MAKING SENSE OF DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

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Objectives of This Session

This session will address why the Board established:

1. the deferral elements,
2. specific application of deferrals and related disclosure,
3. the effect of deferrals on net position and fund balance, and
4. the practical applications to financial statement presentation

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GASB Concept Statements

- The Concept Statements do not establish governmental financial reporting standards.
- Describe concepts that will be used by the Board as a framework for evaluating existing standards and practices and for establishing future financial reporting standards.
- Broadly describes the nature of information needed by users of external governmental financial reports and gives consideration to the governmental environment.

GASB Concept Statements

- Financial reporting is a means of communicating financial information to users.
- It encompasses all reports that contain financial information based on data generally found in financial statements.
- Financial reports and financial statements are end products of the reporting process.

GASB Concepts Statement No. 1

In May 1987, the GASB issued Concepts Statement No. 1, *Objectives of Financial Reporting*. The Concepts Statement subsequently was amended by Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, in April 2005.

Because Concepts Statements are not authoritative, this Statement has not been integrated into the Codification,

GASB Concepts Statement No. 1

- Concepts Statement 1 recognizes that *General Purpose External Financial Reports* (GPEFR) should provide information to assist users in assessing accountability and in making economic, social, and political decisions.
- In Concepts Statement 1, accountability is recognized as being the paramount objective of GPEFR by state and local governmental entities.

GASB Concepts Statement No. 1

Concepts Statement 1 (paragraph 77) states that GPEFR should assist in fulfilling a government's duty to be publicly accountable and in enabling users to assess that accountability by:

- Providing information to determine whether current-year revenues were sufficient to pay for current-year services;
- Demonstrating whether resources were obtained and used in accordance with the entity's legally adopted budget, and demonstrating compliance with other finance-related legal or contractual requirements;
- Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.

GASB Concepts Statement No. 2

Concepts Statement 2 *Service Efforts and Accomplishments Reporting* *(issued April 1994 and amended by GASBC 5 November 2008)*

- This Concepts Statement further develops the objective of service efforts and accomplishments (SEA) reporting and identifies its elements and characteristics.
- The Statement provides background information on the governmental environment (paragraphs 10–12), governmental decision making (paragraphs 13–17), accountability (paragraphs 18–33), and the reporting of performance information as part of general purpose external financial reporting (GPEFR) (paragraphs 34–49) and calls for further extensive experimentation in measuring and reporting SEA before the GASB considers establishing SEA reporting standards (paragraphs 69–79).
- Concepts Statement 1 (paragraph 77c) states that SEA information, "when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions."

GASB Concepts Statement No. 2

Concepts Statement 2 *Service Efforts and Accomplishments Reporting*

- The objective of SEA reporting is to provide more complete information about a governmental entity's performance than can be provided by the traditional financial statements and schedules to assist users in assessing the economy, efficiency, and effectiveness of services provided (paragraphs 54–56).
- The elements of SEA reporting include (a) categories of SEA measures—measures of service efforts (input indicators), measures of service accomplishments (output and outcome indicators), and measures that relate service efforts to service accomplishments (efficiency and cost-outcome indicators) (paragraph 50) and (b) explanatory information (paragraphs 51–53).
- This information most likely will be reported in a report separate from the comprehensive annual financial report (CAFR).

GASB Concepts Statement No. 3

Concepts Statement 3 *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements* *(Issued April 2005)*

- The objective of this Statement is to provide conceptual guidance regarding the placement of information within general purpose external financial reports that contain the basic financial statements, notes to basic financial statements, and supporting information presented with basic financial statements.
- This Statement defines methods of communicating information in those general purpose external financial reports. Those communication methods include:

GASB Concepts Statement No. 3

Concepts Statement 3 *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements(Issued April 2005)*

- Those communication methods include:
  - Recognition in basic financial statements
  - Disclosure in notes to basic financial statements
  - Presentation as required supplementary information
  - Presentation as supplementary information
  - criteria for selecting the communication method that is most appropriate for the kind of information to be reported
  - This Statement does not establish governmental financial reporting standards. Rather, it describes concepts that will be used by the GASB when selecting communication methods in future standards and as a framework for evaluating communication methods used under existing standards and practices. These concepts should also benefit preparers when selecting communication methods and users in attempting to understand the functions and limitations of communication methods.

