University of California
Governmental Accounting Standards Board (GASB) Statement No. 66,
Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62

Issues Resolution Memo No. 66-1

Evaluation of GASB Statement No. 66 as it Relates to UC Reporting Entities

Issued: March 2012

BACKGROUND

GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,* was adopted by the University beginning July 1, 2013. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

DEFINE ISSUES

The University must determine whether GASB Statement No. 66 changes any existing financial reporting and disclosure requirements for any of the University's financial reporting entities relating to risk financing activities reporting, operating lease payments, purchase of a loan or group of loans, and service fees related to mortgage loans.

AUTHORITATIVE GUIDANCE AND APPROACH

- Amendments to Statement 10 – Use of Special Revenue Funds to Report Risk Financing Activities

Paragraph 63 of Statement 10 requires that an entity's risk financing activities be accounted for in either the general fund or an internal service fund, if a single fund is used. That paragraph is deleted in its entirety, with the exception of footnote 12, to remove the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. Footnote 12 is retained to clarify the reference to internal service funds in paragraph 65 of Statement 10. In addition, paragraph 52 of Statement 10 is amended by deleting the sentence that refers to paragraph 63, and paragraphs 64 and 76 are amended to replace references to the general fund with references to governmental funds.

- Amendments to Statement 62 – Operating Leases

Paragraphs 222 and 227b of Statement 62 include guidance on accounting for operating lease payments that vary from a straight-line basis. Those provisions are deleted to remove what could be perceived as a potential prohibition against the use of the fair value method that is permitted in paragraph 6b of Statement 13.

- Amendments to Statement 62 – Purchase of a Loan or Group of Loans

Paragraph 442 of Statement 62 includes guidance on accounting for the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans. The purchase of a loan or group of loans should be reported at its purchase price. Paragraph 442 of Statement 62 is amended to delete the last three sentences and retain the first sentence as follows:

The initial investment in a purchased loan or group of loans should include the amount paid to the seller plus any fees paid or less any fees received.

- Amendments to Statement 62 – Servicing Fees

Paragraph 460 of Statement 62 includes guidance on recognition by a transferor for servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. That paragraph is deleted in its entirety, including footnote 218, to remove the provision that the sales price should be adjusted, for purposes of determining any gain or loss on the sale, to provide for the recognition of a normal servicing fee in each subsequent year. That requirement conflicts with the provisions in paragraph 13 of Statement 48 that require a gain or loss to be recognized without such an adjustment to the sales price.

IMPLEMENTATION

Each provision of the statement was reviewed and considered, see below:

Considerations	Comments
Use of special revenue funds to report risk financing activities Footnote 12 of paragraph 63 of Statement 10 now states that "Participation in risk-financing internal service funds is not limited to governmental funds. Entities that are reported as proprietary funds or trust funds and that are component units may participate in a risk-financing internal service fund. However, entities that are reported as proprietary or trust funds and that are not considered to be a component unit should not use an internal service fund (and the related provisions of paragraph 66) to report their own risk financing activities." Statement 54 enhances the usefulness of fund balance information by clarifying the existing governmental fund type definitions. The definition of and criteria for a special revenue fund in paragraphs 30 and 31 of Statement 54 would allow	The University has risk financing activities under Fiat Lux Risk and Insurance Company ("Fiat Lux"), a non-profit corporation formed on September 28, 2012 under the District of Columbia rules for nonprofit entities and is reported as a component unit of the University as it provides insurance coverage to the University. Fiat Lux and the University uses the guidance for special-purpose governments engaged in business type activities and is usually reported in enterprise funds. Fiat Lux underwrites deductible reimbursement policies to the University providing coverage for the excess layers of the University's retained risk position in its casualty program meaning that the University is responsible for losses up to a certain threshold (retention) and Fiat Lux insures a layer of costs above that retention. Fiat Lux also provides property and casualty terrorism coverage on a direct basis. Reinsurance is purchased for all of the

