

GAAP UPDATE



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Utah State Auditor

New GASB Pronouncements

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*Accounting and Financial Reporting for Service Concession
Arrangements*

GASB STATEMENT NO. 60



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GASB 60 – Service Concession Arrangements

- What are they?
 - A government transfers the right and obligation to operate a public asset (facility) to an operator.
- Examples
 - Toll Road
 - Golf Course
 - Stadium



Service Concession Arrangements

Government (transferor)

- Gives:
 - Right to operate capital asset
- Receives:
 - Cash payment
 - Improvement of existing asset
 - Construction of new asset

Operator

- Gives:
 - Consideration
- Receives:
 - Fees and charges



Criteria

- Conveyance of right and obligation to use capital asset to serve public.
- Significant consideration
- Compensation from fees from third parties
- Transferor retains control over services (quality and rates).
- Transferor is entitled to significant residual interest in service utility at the end of the arrangement.



Distinguish

- Contracts to provide ancillary services.
 - Vendor concessions at a stadium
- Outsources services
 - Snow removal
- Arrangements where operator is directly compensated by the transferor
- Privatization – Government permanently transfers asset usually through sale.



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Effective Date

- Financial statement periods beginning after December 15, 2011
- Generally to be applied retroactively for all periods presented



*The Financial Reporting Entity: Omnibus – an amendment of GASB
Statements No. 14 and No. 34*

GASB STATEMENT NO. 61



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GASB 61 – Financial Reporting Entity

- Two Modifications
 1. Criteria for including a component unit
 2. Criteria for blending
- Four Clarifications
 1. When “misleading to exclude”
 2. Treatment of blended CU’s general fund
 3. What is a “major” discretely presented CU
 4. Level of detail for disclosure



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Definitions

- Fiscal Dependency:
 - PG can arbitrarily substitute their judgment for CU (budget, rates, debt)
- Financial Benefit/Burden: (any one of the following)
 - PG is legally entitled to or can otherwise access the organization's resources.
 - PG is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
 - PG is obligated in some manner for the debt of the CU.
- Imposition of Will
 - PG has the ability to significantly influence the programs, projects, activities, or level of services performed or provided by the CU.



Criteria for Inclusion

Modification

Three Criteria:

1. Fiscal dependency – PG can arbitrarily substitute their judgment for CU (budget, rates, debt)
 - GASB 61 adds – Must also be an ongoing relationship of financial benefit/burden
2. Board appointment (No Change)
 - Plus financial benefit/burden or
 - Plus ability to impose will
3. Misleading to exclude (Clarifies)
 - Nature and significance of relationship with the primary government is such that exclusion would cause the reporting entities financial statements to be misleading.
 - **Clarification** – relationship means “financial relationship” not just because the governments do a lot of stuff together.



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Criteria for Blending Modification

1. Substantively the same board

- Plus financial benefit/burden or
- Plus operational responsibility

Meaning, the same people who manage the departments of the primary government manage the operations of the component unit.

2. Exclusive or almost exclusive benefit (no change)

3. (New) Debt of the CU will be paid entirely or almost entirely from resources of the primary government.



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Treatment of Blended CU

Clarification

- General Rule – Combine funds of blended CU like any other fund of the PG.
- Exception – general fund of a blended CU becomes a special revenue fund of the PG.
 - Blended CU general fund is always a special revenue fund of PG, independent of GASB 54.



When is a Discrete CU Major?

Clarification

- Why important?
 - Must have separate data for each major discrete CU.
 - Separate column or
 - Condensed financial statement in notes or
 - Combining statements in the basic financial statements.
- Major When:
 - Nature and significance of CU's relationship to the PG or
 - ~~CU's significance relative to total discretely presented CUs~~



Business Type Activity

- Governments engaged only in business-type activities that use a single column, a CU must be blended by presenting financial statement data either:
 - in a separate column or
 - in condensed financial statements in the notes.



Disclosure Detail

Clarification

- Must answer two questions:
 1. Why was the CU included?
 2. Why was it blended or discrete?