GASB Concepts Statement No. 4 , *Elements of Financial Statements*

Concept Statement No. 4, *Elements of Financial Statements*
(Issued June 2007)

This Statement establishes definitions for elements of historically based financial statements of state and local governments.

Elements are the broad fundamental components of financial statements.

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GASB Concepts Statement No. 4 , *Elements of Financial Statements*

This Statement identifies five elements of statements of financial position—assets, liabilities, deferred outflows of resources, deferred inflows of resources, and net position—and two elements of resource flows statements—outflows of resources and inflows of resources.

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GASB Concepts Statement No. 4 , *Elements of Financial Statements*

Financial statement account titles, such as cash, capital assets, accounts payable, bonds payable, tax revenue, user fees, interest expense, and salary expense, are reported within these broad categories of elements.

The different elements have distinctive inherent characteristics.

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GASB Concepts Statement No. 4 , *Elements of Financial Statements*

For an item to be recognized in a financial statement, it should meet all relevant criteria.

These criteria include meeting the definition of an element, as well as meeting recognition and measurement criteria.

Recognition is affected by the measurement focus and basis of accounting of a financial statement. Measurement focus (GASBC 6 Measurement of Element) refers to *which* resources are being recognized, and basis of accounting refers to *when* an event is reported.

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GASB Concepts Statement No. 4 , *Elements of Financial Statements*

Since Concept Statement No. 4, *Elements of Financial Statements*, GASB has applied the new elements to a number of transactions

Recognition should be limited to those instances identified by GASB in authoritative pronouncements.

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CONCEPT 4 Definitions of Elements

Defines seven elements of historically based financial statements prepared by state and local governments.

Identifies and defines five elements for a government's statement of financial position and two elements for a government's resource flows statements.

Central to all definitions is the concept of “resource,” which, is an item that the entity can draw on to provide services to its citizenry.

Definitions are based primarily on the inherent characteristics of each element, and are applicable to any measurement focus under which financial statements may be prepared.

CONCEPT 4 Definitions of Elements

- **Assets**
  - Resources with present service capacity that the government controls
- **Liabilities**
  - Present obligations to sacrifice resources with little or no discretion to avoid
- **Deferred outflows of resources**
  - A consumption of net assets by the government that is applicable to a future reporting period
  - Has a natural debit balance and, therefore, increases net position similar to assets
- **Deferred inflows of resources**
  - An acquisition of net assets by the government that is applicable to a future reporting period
  - Has a natural credit balance and, therefore, decreases net position similar to liabilities
- **Net position**
  - The residual of all elements presented in a financial position

CONCEPT 4 Definitions of Elements

Elements of the resource flows statements are as follows:

- **Outflow of resources** Consumption of net assets by the government that is applicable to the reporting period.
- **Inflow of resources** Acquisition of net assets by the government that is applicable to the reporting period.

Recognition and Presentation

- GASB Statement No. 53 , *Accounting and Financial Reporting for Derivative Instruments*;
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*

Recognition and Presentation

- GASB Statement No. 53, as amended, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments
- GASB Statement No. 60, as amended, may require a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement, based on facts and circumstances
- GASB Statement No. 65, limits use of the term deferred to items reported as deferred inflows of resources or deferred outflows of resources and identifies specific items as deferred inflows of resources and deferred outflows of resources.

