Session Agenda

- Recently issued GASB pronouncements
- Upcoming GASB effective dates
- Examination of selected standards
  - GASB Statement No. 51
  - GASB Statement No. 53
  - GASB Statement No. 55
  - GASB Statement No. 56
Acknowledgements

- David Bean, GASB
- Randy Finden, GASB
- Wes Galloway, GASB
- Ken Schermann, GASB
Recently Issued
GASB Documents
GASB Pronouncements

Statement 55—The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (3/09)

GASB Pronouncements

- 2009-10 Comprehensive Implementation Guide (10/09)
- 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)
GASB Exposure Documents

Exposure drafts
- Pension Accounting and Financial Reporting (3/09)
- Financial Instruments Omnibus (6/09)
- Accounting and Financial Reporting for Service Concession Arrangements (7/09)
GASB Exposure Documents

- Proposed Suggested Guidelines for Voluntary Reporting, SEA Performance Information (7/09)
- Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (1/10)
GASB Exposure Documents

The Financial Reporting Entity, an amendment of GASB Statements No. 14 and 34 (3/10) •
Upcoming Effective Dates
GASB Effective Dates

- June 30, 2010
  - Statement 51—Intangible Assets
  - Statement 53—Derivatives

- June 30, 2012
  - Statement 57—OPEB Measurements by Agent and Agent Multiple-Employer Plans
Questions?
GASB 51
Intangible Assets
Intangible Assets

Assets that possess following characteristics

– Lack physical substance
– Nonfinancial nature
– Initial useful life extending beyond a single reporting period…
Intangible Assets

Examples
– Patents, copyrights, trademarks
– Easements and land use rights
– Computer software
  – Purchased or licensed
  – Internally generated…
Intangible Assets

Intangible assets must be classified and reported as *capital* assets

– Existing authoritative guidance related to capital assets extends to intangible assets

But there are exceptions…
Intangible Assets

Exceptions

– Capital leases
– Goodwill resulting from a combination transaction (e.g., merger, acquisition)
– Intangible assets acquired or created primarily to generate income or profit

Special note—although reported as investments, must be reported at cost…
Intangible Assets

Recognition—only if asset is identifiable

- Asset is separable (i.e., capable of being separated and sold, transferred, licensed, etc.) or

- Asset arises from contractual or other legal rights, regardless of whether rights are separable...
Intangible Assets

- Internally generated intangible assets (IGIA)
  - Created or produced by institution or entity contracted by institution or
  - Acquired from a third party and requiring more than minimal incremental effort to achieve expected service capacity...
Intangible Assets

IGIA costs capitalized only when all three criteria met

1. Specific objective for project determined, including establishment of expected service capacity upon completion

2. Demonstration of technical or technological feasibility for completing project...
Intangible Assets

3. Demonstration of current intention, ability, and presence of effort to complete project

- If multiyear project, requirement for continuing satisfaction of this criterion

- Outlays incurred prior to meeting criteria should be expensed as incurred...
Intangible Assets

Standard includes guidance on applying the specified-conditions approach for recognition of computer software

– Guidance closely follows requirements of AICPA SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*…
Intangible Assets

Amortization

- Existing guidance for depreciating capital assets generally applies to amortizing intangible assets
- Not required for intangible assets with indefinite useful lives

Indefinite useful lives exist when there are no factors that limit useful life...
Intangible Assets

Transition

- Provisions generally should be applied retroactively
- Exceptions permitted for IGIA and intangible assets with indefinite useful lives at transition...
Intangible Assets

- Recognition required for all other intangible assets acquired in fiscal years ending after June 30, 1980 by phase 1 or 2 institutions
- Phase 3 institutions are encouraged but not required to report other intangible assets
Questions?
Derivatives

Examples

– Interest rate swaps
  - Variable rate to fixed rate
  - Fixed rate to variable rate
– Swaption gives the purchaser the right to enter into an interest rate swap
– Commodity swap reduces exposure to a commodity’s price risk
Derivatives