Effective Date

- Financial statement periods beginning after June 15, 2012.
- Earlier application encouraged



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

GASB STATEMENT NO. 62



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GASB 62 – Private Sector Standards

Current practice:

- Potential applicability (without reference)
 - Economic resources measurement focus
 - No conflict/contradiction with GASB guidance
- Application in practice
 - Issued on or before 11/30/89
 - Mandatory (unless conflicts with GASB, as they were in place)
 - Issued after 11/30/89
 - Voluntary (enterprise funds/business type activities, unless conflicts with GASB)



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GASB 62 – Private Sector Standards

Change:

- Incorporate all relevant private sector guidance into GASB standards
- Eliminate voluntary adoption of post 1989 standards



Clarifications

- Interest should be capitalized on assets acquired for others
- The operating cycle cannot be the criterion for classifying current assets and liabilities (just 12 months)
- Interest does not have to be imputed on low-interest or no interest loans that serve a governmental purpose



Implementation

- Practical effect
 - Same standard/different location
 - Normally no change expected
 - Exception for disagreements on application
 - Optional use of post November 30, 1989 standards
 - May continue to follow as “other accounting literature”



Effective Dates

- Financial statement periods beginning after December 15, 2011.
- Earlier application encouraged
- Generally to be applied retroactively for all periods presented



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

GASB STATEMENT NO. 63



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Deferred Outflows

Deferred Outflow

- Definition – a consumption of net assets by the government that is applicable to a future reporting period.
 - Positive effect on net position, **similar to assets**.
 - (Debit)

Asset

- Definition – resources with present service capacity that the government presently controls.
 - Prepaid rent – Yes
 - Advance to grantee (time requirement not met) – No



Deferred Inflows

Deferred Inflows

- Definition – an acquisition of net assets by the government that is applicable to a future reporting period.
 - Negative effect on net position, **similar to liabilities.**
 - (Credit)

Liabilities

- Definition – present obligations to sacrifice resources that the government has little or no discretion to avoid.
 - Payment for services not yet performed? – Yes
 - Proceeds from sale of future revenues? – No



Presentation

Deferred Outflows

- Separate section following assets
 - Subtotal may be provided

Deferred Inflows

- Separate section following liabilities
 - Subtotal may be provided



Net Position

- Net position: residual of all other elements presented in a statement of financial position.
 - Term “Net position” replaces “Net assets”
 - Statement of Net Position: $\text{Assets} + \text{Deferred Outflows} - \text{Liabilities} - \text{Deferred inflows} = \text{Net position}$ (encouraged)
 - Governmental Fund Balance Sheet: $\text{Assets} + \text{Deferred Outflows} = \text{Liabilities} + \text{Deferred Inflows} + \text{Fund Balance}$
- Three components:
 - Net investment in capital assets
 - Net position – restricted
 - Net position – unrestricted



Disclosures

- Detail different deferred amounts if significant components are obscured by aggregation.
- Significant impact on a component of net position.



Effective Date

- Financial statement periods beginning on or after December 15, 2011.
- Earlier application encouraged.



Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53

GASB STATEMENT NO. 64



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GASB 64 – Hedge Termination

- What is a hedge?
 - Boat in water example
 - Market good for bonds - bad for stocks so you associate financial instruments to balance.
- Purpose of hedge – to avoid or mitigate volatility resulting from market fluctuations.



GASB 64 – Hedge Termination

- Under GASB 53 if a hedge terminates you immediately recognize the deferred outflow or inflow as a component of investment income (fair value).
- What if the hedge terminates because of a default or other termination event and the hedge is replaced continuing the hedging relationship.
- GASB 64 says you can continue to defer the inflow or outflow if certain conditions are met.



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Effective Date

- Financial periods beginning after June 15, 2011.
- Earlier application encouraged.



Items Previously Reported as Assets and Liabilities

GASB STATEMENT NO. 65



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GASB 65

- Background
 - GASB Concepts Statement No. 4 introduces:
 - Deferred outflows of resources
 - Deferred inflows of resources
 - GASB will identify which items should be classified in these categories



Decisions to date

- GASB 53
 - Hedging Derivatives
- GASB 60
 - Service concession arrangements



Goal

- Review items currently reported as assets or liabilities
- Three options:
 1. Continue to report as asset/liability
 2. Report as a deferred outflow/inflow of resources
 3. Report as an outflow/inflow of the period



Asset Deferred Outflow

- Resources provided by a grantor to a grantee when the only eligibility criterion that has not been met by the recipient is a time requirement
 - If other eligibility requirements are not met = receivable
- Excess of the reacquisition price of refunded debt over its net carrying

amount

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Asset Deferred Outflow

- Payments made within the financial reporting entity to purchase the right to future revenues (purchasing future tobacco settlement revenues)
- A loss on a sale-leaseback transaction
- Certain items associated with lending activities and mortgage banking activities



Asset Outflow

- Debt issuance costs (other than prepaid insurance)
- Initial direct costs of operating leases
- Acquisition costs related to insurance activities
- Certain items associated with lending activities and mortgage banking activities



Liability Deferred Inflow

- Revenue of a governmental fund that is not recognized solely because it is not yet considered to be available
- The excess of the net carrying amount of refunded debt over its reacquisition price
- Property taxes received or recognized as a receivable prior to the period they were intended to finance