Recognition and Presentation

- GASB Statement No. 68, as amended, requires certain changes in the net pension liability to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer pension contributions during the reporting period made subsequent to the measurement date of the net pension liability are to be reported as deferred outflows of resources.
- GASB Statement No. 69, describes accounting for deferred outflows of resources and deferred inflows of resources in transactions involving government combinations and disposals of government operations

GASB Statement No. 63

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

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Overview

- **Statement No. 63:**
  - Issued in June 2011
  - Effective for fiscal periods beginning after December 15, 2011
- **Objective is to address presentation issues associated with the new financial position elements created in Concepts Statement No. 4, Elements of Financial Statements (CONS 4):**
  - Deferred outflows of resources
  - Deferred inflows of resources
  - Net position

Basic Reporting Requirements

- **Report each of the financial position elements in a separate section in the statements of financial position in the following order:**
  - Assets
  - Deferred Outflows of Resources
  - Liabilities
  - Deferred Inflows of Resources
  - Net Position
- **Allowed to report subtotals for:**
  - Combination of assets and deferred outflows of resources
  - Combination of liabilities and deferred inflows of resources

Economic Resources Measurement Focus Financial Statements

- **The statements of financial position for economic resource financial statements should be referred to as the Statement of Net Position**
- **Preferred reporting format is:** ***assets + deferred outflows – liabilities – deferred inflows = net position***
- **Traditional balance sheet format is permitted:**
  - Assets + deferred outflows = liabilities + deferred inflows + net position.
- **Equity section referred to as net position instead of net assets and is reported in the following three components:**
  - *Net investment in capital assets*
  - Restricted
  - Unrestricted
  - No change in the definitions of these net position components other than incorporating impact of deferred outflows and inflows

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Governmental Fund Financial Statements

- **The statements of financial position for governmental fund financial statements should continue to be referred to as the *Balance Sheet***
- **Required reporting format is: *assets + deferred outflows = liabilities + deferred inflows + fund balance.***
- **Equity section continues to be referred to as fund balance**
  - Report in fund balance classifications required by GASB Statement No. 54

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GASB Statement No. 33

Accounting and Financial Reporting for Non Exchange Transactions

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Overview

Characteristics and Classes of Nonexchange Transactions

In a nonexchange transaction, a government (as a provider)*either* gives value (benefit) to another party without directly receiving equal value in exchange *or* receives value (benefit) from another party without directly giving equal value in exchange.

a) *Derived tax revenues* result from assessments imposed by governments on exchange transactions. Examples include taxes on personal income, corporate income, and retail sales of goods and services.

1. The principal characteristics of these transactions are
2. (1) the assessing government *imposes* the provision of resources on the provider (the entity that acquires the income, goods, or services) and
3. (2) the government's assessment is on an *exchange transaction*, such as the exchange of an employee's services for a wage or salary or the exchange of motor fuel for the market price of the fuel.

Enabling legislation sometimes requires a particular source of derived tax revenues to be used for a specific purpose or purposes. For example, revenues resulting from a motor fuel tax may be required to be used for road and street repairs. Stipulations concerning the purpose for which resources are required to be used are referred to in this section as purpose restrictions and are discussed in paragraph .111.

Overview

Characteristics and Classes of Nonexchange Transactions

b) *Imposed nonexchange revenues* result from assessments by governments on nongovernmental entities, including individuals, *other than* assessments on exchange transactions. Examples include property (ad valorem) taxes; fines and penalties; and property forfeitures, such as seizures and escheats. The principal characteristic of these transactions is that the required transmittal of resources to the assessing government is *imposed* by that government on an act committed or omitted by the provider (such as property ownership or the contravention of a law or regulation) that is *not* an exchange transaction. Enabling legislation sometimes places purpose restrictions on the use of the resources. Alternatively, or in addition to purpose restrictions, the government may specify the period when the resources are required to be used or when use may begin. For example, property taxes generally are required to be used in or beginning in a particular period—*the period for which the taxes are levied*—which may not be the same period that payment is due or the period when the government has a right to place a lien on the property. Stipulations concerning the *time period* when resources are required to be used or when use may begin are referred to in this section as *time requirements* and are discussed in paragraphs .109 and .110.

