GASB Update:
GASB Statements Nos. 60 and 61
Two new GASB Pronouncements effective July 1, 2012

• GASB Statement No. 60: Accounting and Financial Reporting for Service Concession Arrangements
  Effective Date: For periods beginning after December 15, 2011
  CSU: July 1, 2012

• GASB Statement No. 61: The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34
  Effective Date: For periods beginning after June 15, 2012
  CSU: July 1, 2012
What is a Service Concession Arrangement?

- A type of Public-Private or Public-Public Partnership

- An SCA may provide the government with the ability to leverage existing infrastructure and other public assets to generate additional available resources for the right to operate such assets.

- SCAs may be used to provide services to the general populace in a more efficient and cost-effective manner.
SCA’s are technically defined as:

An arrangement between a government (transferor) and an operator in which ALL of the following criteria are met:

1. The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of a capital asset in exchange for significant consideration.

2. The operator collects and is compensated by fees from third parties.

3. The transferor determines or has the ability to modify or approve what services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.

4. The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement.
Examples of SCAs:

• Arrangements in which the operator will design and build a facility and will obtain the right to collect fees from third parties (lease)

• Arrangements in which the operator will provide significant consideration in exchange for the right to access an existing facility (for example, a parking garage) and collect fees from third parties for its usage

• Arrangements in which the operator will design and build a facility for the transferor (for example, a new dormitory), finance the construction costs, provide the associated services, collect the associated fees, and convey the facility to the government at the end of the arrangement.
Potential SCAs at the CSU . . .

Library
Franchise Stores/Restaurants
Food Service
Student and Faculty Housing
Hotels/Catering
Auxiliary Organizations
Bookstore
Student Union
Industrial Complex/Strip Mall
Sports Complex
Foundations
Energy Providers
Public Radio
Associated Students
Parking
Transferor Accounting and Financial Reporting

1. If the facility associated with an SCA is an existing facility, the transferor should continue to report the facility as a capital asset.

2. If the facility associated with an SCA is a new facility purchased or constructed by the operator, or an existing facility that has been improved by the operator, the transferor should report
   (a) The new facility or the improvement as a capital asset at fair value when it is placed in operation,
   (b) Any contractual obligations as liabilities, and
   (c) a corresponding deferred inflow of resources equal to the difference between (a) and (b).
3. A transferor should recognize a liability for certain obligations to sacrifice financial resources under the terms of the arrangement (required improvements, maintenance, insurance, police services).

4. After initial measurement, the capital asset is subject to existing requirements for depreciation. However, the capital asset should not be depreciated if the arrangement requires the operator to return the facility to the transferor in its original or an enhanced condition. The corresponding deferred inflow of resources should be reduced and revenue should be recognized in a systematic and rational manner over the term of the arrangement, beginning when the facility is placed into operation.
Operator Accounting and Financial Reporting (applicable only if the operator is a GASB organization)

1. An operator should recognize an intangible asset at cost for its right to access the facility and collect third party fees, then amortize it over the term of the arrangement.

2. For existing facilities, the operator’s cost may be an up-front payment or the present value of installment payments.

3. For new or improved facilities, the operator’s cost may be its cost of improving the existing facility or constructing or acquiring a new facility.
Other Considerations

• Provisions also apply to GASB Auxiliary Organizations

• Requirements include enhanced disclosures in the financial statements for SCAs

• Campuses/Auxiliaries may qualify as Operators, with additional accounting/reporting requirements

• The Statement also addresses SCAs where there is revenue sharing
Implementation Steps for CSU

• Start early and plan ahead before 7/1/2012.

• Carefully evaluate potential SCAs at CSU to determine whether they meet the four criteria in the SCA definition.

• The CO will provide a sample matrix for the criteria in the SCA definition.

• If all four criteria are met, then it is an SCA.

• If no capital asset is used in providing the services, then it is a service management agreement (SMA).

• If the operator is compensated by the transferor, not by users of service recipients, then it is an SMA or construction contract.
Implementation Steps for CSU (cont’d)

• If the transferor does not retain control over the facility (i.e., the transferor does not determine or have the ability to modify or approve the services the operator can provide, to whom the operator can provide the services, and the rates that can be charged), then it is a lease.

• If the transferor does not retain a significant residual interest in the asset, then it is a privatization, which is accounted for as a sale/purchase.

• Contact the CO Systemwide Reporting team if you need help or send an email to FSSR@calstate.edu.
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Modifies Requirements for Inclusion of Component Units

Specifically, it modifies the following:

• Misleading to Exclude criterion

• Fiscal Dependency criterion

Modifies Requirements for Blended vs. Discrete Presentation of Component Units

Requires BTA reporters to include condensed combining information for Blended Component Units in the Notes
Changes to the Misleading to Exclude criterion

Requirements were amended to clarify the manner in which the "misleading to exclude" provisions should be applied in making the inclusion/exclusion decision.

“Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity.”
Changes to the Financial Accountability criterion

In addition to meeting the fiscal dependency criterion, a financial benefit or burden relationship must also be present in order for a potential component unit to be included in the financial reporting entity based on that concept.

“The primary government is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.”
Changes to the Blending Requirements

Blend if:

A. The component unit's governing body is substantively the same as the governing body of the primary government, and
   (1) there is a financial benefit or burden relationship between the primary government and the component unit, or
   (2) management of the primary government has operational responsibility for the component unit.

B. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.
Changes to the Blending Requirements (con’t)

C. The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government.
Disclosures for Blended Component Units

(1) Condensed statement of net assets:
   
   (a) Total assets — current assets, capital assets, and other assets.

   (b) Total liabilities — current and long-term amounts.

   (c) Total net assets — invested in capital assets; restricted and unrestricted

(2) Condensed statement of revenues, expenses, and changes in net assets

(3) Condensed statement of cash flows
Flowchart for Evaluating Component Units

The paragraph references are those of Statement 14, as amended.

PCU = Potential component unit
CU = Component unit
PG = Primary government
JV = Joint venture
Flowchart for Evaluating Component Units

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Next Step:

Apply amended criteria to determine whether it changes the financial reporting of any component units.

Some suggested Methods:

- Flowchart (from previous slides)
- Survey
- Checklist
- Task force