the ending fund balance of the prior year’s nonmajor funds? <ul style="list-style-type: none"> • If exactly the same funds are included in nonmajor funds in both years, yes. • If funds previously reported as nonmajor are major funds in the current year (or vice versa), no. <ol style="list-style-type: none"> 1) The beginning fund balance of the current year will equal the sum of the prior year ending balances of the current year’s group of nonmajor funds—even though this will not articulate with last year’s nonmajor funds fund balances. 2) Governments are encouraged to consider explaining the differences.
Blended Component Unit With Its Own Discretely Presented Component Unit (Question 4.30.4, 2005)	If a component unit that is to be blended has a discretely presented component unit of its own: <ul style="list-style-type: none"> • The two component units are dealt with separately. • The component unit that meets the blending criteria must be blended in the primary government’s financial statements and • The blended component unit’s component unit must be

	discretely presented in the primary government's financial statements.
Enterprise Fund Definition (Question 7.50.5, 2005)	<p>If a government does not have a formal pricing policy for an activity for which user fees are a principal revenue source, but its budget is established to fully recover costs including depreciation, is the activity required to be reported as an Enterprise Fund?</p> <p>The pricing policy does not have to be a formal written policy, therefore the activity must be reported as an Enterprise Fund</p>
MD&A References to Component Units (Question 7.5.3, 2005)	When, if ever, may the MD&A refer to component units in the aggregate instead of to individual component units?
General Rule	<ul style="list-style-type: none"> ■ Individual component unit discussion is the focus because varying relationships between CUs and PGs make discussion in the aggregate difficult. <ul style="list-style-type: none"> • Statement 34 states that discussion of CUs should be based on an individual CU's significance and its relationship to the PG. • MD&A should generally focus on individual CUs.
Exception	<ul style="list-style-type: none"> ■ Discussion of several CUs in the aggregate may be appropriate when there are multiple similar CUs with virtually identical relationships with the PG—e.g., multiple fund-raising component units of a university.
Net Assets Restricted by Enabling Legislation (Questions 7.24.15 to 7.24.23, 2005)	<p>(Question 7.24.16, 2005) Prior determinations of nonenforceability of legal restrictions on resource use imposed by a government's enabling legislation</p> <ul style="list-style-type: none"> • Do not mean that restrictions imposed by new enabling legislation must be judged nonenforceable • May result from a pattern of facts that will be relevant to the judgment of enforceability of the new restrictions, but • That judgment should be based on the facts and circumstances surrounding the individual, new enabling legislation.
Nonqualifying Use of Resources with Legally Enforceable Use Restrictions (Questions 7.24.17–7.24.19, 2005)	What effect does the nonqualifying use of resources with a legally enforceable use restriction have on reporting?
Reevaluate Enforceability	<ul style="list-style-type: none"> ■ Reevaluate the legal enforceability of the restrictions. (Question 7.24.17)
If Nonenforceable	<ul style="list-style-type: none"> ■ If judged to be nonenforceable, the net assets should be reclassified as unrestricted. (Question 7.24.17)
If Enforceable	<ul style="list-style-type: none"> ■ If still judged legally enforceable: <ul style="list-style-type: none"> • Restricted net assets should not be reduced by the nonqualifying use. • The use of resources for the nonqualifying purposes should be reflected in unrestricted net assets rather than in restricted net assets (Question 7.24.18)—even if all restricted assets have been used up in this manner. (Question 7.24.19)
Restrictions Previously Judged Nonenforceable Are Enforced by Court (Question 7.24.20, 2005)	Restrictions on assets generated by a revenue stream that are imposed by a government's enabling legislation have been judged nonenforceable in the past and reflected in unrestricted net assets. The restrictions are in fact enforced by the courts as a result of a lawsuit.

	<ul style="list-style-type: none"> ■ Beginning in the year of the judgment <ul style="list-style-type: none"> • All net assets generated by the restricted revenue source should be reported as restricted net assets (unless the court order specifies that only a portion of the assets from the revenue source must be used for the restricted purpose). • The notes should indicate that these net assets are restricted by enabling legislation. ■ This circumstance does not indicate that a reporting error was made in the past.
Selected Examples of Restricted Net Assets Not Restricted by Enabling Legislation (Questions 7.24.21–24.23, 2005)	<p>A government should consider net assets restricted under any of the following actions as restricted by external parties and should NOT include them in the disclosure of net assets restricted by the government’s own enabling legislation:</p> <ul style="list-style-type: none"> • Restrictions imposed by propositions passed by voters, even if initiated by the governing body. (Question 7.24.21) • Levy of a special property tax that the state permits local governments to levy only for a specific purpose. (Question 7.24.22) • Shared revenues provided to the government from a state tax restricted for a specific use and also required to be shared with local governments. (The portion of the proceeds of the tax retained by the state would be disclosed in the state report as restricted by enabling legislation (assuming its legal enforceability.) (Question 7.24.23)
THE STATISTICAL SECTION	
Inclusion of Enterprise Fund General Obligation Bonds in Schedule of Ratios of General Bonded Debt (Question 9.25.4, 2006)	<p>All general obligation bonds are to be included in the schedule of general bonded debt.</p> <ul style="list-style-type: none"> • Most are reported with the governmental activities debt. • This question describes general obligation bonds that should be included with the business-type activities debt—i.e., debt issued to finance enterprise fund assets, accounted for in enterprise funds, and being repaid with enterprise fund revenues.
Disclosure of Limitations on Ability to Borrow (Question 9.30.3, 2006)	<p>The question describes a government with both a constitutional limitation on its ability to borrow and a more restrictive statutory limitation.</p> <ul style="list-style-type: none"> • The more restrictive legislative limitation should be reported in the schedule of debt limitation information. • It may be useful to include a note describing the less restrictive constitutional limitation also.
VARIOUS TOPICS	
Long-Term Pension-Related Liability for Incremental Contractually Required Contributions to the Pension Plan (Question Z.16.1, 2006)	<p>Employee compensation for final year of service used in determining (1) employee defined pension benefits and (2) employer contractually required contributions to cost-sharing plan <i>includes cash payments for unused compensated absences (vacation and sick leave settled by means of termination payment).</i></p> <ul style="list-style-type: none"> • Para. 11 of Statement 16, “Accounting for Compensated Absences,” requires cost sharing employer inclusion of an added amount for incremental contractually required contributions associated with termination payments of compensated absences in measuring the expense and liability for compensated absences. • No separate pension-related liability or expense is created.