Overview

Characteristics and Classes of Nonexchange Transactions

c) *Government-mandated nonexchange transactions* occur when a government (including the federal government) at one level provides resources to a government at another level and requires that government to use them for a specific purpose or purposes established in the provider's enabling legislation. That is, the provider establishes purpose restrictions and also may establish time requirements. Examples of government-mandated nonexchange transactions include federal programs that state or local governments are mandated to perform, and state programs that local governments are mandated to perform. The principal characteristics of these transactions are (1) a provider government (including the federal government) *mandates* that a **recipient government** perform a particular program or facilitate its performance by another government or by a nongovernmental entity **(secondary recipient)** and (2) fulfillment of certain requirements is essential for a transaction (other than the provision of cash or other assets in advance) to occur. These essential requirements may include time requirements and are referred to in this section as *eligibility requirements*. Eligibility requirements are discussed in paragraphs .116 and .117.

Overview

Characteristics and Classes of Nonexchange Transactions

d) *Voluntary nonexchange transactions* result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. Examples of voluntary nonexchange transactions include certain **grants,** certain entitlements, and donations by nongovernmental entities, including individuals (private donations). Both parties to a voluntary nonexchange transaction may be governments (including the federal government, as a provider), or one party may be a nongovernmental entity, including an individual. Frequently, the provider establishes purpose restrictions and eligibility requirements. In many cases, the provider may require the return of the resources if the purpose restrictions or eligibility requirements are contravened after recognition of the transaction.

The principal characteristics of voluntary nonexchange transactions are

1. they are not imposed on the provider or the recipient and
2. fulfillment of eligibility requirements is essential for a transaction (other than the provision of cash or other assets in advance) to occur.

Overview

Time Requirements and Purpose Restrictions

Time requirements specify the period or periods when resources are required to be used or when use may begin. (For example, a provider may stipulate that the resources it provides are to be disbursed during a specific fiscal year or over a specified number of years, or cannot be disbursed until after a certain date or event has occurred, if ever.)

Purpose restrictions specify the purpose or purposes for which the resources are required to be used. (For example, a provider may specify that its resources are to be expended for road and street repairs or, in the case of an endowment, that the principal is required to be held in income-producing investments.) [GASBS 33, ¶12]

Overview

Derived Tax Revenue Transactions

Governments should recognize *assets* from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first.

For property (ad valorem) taxes, the date when an enforceable legal claim to taxable property arises generally is specified in the enabling legislation.

Many governments refer to this date as the "lien date," even though a lien is not formally placed on the property at that date. Some governments, however, use a different term, such as the "assessment date." (For some governments, the enforceable legal claim does not arise until the period after the period for which the taxes are levied. Those governments should recognize property taxes receivable in the same period that revenues are recognized in accordance with paragraph .115.) [GASBS 33, ¶17]

Overview

Imposed Nonexchange Revenue Transactions

Governments should recognize *assets* from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first.

Revenues should be recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred.

Resources received in advance should be reported as liabilities until the period of the exchange. Derived tax revenues generally do not have time requirements. However, if they apply, asset and revenue recognition should be consistent with the requirements for imposed nonexchange revenue transactions. [GASBS 33, ¶16, as amended by GASBS 65, ¶31' GASBS 33

Overview

Imposed Nonexchange Revenue Transactions Continued

Governments should recognize *revenues* from property taxes, net of estimated refunds and estimated uncollectible amounts, *in the period for which the taxes are levied*, even if the enforceable legal claim arises or the due date for payment occurs in a different period.

Overview

Imposed Nonexchange Revenue Transactions Continued

All other imposed nonexchange revenues should be recognized in the same period that the assets are recognized unless the enabling legislation includes **time requirements.**

If so, revenues should be recognized in the period when the resources are required to be used or when use is first permitted.

