

**THE CALIFORNIA STATE UNIVERSITY
GAAP REPORTING MANUAL**

CHAPTER 14 – UPDATES AND OTHER INFORMATION

OVERVIEW

This section is made available for future updates, notes from workshops, further information and/or clarifications made to the GAAP conversion process.

To date, the following topics have been included in this section:

- New Accounting Pronouncements
 - GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement 14*
 - GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement 3*
 - GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

- Access to Technical Accounting Literature and Resources

NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* an Amendment of GASB Statement 14

Effective Date: For periods beginning after June 15, 2003 (for CSU, effective for fiscal year 2004)

Summary

An objective of Statement No. 14, *The Financial Reporting Entity*, is that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. This Statement amends Statement 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as component units. These criteria are:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

This Statement continues the requirement in Statement 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Those component units should be reported based on the existing blending and discrete presentation display requirements of Statement 14.

With the CSU's implementation of GASB 39 effective July 1, 2003, the auxiliary organizations' statement of cash flows are no longer required to be included in the campus' financial statements.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*

Effective Date: For periods beginning after June 15, 2004 (for CSU, effective for fiscal year 2005)

Summary

The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed.

The Board reconsidered the disclosures required by Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Portions of that Statement are modified or eliminated. The custodial credit risk disclosures of Statement 3 are modified to limit required disclosures to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.
- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.
- Statement 3 disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments or the requirements for reporting certain repurchase agreements and reverse repurchase agreements, and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004. Earlier application is encouraged.

How the Changes in This Statement Improve Financial Reporting

Deposit and investment resources often represent significant assets of governmental, proprietary, and fiduciary funds. These resources are necessary for the delivery of governmental services and programs, or to carry out fiduciary responsibilities. This Statement is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The Board believes that there are risks inherent in all deposits and

investments, and it believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions.

The Board adopted fair value accounting for most investments in Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Fair value portrays the market's estimate of the net future cash flows of investments, discounted to reflect both time value and risk. In order to understand the measurement of investments at fair value, the timing of cash flows (including investment time horizons) and investment risks need to be communicated.

This Statement results from the Board's formal reviews of its existing standards. These reviews—part of the Board's strategic plan—are designed to evaluate the continuing usefulness of current requirements. The reduction of existing custodial credit risk disclosures follows from federal banking reforms adopted since the release of Statement 3.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

Effective Date: For periods beginning after December 15, 2004 (for CSU, effective for fiscal year 2006)

Affects: Will amend GASB Statement 34, ¶19 and ¶21

Summary

This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

Impairment losses should be reported in accordance with the guidance in paragraphs 41 through 46, 55, 56, 101, and 102 of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and paragraphs 19 through 24 of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently*

Occurring Events and Transactions. If not otherwise apparent from the face of the financial statements, the description, amount, and financial statement classification of impairment losses should be disclosed in the notes to the financial statements. If evidence is available to demonstrate that the impairment will be temporary, the capital asset should not be written down.

Impaired capital assets that are idle should be disclosed, regardless of whether the impairment is considered permanent or temporary.

An insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset should be netted with the impairment loss. Restoration or replacement of the capital asset using the insurance recovery should be reported as a separate transaction. Insurance recoveries should be disclosed if not apparent from the face of the financial statements. Insurance recoveries for circumstances other than impairment of capital assets should be reported in the same manner.

The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004. Earlier application is encouraged.

How the Changes in This Statement Improve Financial Reporting

This Statement improves financial reporting because it requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. Users of financial statements will better understand when impairments have occurred and what their financial impact is on the government. This Statement also enhances comparability of financial statements between governments by requiring all governments to account for insurance recoveries in the same manner.

ACCESS TO TECHNICAL ACCOUNTING LITERATURE AND RESOURCES

In preparing GAAP financial statements, it is essential that campus preparers have access to technical accounting literature and resources. Additionally, at a minimum, campus personnel should possess copies of GASB Statements 34, 35, 37, and 38. It is also recommended to have copies of GASB Statements 39, 40, and 42.

Campus personnel should utilize these resources to provide guidance on accounting and reporting in accordance with GAAP. These resources can be found on the GASB website below.

<http://www.gasb.org/pub/index.html>