<p>Compensated Absences Liability and Expenditure Recognition—Governmental Funds (Question Z.16.2, 2006)</p>	<ul style="list-style-type: none"> • Governments may <i>not</i> recognize governmental fund compensated absences liabilities and expenditures when those benefits vest as a result of years of service. • Maturing (becoming due and payable) of the compensated absence liability determines the timing of expenditure and liability recognition in governmental funds.
<p>Applicability of Post-Nov. 30, 1989 Amendments of FASB Standards (Question Z.20.1, 2006)</p>	<p>Except for enterprise fund and business-type activities, governments should apply FASB and predecessor organization pronouncements</p> <ul style="list-style-type: none"> • That were in effect on November 30, 1989 • Without giving effect to amendments after November 30, 1989.
<p>IRC Section 457 Deferred Compensation Plans Purchase of Annuity Contracts in Individual's Name Through Insurance Company (Question Z.32.1, 2006)</p>	<p>Annuity contracts in an individual's name purchased from an insurance company under one of the payout options of a 457 plan are not reported in the 457 plan.</p>
<p>Insurance Recoveries (Question Z.42.11, 2006)</p>	<p>Reporting of insurance recoveries is not affected by whether the recovery is from the government's insurer or another party's insurer.</p>
<p>TERMINATION BENEFITS</p>	<p>Questions Z.47.1 to Z.47.5</p>
<p>COBRA Continuation Benefits Question Z.47.1</p>	<p>COBRA benefits are a healthcare-related termination benefit. The government must: Calculate and recognize the present value of estimable amounts of expected future benefits</p> <ul style="list-style-type: none"> • For voluntary terminations—At the acceptance date of an offer • For involuntary terminations—At the date that the termination plan (meeting certain criteria) is approved and communicated to employees. <p>If not part of a large-scale, age-related termination event, the</p> <ul style="list-style-type: none"> • Blended premium rates may be used to project expected future benefit payments • Termination benefit liability related to the COBRA continuation will be zero if the employee contributes the full amount <p>If part of a large-scale termination event, the</p> <ul style="list-style-type: none"> • Projected total claims costs (or age-adjusted premiums approximating claims costs) must be used to project expected future benefit payments • Employer termination benefit liability and expense is calculated as the discounted present value of the expected future benefit payments • The difference between the age-adjusted premium and the employee contribution (i.e., the employer contribution) is the basis for the projection • The amount must be calculated considering the healthcare cost trend rate and the discount rate
<p>Early Retirement Incentive Via Enhanced Benefit Formula for Defined Pension Benefits (Question Z.47.2)</p>	<ul style="list-style-type: none"> • Disclose the termination benefits affecting the defined benefit pension plan in the notes to the financial statements. • Report per the requirements of Statement 27. • Reflect enhanced pension formula in all applicable pension measures reported by the employer <ul style="list-style-type: none"> 1) Financial statement amounts

	<p>2) Notes disclosures</p> <p>3) Schedule of funding progress</p>
<p>Recognition of Liability and Expense for Involuntary Termination with Cash Payments (Questions Z.47.3 to .5)</p> <p>No Continuing Service Requirement (Question Z.47.3)</p> <p>With a Continuing Service Requirement (Question Z.47.4)</p> <p>With a Portion of the Benefit Not Subject to a Continuing Service Requirement and a Second Portion with a Continuing Service Requirement (Question Z.47.5)</p>	<p>The questions describe involuntary plans with the following provisions:</p> <ul style="list-style-type: none"> • Each terminated employee will receive a single cash payment • The plan of involuntary termination meets the criteria specified in Statement 47, para. 14 (the number, functions, and location of employees to be terminated and the termination date). • Employees can determine the type and amount of benefits based on the information provided. <p>If the payment is to be received without regard to continuation of service, the liability and expense for the termination benefits should be recognized when the plan is communicated to the employees.</p> <p>If the payment is to be received only by employees who continue to render service until a specified point in time.</p> <ul style="list-style-type: none"> • There is a required service period from the date of communication of the plan to the specified date to which an employee must continue rendering service to receive the benefit. • The liability and expense, <ul style="list-style-type: none"> 1) Measured based on an estimate of the number of employees who will continue to render service to the end of the service period, 2) Must be recognized ratably over the service period <p>For government's that provide termination benefits of which part require continuing service and part is paid without regard to continuing service,</p> <ul style="list-style-type: none"> • The portion of the benefit <i>not</i> requiring continuing service should be recognized when the plan is communicated to the employees. • The second portion must be recognized ratably over the service period as described in Question Z.47.4.