Deferred inflows of resources associated with imposed nonexchange revenue transactions should be reported when resources are received or reported as a receivable before

a) the period for which property taxes are levied or

b) the period when resources are either required to be used or when use is first permitted for all other imposed nonexchange revenue in which the enabling legislation includes time requirements. [GASBS 33, ¶18, as amended by GASBS 65, ¶9; GASBS 65, ¶9]

Overview

Government-mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

Providers of resources in government-mandated or voluntary nonexchange transactions frequently establish eligibility requirements.

Eligibility requirements are conditions established by enabling legislation or the provider that are required to be met before a transaction (other than the provision of cash or other assets in advance) can occur.

That is, until those requirements are met, the provider generally does not have a liability, the recipient generally does not have a receivable, and expenses and revenues for resources transmitted in advance should not be recognized until those eligibility requirements are met. [GASBS 33, ¶19, as amended by GASBS 65, ¶10; GASBS 65, ¶10

Overview

Recognition Requirements

Providers should recognize liabilities (or a decrease in assets) and expenses from government-mandated or voluntary nonexchange transactions, and recipients should recognize receivables (or a decrease in liabilities) and revenues (net of estimated uncollectible amounts), when all applicable eligibility requirements, including time requirements, are met.

Resources transmitted before the eligibility requirements are met (excluding time requirements) should be reported as assets by the provider and as liabilities by the recipient.

Resources received or recognized as a receivable before time requirements are met, <u>but after all other eligibility requirements have been met</u>, should be reported as a deferred outflow of resources by the provider and a deferred inflow of resources by the recipient. [GASBS 33, ¶21, as amended by GASBS 65, ¶10; GASBS 65, ¶10]

Overview

Recognition Requirements

In some kinds of government-mandated and voluntary nonexchange transactions, a provider transmits cash or other assets with the stipulation (time requirement) that the resources cannot be sold, disbursed, or consumed until after a specified number of years have passed or a specific event has occurred, if ever. In the interim, the provider requires or permits the recipient to benefit from the resources—for example, by investing or exhibiting them. Examples of these transactions include permanently nonexpendable additions to endowments and other trusts; term endowments; and contributions of works of art, historical treasures, and similar assets to capitalized collections.

For these kinds of transactions, the recipient should recognize revenues when the resources are received, provided that all eligibility requirements have been met. Resulting net position (or fund balance, as appropriate) should be reported as restricted for as long as the provider's purpose restrictions or time requirements remain in effect. [GASBS 33, ¶22, as amended by GASBS 63, ¶8]

Overview

Recognition Requirements

Sometimes a provider in a government-mandated or voluntary nonexchange transaction does not specify time requirements.

When that is the case, the entire award should be recognized as a liability and an expense by the provider, and as a receivable and a revenue (net of estimated uncollectible amounts) by the recipients, in the period when all applicable eligibility requirements are met (applicable period).

Four Classes of Nonexchange Transactions

CLASSES AND TIMING OF RECOGNITION OF NONEXCHANGE TRANSACTIONS

Derived tax revenues

Examples: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption

Assets

Period when underlying exchange has occurred or when resources are received, whichever is first

Deferred inflows of resources

When modified accrual accounting is used, resources that are not "available"

Revenues

Period when *underlying exchange has occurred.* (Report advance receipts as a liability.) When modified accrual accounting is used, resources also should be "available."

Four Classes of Nonexchange Transactions

CLASSES AND TIMING OF RECOGNITION OF NONEXCHANGE TRANSACTIONS

Imposed nonexchange revenues

Examples: property taxes, most fines and forfeitures

Assets

Period when an *enforceable legal claim has arisen* or when resources are received, whichever is first

Deferred inflows of resources

When resources are received or recognized as receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which enabling legislation includes time requirements. When modified accrual accounting is used, resources that are not "available.“

Revenues

Period when *resources are required to be used* or first period that use is permitted (for example, for property taxes, the *period for which levied*). When modified accrual accounting is used, resources also should be "available." (For property taxes, apply Section P70 .)

