GASB Accounting Update

FOCUS
Roanoke

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Session Agenda

- Recently issued GASB pronouncements
- Upcoming GASB effective dates
- Examination of relevant GASB standards
  - GASB 60—Service Concession Arrangements
  - GASB 61—Financial Reporting Entity
  - GASB 62—Codification of Pre-November 30, 1989 FASB and AICPA standards
- Questions, comments, and reactions
Recently Issued GASB Documents
GASB Pronouncements

Statement 59—Financial Instruments Omnibus (6/10)…

Statement 60—Accounting and Financial Reporting for Service Concession Arrangements (11/10)

Statement 61—Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34 (11/10)…
GASB Pronouncements


Plain language supplements for GASB 60, 61, and 62 issued (3/11)
GASB Pronouncements


Statement 64—Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 3 (6/11)…
GASB Pronouncements

2011-12 Comprehensive Implementation Guide (10/11)

Statement 65—Items Previously Reported as Assets and Liabilities (3/12)

Statement 66—Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62 (3/12) •
GASB Exposure Documents

Documents for public comment

- Exposure Draft: Financial Reporting for Pension Plans (7/11)
- Preliminary Views: Recognition of Elements of Financial Statements and Measurement Approaches (7/11)
GASB Exposure Documents

Documents for public comment

★★★★ Preliminary Views:
Economic Condition Reporting:
Financial Projections (12/11)

– Exposure Draft: Government Combinations and Disposals of Government Operations (3/12) •
Upcoming Effective Dates
GASB Effective Dates

June 30, 2012

– Statement 57—OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

– Statement 64—Derivative Instruments: Application of Hedge Accounting Termination Provisions…
GASB Effective Dates

June 30, 2013

– Statement 60—Service Concession Arrangements
– Statement 61—The Financial Reporting Entity: Omnibus
GASB Effective Dates

June 30, 2013 (contd.)
- Statement 63—Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

June 30, 2014
- Statement 65—Items Previously Reported as Assets and Liabilities...
GASB Effective Dates

June 30, 2014 (contd.)

– Statement 66—Technical Corrections—
  2012—an amendment of GASB Statements
  No. 10 and No. 62 •
GASB 60
Service Concession Arrangements (SCA)
SCA

Service concession arrangement

– Refers to a type of public-private or public-public partnership

– Public-private partnerships include

  Service arrangements
  Management arrangements
  SCAs…
Benefits to institutions

- Leverage existing infrastructure or other assets to generate revenues
  - Could be up-front payment from operator for right to operate the assets
- Finance new construction with a transfer of risk to private entity
- Enhanced services from assets…
SCA criteria—all of which must be present
- Transfer conveys right and obligation—related to capital asset—to third party operator to provide services to the public in exchange for significant consideration
- Operator collects and is compensated from fees to third parties...
SCA

- Transferor (institution) is entitled to significant residual interest in service utility of capital asset at end of arrangement
- Transferor determines or has ability to modify or approve
  - Services to be provided
  - To whom services will be provided
  - Prices or rates to be charged…
1. Operator builds facility and obtains the right to collect fees from third parties—residence halls, parking facility, arena
2. Operator provides significant consideration in exchange for right to access existing facility—dining halls, hospital
3. Operator builds / finances / operates and then conveys facility at end of arrangement—residence halls, arena…
Transferor accounting

- Existing facility
  - Continues to report as capital asset
- New facility or improvements to existing facility
  - Reports new capital asset or improvements at fair value when placed in service...
SCA

- Reports any contractual obligations due from the transferor as liabilities
- Difference between capital assets and liabilities recognized is deferred inflow of resources
- Payments received
- Recognize upfront payments and present value of installment payments...
SCA

- Any contractual obligations as liabilities
- Difference between payments and liabilities recognized is deferred inflow of resources
  - Liability recorded at present value if
  - Obligation relates directly to facility or
  - Obligation relates to institutional commitment to maintain minimum level of service...
Revenue recognized in systematic and rational manner over term with corresponding reduction in deferred resource inflow

Liability is reduced as institution’s obligations are satisfied

– Results in recognition of deferred resource inflow and revenues in a systematic and rational manner…

SCA
SCA

- After initial measurement capital assets are subject to existing requirements for depreciation and impairment, along with related disclosures

- Improvements made during the term increase the institution’s asset

- If operator is required to return asset in original or enhanced condition, depreciation is not recognized…
SCA

Operator accounting—only if subject to GASB (i.e., is a public institution or other government)

Reports intangible asset for right to access and use property
  – Measured by amount of upfront payment or contributed asset
  – Amortized over life of arrangement…
SCA

- Improvements made or paid for by operator increase intangible asset if they increase capacity or efficiency of facility
- Reports a liability if required in agreement to meet specified condition and facility is not in expected condition…
SCA

