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GASB On the Horizon: Business-Type Activity Governments.

In the months ahead, the GASB will issue three proposals intended to improve key areas of financial reporting for governments that engage in business-type activities (BTA). Unlike general purpose governments, which perform a variety of services supported by tax revenues, BTA governments are primarily focused on providing fee-based services. Examples of BTA governments include public colleges and universities, hospitals, water and wastewater systems, and public electric utilities. The projects contemplate guidance for BTA government reporting in three key areas:

- Split-interest agreements
- Blending requirements
- Asset retirement obligations.

SPLIT-INTEREST AGREEMENTS

The GASB in June will issue an Exposure Draft seeking comment on potential accounting and financial reporting guidance for split-interest agreements held by a third party for the benefit of a BTA government. These agreements are sometimes referred to as irrevocable charitable trusts.

Split-interest agreements are arrangements in which a donor transfers assets for the shared benefit of a government and the donor (or another party). The structure of these agreements can vary widely. In some cases, the donor transfers the assets directly to the government that will benefit from the agreement; in others, the donor transfers the assets to a third party, such as a bank.

The project addresses whether split-interest agreements of this type constitute an asset and, if so, whether the government should recognize an asset and related revenue when the resources are held by a third party. The proposal also will seek feedback on when revenue related to split-interest agreements should be recognized when the government holds the assets.

More information on the project can be found here.

BLENDING REQUIREMENTS FOR CERTAIN COMPONENT UNITS

Also in June, the GASB will issue an Exposure Draft addressing diversity in practice regarding the manner in which governments, primarily healthcare and higher education, present some of their legally separate component units. An example of the type of component unit addressed by this proposal would be legally separate healthcare facilities.

Under existing standards, these component units would be presented discretely—in a separate column—in a primary government's financial statements. The GASB will instead propose blending a component unit within the primary government if the component unit is incorporated as a not-fo--profit corporation for which the primary government is the sole corporate member.

More information on the project can be found here.

ASSET RETIREMENT OBLIGATIONS OTHER THAN LANDFILLS

In December, the GASB expects to issue an Exposure Draft containing proposed standards on asset retirement obligations (AROs) involving power plants, sewage treatment facilities, and other capital assets other than landfills. Specifically, this project seeks to provide recognition and measurement guidance that does not exist at present for these types of governmental capital assets, which would improve the comparability of financial reporting in this area.

The most common AROs encountered by governments involve landfill closure and post-closure care for decommissioned power plants, including nuclear facilities. The guidance for recognizing, measuring, and reporting AROs for landfills is provided in GASB Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs. However, Statement 18 does not apply to the retirement of other capital assets.

More information on the project can be found here.

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