Basic approach

- Fair value with hedge accounting
  
  Derivatives reported on statement of net assets at fair value
  
  Fair value changes reported on SRECNA as investment income

Exception for *effective* hedges

- Changes in fair value reported on statement of net assets using deferrals (i.e., charges or credits)
Derivatives

- Measuring effectiveness
  - Effectiveness determined by using specified methods
  - Qualitative method
    - Consistent critical terms
  - Quantitative methods
    - Synthetic instrument
    - Linear regression
    - Dollar offset
    - Other comparable method at your option
Derivatives

- Note disclosures—voluminous
  - Summary of \textit{derivative instrument activity}
    sorted by
      - Fair value hedges
      - Cash flow hedges
      - Investment derivatives…
Derivatives

- Within the three categories, segregate by type providing
  - Notional amount
  - Fair values and changes in fair value and where reported (i.e., statement of net assets or SRECNA)
  - Identify fair values of amounts reclassified from hedge to investment...
Derivatives

– Disclosures for *hedging* derivatives
  
  Extensive disclosures carried forward from Technical Bulletin 2003-1

  Significant terms

  Risks including credit, interest rate, basis, termination, rollover, market access, and foreign currency

  Identification of “other” effectiveness assessment method if applicable, including its critical values…
Derivatives

- Disclosures for investment derivatives
  - Risks including credit, interest rate, and foreign currency
- Disclosures of contingent features
  - Description of features
  - Aggregate fair value of instruments containing the features
  - Aggregate fair value of assets to be posted or transferred
  - Amounts posted or transferred
Derivatives

Disclosures for synthetic guaranteed investment contracts
– Description and nature
– Fair values of
  – Wrap contract
  – Underlying investments
Four key points

1. Derivative instruments are reported on the statement of net assets and measured at fair value

2. Changes in fair value are reported on the SRECNA
   - Unless instrument is a hedging derivative
3. Change in fair value of derivatives qualifying for hedge accounting are deferred and reported on the statement of net assets until termination (i.e., the hedged transaction occurs)

4. Massive disclosures are required for derivatives!!!
Derivatives

- Effective date is June 30, 2010
  - Implementation effort for those affected is substantial
  - Coordinate with treasury staff, investment advisors, and external auditors
Questions?
GASB 55
GAAP Hierarchy
GAAP Hierarchy

- Previous hierarchy was contained in AICPA Audit and Accounting Guide: State and Local Governments
- Sarbanes-Oxley fallout
- Resulted in issuance of GASB 55
- New hierarchy—looks different but shouldn’t impact most institutions
  - GASB statements and GASB interpretations...
GAAP Hierarchy

b. GASB technical bulletins; AICPA audit guides and AICPA statements of position specifically made applicable to state & local governments by the AICPA, but only if cleared by GASB

c. AICPA practice bulletins specifically made applicable to state & local governments by the AICPA, but only if cleared by GASB; consensus positions of groups organized by GASB to reach consensus positions...
d. Implementation guides published by GASB staff; practices widely recognized and prevalent in state & local government reporting

- As with previous hierarchy, must follow highest level when options exist within levels a-d
- If no GASB guidance available, may consider other accounting literature starting with GASB concepts statements
GAAP Hierarchy

- Effective date was “upon issuance”—March 2009 •
GASB 56
GASB AICPA SAS
Codification
GASB SAS Codification

- Sarbanes-Oxley fallout
- As with GAAP hierarchy, GASB no longer can rely on AICPA for authoritative standards
- Three subjects previously were codified in AICPA auditing literature
  - Related party transactions
  - Subsequent events
  - Going concern…
GASB SAS Codification

Because GASB did not alter the previous guidance, Statement 56 is not expected to have an impact on higher education

Effective date was “upon issuance”—March 2009 •
GASB Accounting Update

Questions, Comments, and Reactions

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