for certain risk financing activities to be reported in a special revenue fund.	net retained positions for the property terrorism. All coverages are provided on an occurrence basis. Statement No. 54 and consequently the amendments from Statement 66 do not apply to the University's financial statements as Fiat Lux and the University (along with its Medical Centers and Health and Welfare Programs) as it is uses the guidance for enterprise funds. The changes identified in Statement 66 relative to Statement 10 are only applicable to governmental fund type definitions only. **CONCLUSION:** No existing change in policies or procedures is deemed necessary.
Operating Leases GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases* (GASB 13), requires specific accounting treatment for operating leases with scheduled rent payments that vary from a straight-line basis. GASB Statement No. 62 conflicted with the guidance provided in GASB 13. GASB 62 implied that the use of the fair value method was prohibited when accounting for operating leases with scheduled rent increases. In GASB 66, GASB clarified the proper accounting for operating lease payments. Operating lease transactions may be measured on a straight-line basis or on the estimated fair value of the revenue as permitted in GASB 13, paragraph 6b.	Per GASB 13 paragraph 6: when an operating lease requires payments with scheduled increases include payment in one or more years artificially low (rent holiday) payment received should be accounted either a) estimated fair value of the rental payments or b) straight-line basis over the lease term. However, GASB 13 footnote 5 states that straight-line recognition approach should be available as a practical and cost beneficial alternative to fair value method. UC is using GASB 13 in recognizing operating leases. From L-217-11 "Accounting and Reporting for Leases and Installment Purchase Contracts" specifically V. Operating Leases, A. Scheduled Rent Increase Adjustment, 2): All operating leases that have an average annual expenditure of $500,000 or more are reviewed to determine if the lease payments are artificially lower in some periods and if so, adjustments using one of the following methods are required: • A straight-line basis over the lease term, or • The estimated fair value of the rental. The

	implicit financing is accounted for using the interest method. **CONCLUSION:** No existing change in policies or procedures is deemed necessary.
Purchase of a Loan or Group of Loans GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenues (GASB 48), paragraph 13, requires that the transferee government recognize a receivable acquired at the purchase price, and the transferor to recognize a gain or loss on the difference between proceeds and the carrying value of the receivables sold. GASB 62 provided conflicting guidance to GASB 48. GASB 66 reinstated the provisions in in GASB 48, stating that "the initial investment in a purchased loan or group of loans should include the amount paid to the seller plus any fees paid or less any fees received".	UC is following the guidance in GASB 48. For the sale of MOP loans to a third party, UC completes a GASB 48 checklist to determine whether the UC has a continuing involvement in certain receivables and determine whether the transaction is a sale or a collateralized borrowing. If the criteria for a sale reporting in paragraphs 6-9, as appropriate, are met, a transaction is reported as a sale. UC's policies requires that when UC retains the servicing right to a mortgage loan that has been sold, the gain or loss should be recognized without an adjustment to the sales price. **CONCLUSION:** No existing change in policies or procedures is deemed necessary.
Servicing Fee relating to mortgage loans that were sold GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenues (GASB 48), paragraph 13, requires that when the transferor retains the servicing right to a loan that has been sold, the gain or loss should be recognized without an adjustment to the sales price. GASB 62 provided conflicting guidance to GASB 48. GASB 66 reaffirmed the guidance provided in GASB 48.	UC is following the guidance in GASB 48. For the sale of MOP loans to a third party, UC completes a GASB 48 checklist to determine whether the UC has a continuing involvement in certain receivables and determine whether the transaction is a sale or a collateralized borrowing. If the criteria for a sale reporting in paragraphs 6-9, as appropriate, are met, a transaction is reported as a sale. UC's policies requires that when UC retains the servicing right to a mortgage loan that has been sold, the gain or loss should be recognized without an adjustment to the sales price. **CONCLUSION:** No existing change in policies or procedures is deemed necessary.