GASB Accounting Update
Spring FOCUS 2011
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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 57 - OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans (12/09)

- Statement 58 - Accounting and Financial Reporting for Chapter 9 Bankruptcies (12/09)

- Statement 59 - Financial Instruments Omnibus (6/10)...
GASB Pronouncements

- 2010-11 Comprehensive Implementation Guide (10/10)

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

GASB Pronouncements


2010–2011 Comprehensive Implementation Guide - Mid-Year Supplement Issued 02/14/11

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

Documents for public comment

• Preliminary Views: Pension Accounting and Financial Reporting by Employers (6/10)
  • Includes plain language supplement

• Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (11/10)…
GASB Exposure Documents

Documents for public comment

- Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53 •
Upcoming Effective Dates
GASB Effective Dates

June 30, 2011

- Statement 54 - Fund Balance Reporting and Governmental Fund Type Definitions
- Statement 59 - Financial Instruments Omnibus

June 30, 2012

- Statement 57 - OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans...
GASB Effective Dates

June 30, 2013

- Statement 60 - Service Concession Arrangements
- Statement 61 - The Financial Reporting Entity: Omnibus
GASB 60
Service Concession Arrangements (SCA)
Service Concession Arrangement

Service concession arrangement (SCA)

• Refers to a *type* of public-private or public-public partnership
• Public-private partnerships include
  • Service arrangements
  • Management arrangements
  • SCAs…
Service Concession Arrangement

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…
Service Concession Arrangement

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…
Service Concession Arrangement

• 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…
Service Concession Arrangement

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…
Service Concession Arrangement

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
    • Reports any contractual obligations due from the transferor as liabilities
  • Difference between capital assets and liabilities recognized is deferred inflow of resources
Service Concession Arrangement

• Payments received
  • Recognize upfront payments and present value of installment payments
  • Any contractual obligations as liabilities
  • Difference between payments and liabilities recognized is deferred inflow of resources
Service Concession Arrangement

- Liability recorded at present value if
  - Obligation relates directly to facility or
  - Obligation relates to institutional commitment to maintain minimum level of service…
Service Concession Arrangement

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…
Service Concession Arrangement

- 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…
Service Concession Arrangement

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…
Service Concession Arrangement

• 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…
Service Concession Arrangement

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
  - Government operator reports all revenues earned and expenses incurred
Service Concession Arrangement

Disclosures

• General description of arrangement
  • Describe management’s objectives
  • If applicable, status of project during construction…
Service Concession Arrangement

• 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) •
GASB 61
Financial Reporting
Entity Omnibus
Reporting Entity 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…
Reporting Entity 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)
  • CUs
  • Investments…
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…
  - GASB 61 adds requirement of financial benefit / burden relationship
    - Effect: approval of budget, rates, or debt by itself no longer sufficient for inclusion
Reporting Entity Omnibus

Misleading to exclude

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

• Option remains to present multicolumn report
  • Separate column for institution and blended CU
  • Requires total column…
Reporting Entity 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…
Reporting Entity 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
Reporting Entity 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…
Reporting Entity Omnibus

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
Reason for the Statement

Paragraph 17 of GASB Statement 34 requires application of pre-November 30, 1989, FASB pronouncements, unless they conflict with or contradict GASB pronouncements.

Since FASB adopted its new codification, its original pronouncements are nonauthoritative:

• Forced GASB to act to incorporate relevant standards into GASB literature…
Statement Objectives

Specifically identify those provisions in FASB Statements and Interpretations, APB Opinions, ARBs, and AICPA Accounting Interpretations, issued before 11/30/89, that are applicable to state and local government entities and incorporate those provisions into the GASB’s literature.

This Statement will make it easier for practitioners to identify applicable GAAP guidance from a single authoritative source.
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…
Status of Pronouncements

GASB identified provisions to exclude that conflict with or contradict GASB pronouncements or are otherwise not applicable

Guidance on 29 topics are brought into the GASB literature, including:

- Capitalization of interest costs (FAS 34)
- Statement of net assets classification (ARB 43, APB Opinion12 & FASB Statement 6)
Pronouncements Included

- Special and extraordinary items (APB 30)
- Comparative financial statements (ARB 43)
- Related parties (FAS 57)
- Prior-period adjustments (FAS 16 & APB 9)
- Accounting changes and error corrections (APB 20 and FIN 20)
- Contingencies (FAS 5 & FIN 14)
- Extinguishments of debt (APB 26 & FAS 76)
- Troubled debt restructuring (FAS 15)
- Inventory (ARB 43)
Pronouncements Included

- Leases (FAS 13, 22 & 98 & FIN 23, 26 & 27)
- Sales of real estate (FAS 66)
- Real estate projects (FAS 67)
- Research and development arrangements (FAS 68)
- Broadcasters (FAS 63)
- Cable television systems (FAS 51)
- Insurance enterprises (FAS 60)
- Lending activities (FAS 91)
- Mortgage banking activities (FAS 65)
- Regulated operations (FAS 71, 90 & 101)
Clarifying Guidance

- Capitalization of interest—scope clarified to address assets granted to other governments
- Current assets and liabilities—operating cycle (something other than 12 months) not allowed
- Related parties—definition clarified to recognize related organizations, joint ventures, and jointly governed organizations
- Change in accounting principle—omits change in depreciation method
- Interest rate costs—imputation—scope excludes low interest loans that make the market
Codification

Implementation approach

• Change in accounting principle
  (versus correction of an error)
CURRENT PROJECTS
Current Projects

Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53- ED
(Comment Deadline: April 15, 2011)

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – ED
(Comment Deadline: February 25, 2011)

Pension Accounting and Financial Reporting by Employers - PV
(Comment Deadline: September 17, 2010)
Deferred Outflows / Deferred Inflows

Concepts Statement 4 identifies five elements that make up a statement of financial position—

• Assets
• Liabilities
• Deferred outflows of resources
• Deferred inflows of resources
• Net position
Deferred Outflows / Deferred Inflows

*Deferred outflows of resources* as a consumption of net assets by the government that is applicable to a future reporting period
- Positive effect on net position, similar to assets
- Not assets

*Deferred inflows of resources* as an acquisition of net assets by the government that is applicable to a future reporting period
- Negative effect on net position, similar to liabilities
- Not liabilities
Deferred Outflows / Deferred Inflows

*Net position* - defined as the residual of all other elements presented in a statement of financial position

Difference between:

(a) assets and deferred outflows of resources and

(b) liabilities and deferred inflows of resources
Deferred Outflows / Deferred Inflows

GASB is deliberating other projects that may result in the recognition of deferred outflows of resources and deferred inflows of resources

Should be limited to those instances identified by the GASB in authoritative pronouncements

Should not reclassify amounts as deferred outflows of resources or deferred inflows of resources until required to do so by a GASB pronouncement
Pension Accounting PV

The unfunded pension obligation to employees, for which a sole or agent employer is primarily responsible for financial reporting purposes, meets the definition of a liability.

Measurement:

- *Projection of Benefit Payments*
- *Discount Rate*
- *Attribution of the Present Value of Projected Benefit Payments to Periods*
Pension Accounting PV

Cost-Sharing Employers

Each employer in a cost-sharing plan is primarily responsible for a part of the collective net pension liability representing its implicit proportionate share of the shared benefit risks and pooled plan assets.
Build America Bonds (BABs)

GASB Implementation Guide – Q&A

Non-operating revenue
GASB Accounting Update

Questions???

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