Liability Deferred Inflow

- Other imposed non-exchange revenues received or recognized as a receivable prior to the period when the use of the resources is either required or first permitted
- Resources received from a grantor when the only eligibility criterion that has not been met by the recipient is a timing requirement
 - If other eligibility criteria not met = liability
- Proceeds from the sale of future revenues



Liability Deferred Inflow

- A reduction in the present value of the payments due from the lessee under a capital lease as a result of the lessor's passing on the economic advantages of a refunding of tax-exempt debt



Liability Deferred Inflow

- Payments received within the financial reporting entity for the right to future revenues
- Gain on sale-leaseback transaction
- Certain items associated with lending activities and mortgage-banking activities



Liability Inflow

- Loan origination fees received (other than the portion related to points) in connection with lending activities
- Certain items associated with lending activities and mortgage banking activities



Determination of Major Funds (10 percent and 5 percent tests)

Application of 10 percent and 5 percent tests
(use the combination)

- Assets + deferred outflows of resources
- Liabilities + deferred inflows of resources



Use of term “deferred”

- Current practice – used to describe
 - Unearned amounts (liability) (deferred revenue now unearned revenue)
 - Amounts related to future periods (deferred inflows of resources) (deferred revenue, now unavailable revenue)
 - Unavailable amounts (deferred inflow of resources)



Use of term “deferred”

- Future practice
 - Use limited to deferred outflows/inflows of resources



Effective Date

- Financial statement periods beginning after December 15, 2012.
- Earlier application encouraged.



Technical Corrections

GASB STATEMENT NO. 66



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GASB's Objective

Resolve conflicting guidance

- Issuance of GASB 54 – Conflicts with GASB 10
- Issuance of GASB 62 – Conflicts with GASB 13 and 48



Conflicting Guidance

GASB 10

- Requires risk financing activities to be accounted for in either a general fund or internal service fund, if a single fund is used.

GASB 54

- Allows for certain risk financing activities to be reported in a special revenue fund.



Resolution

- GASB 10 language limiting risk financing activities to general fund and internal service fund was deleted.
- Governments should base their fund type decision on the nature of the activity to be reported.



Conflicting Guidance

GASB 62

- Provides guidance on accounting for operating lease payments with scheduled rent increases that could be perceived as a prohibition against the use of the fair value method.

GASB 13

- Permits the fair value method of accounting for operating lease payments.



Resolution

- GASB 62 was amended to specifically allow for recognition based on the fair value of the rental payments.
- Professional judgment should be used to determine whether rental payments are based on economic factors relating to the property or, instead are an inducement to the lessee.



Effective Date

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- Earlier application encouraged.



Government Combinations and Disposals of Operations

GASB STATEMENT NO. 69



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Three Types of Combinations

- Merger
- Acquisition
- Transfer of operations



Merger

- At least one entity ceases to exist
 - $A+B=C$ (A&B cease to exist and a new entity is created)
 - $A+B=B+$ (B absorbs A's operations)
- Service continuation (substantial portion of services)
- No exchange of significant consideration



Acquisition

- At least one entity ceases to exist
 - $A+B=C$ (new entity)
 - $A+B=B+$ (B becomes larger)
- Service continuation (substantial portion of services)
- Exchange of significant consideration
(Difference from a merger)



Transfer of Operations

- Identifiable services (ie. library, museum, etc.)
- Related assets and liabilities
- No significant consideration



Treatment of Financial Statement Elements

- Merger
 - Carrying value (with adjustments -- if the two entities had different useful lives for the same assets you can adjust the useful lives for consistency.)
- Acquisition
 - Acquisition value
 - Price to acquire similar assets
 - Price to discharge liabilities as of acquisition date
- Transfer of operations
 - Carrying value (with adjustments)

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Consideration Not Equal to Net Position

- Consideration $>$ net position acquired
 - Deferred outflow of resources
- Consideration $<$ net position acquired
 - Meant to assist acquiring government?
 - Yes = Recognize contribution
 - No = Reduce acquisition value of noncurrent assets (other than investments reported at fair value)
 - Remainder = special item (if noncurrent assets are reduced to zero, the remainder should be recognized as a special item)



Disposals

- Transferred operation = gain or loss on disposal



Note Disclosures

- All combinations
 - A brief description of the government combination, including identification of the entities involved in the combination and whether the participating entities were included within the same financial reporting entity
 - The date of the combination
 - A brief description of the primary reasons for the combination
- Additional disclosures depending upon the type of combination.



Effective Date

- Financial statement periods beginning after December 15, 2013.
 - Prospective implementation
- Earlier application encouraged.



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