Revenue-sharing arrangements
- Institution reports only its share of revenues and expenses
  - Recognized when earned or incurred in accordance with terms of arrangement
  - Unconditional payments to institution recognized in systematic and rational manner...
SCA

- Government operator reports all revenues earned and expenses incurred

Disclosures

- General description of arrangement

  Describe management’s objectives

  If applicable, status of project during construction…
SCA

- Nature and amount of SCA assets, liabilities, and deferred inflows of resources
  - Nature and extent of rights retained by institution or granted to operator
  - Nature of guarantees and commitments, including their duration and significant contract terms

- Multiple SCA disclosures can be segregated or aggregated (only if generally similar) •
Questions?
GASB 61
Financial Reporting
Entity Omnibus
Omnibus

Objectives

– Reporting entity statements should include all organizations that *should be* included and *exclude others*
– Display / disclose component unit (CU) financial data—including equity interests—in most appropriate and useful manner
– Ensure consistency with conceptual framework…
Omnibus

- Increases emphasis on financial relationships
  - Raises the bar for inclusion
- Refocuses and clarifies requirements to blend certain component units
- Improves recognition of ownership interests
  - Joint ventures (JV)
  - CUUs
  - Investments…
Omnibus

Inclusion criteria

– Financial benefit / burden relationship

GASB 14 requires inclusion if potential component unit (PCU) is *fiscally dependent*—that is, institution has authority over

– Budget
– Setting rates
– Issuing debt…
Omnibus

- GASB 61 adds requirement of financial benefit / burden relationship
  
  Effect: approval of budget, rates, or debt by itself no longer sufficient for inclusion

  Misleading to exclude

- GASB 14 requires inclusion of PCU if exclusion would make statements misleading or incomplete...
Omnibus

– GASB 61 removes “incomplete” and emphasizes that determination should be based on nature and significance of relationship between PCU and institution

Generally financial in nature, such as significant financial benefit / burden

– Retains emphasis on professional judgment...
Omnibus

**Blending requirements**

- GASB 14 requires blending if institution and CU have “substantively the same” governing body
- GASB 61 adds additional requirement
  
  - Financial / benefit burden *or*
  
  - Operational responsibility—institution’s staff manage CU’s activities...
Omnibus

- GASB 61 expands blending criteria to include CU whose debt is expected to be repaid entirely or almost entirely with institutional resources

  Even when services are provided to entities or others outside the institution

- GASB 61 clarifies how to blend CU in single-column BTA—consolidate with combining information in notes...
Omnibus

Option remains to present multicolumn report

– Separate column for institution and blended CU

– Requires total column…
Omnibus

Major CU determination

- Nature of services provided to others
- Significant transactions between institution and CU
- Significant financial benefit / burden
- Eliminates consideration of each CU’s significance relative to other CUs...
Omnibus

Equity interest changes

– Guidance extended to forms of ownership beyond stock (e.g., partnerships)
– Report asset for equity interest in CU

Asset is eliminated if CU is blended

– Harmonizes reporting requirements for CUs, JVs, and organizations with JV characteristics
Omnibus

Minority interest changes

– When organization with JV characteristics is included as CU in an institution’s financial report

Equity interest of minority participants should be reported as restricted nonexpendable net assets…
Disclosures

- No new disclosures
- Clarifies that disclosures require Rationale for including each CU
  Whether it is discretely presented or blended
- Can aggregate disclosures for similar CUs
GASB 62
Codification of Pre-
November 30, 1989 FASB
and AICPA Standards
Codification

GASB 20 and GASB 34 require BTAs to apply pre-November 30, 1989 FASB and AICPA guidance unless they contradict or conflict with GASB guidance; Option to apply post-November 30, 1989 FASB guidance

FASB’s codification made original pronouncements nonauthoritative

– Forced GASB to act to incorporate relevant standards into GASB literature…
Codification

Impact of pre-November 30, 1989 standards was significant confusion for many.

Cut-off standard was FASB 102—exempted some organizations from statement of cash flow requirements.

Many standards were modified or superseded after November 30, 1989.

- GASB entities continued to follow old standards...
Codification

Two options to address the situation

– Adopt standards as is, modifying language as necessary without affecting the guidance

– Redeliberate each issue

This option could result in practice changes depending on extent of revisions

GASB chose the first option

– Means that the new standards should not result in any changes…
Codification

Scope

– Applies only to BTAs and others with proprietary funds (with some exceptions)
– GASB 20 is superseded

All *applicable* pre-November 30, 1989 standards now in GASB codification

*Potentially applicable* post-November 30, 1989 qualifies “as other accounting literature” if non-conflicting…
Codification

Implementation approach

– Change in accounting principle (versus correction of an error) •
Questions?
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GASB Accounting Update

Questions, Comments, and Reactions

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