Four Classes of Nonexchange Transactions

CLASSES AND TIMING OF RECOGNITION OF NONEXCHANGE TRANSACTIONS

Government-mandated nonexchange transactions

Examples: federal government mandates on state and local governments

Assets

Period when *all eligibility* requirements have been met

Liabilities

Receipt of resources before eligibility requirements are met, excluding time requirements.

Deferred inflows of resources

Receipt of resources before time requirements are met, but after all other eligibility requirements have been met. When modified accrual accounting is used for revenue recognition, resources that are not "available".

Revenues

Period when all eligibility requirements have been met. However, if a provider precludes the sale, disbursement, or consumption or resources for a specific number of years, or until a specific event occurs, or permanently, report revenues when received and net position as restricted.

Four Classes of Nonexchange Transactions

CLASSES AND TIMING OF RECOGNITION OF NONEXCHANGE TRANSACTIONS

Voluntary nonexchange transactions

Examples: certain grants and entitlements, most donations

Assets and Liabilities

Payment of resources before eligibility requirements are met, excluding time requirements (asset) or period when *all eligibility requirements have been met (liability)* .

Deferred inflows of resources

Payment of resources before time requirements are met, but after all other eligibility requirements have been met.

Revenues

Period when all eligibility requirements have been met. When modified accrual accounting is used for revenue recognition, resources also should be "available.“

Expenses

Period when all eligibility requirements have been met. However when a provider precludes the sale, disbursement, or consumption of resources for a specified number of years, until a specified event has occurred, or permanently (for example, permanent and term endowments), report expenses or expenditures when the resources are paid).

GASB Statement No. 65,

Items Previously Reported as Assets and Liabilities

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Overview

- **Statement No. 65:**
  - Issued in March 2012
  - Effective for fiscal periods beginning after December 15, 2012
- **Objective is to determine whether certain transactions currently reported as assets and liabilities should continue to be reported as such or instead should be reported as:**
- **A deferred outflow of resources, or**
  - An outflow of resources (expense/expenditure);
    Or
  - A deferred inflow of resources, or
  - An inflow of resources (revenue).

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Key Provisions of the Standard – Debt-related Transactions

- **Accounting gain/loss on debt refunding (GASB 23):**
  - Report as a deferred outflow of resources (loss) or deferred inflow of resources (gain) and recognize as a component of interest expense over shorter of life of old debt or new debt
  - Report separately from related bonds payable
- **Debt issuance costs (GASB 62):**
  - Debt issuance costs, other than prepaid insurance costs, should be recognized as an outflow of resources in the period incurred
  - Report prepaid insurance costs as an asset

Key Provisions of the Standard – Nonexchange Transactions

- **Imposed nonexchange revenues (GASB 33):**
  - Report as deferred inflows of resources, resources received or recognized as receivables before:
  - The period for which the taxes are levied for property taxes
  - The period when resources are required to be used or when use is first permitted for all other imposed nonexchange transactions for which time requirements are specified
- **Government-mandated and voluntary nonexchange transactions (GASB 33):**
  - Resources received/provided in advance of one of the eligibility requirements being met other than time requirements:
    - Provider reports as an asset
    - Recipient reports as a liability
  - Resources received/provided in advance of time requirements being met (all other eligibility requirements are met):
    - Provider reports as deferred outflows of resources
    - Recipient reports as deferred inflows of resources

Other Key Provisions of the Standard

- **Revenue determined to be unavailable under modified accrual basis (NCGA 1):**
  - Report as deferred inflows of resources
- **Transactions of regulated entities (GASB 62/FASB 71):**
  - Refunds imposed by a regulator should be recognized as liabilities
  - Report as deferred inflows:
  - Revenues generated by current rates intended to recover costs that are expected to be incurred in the future
  - Gains and other reductions of net allowable costs intended to reduce rates over future periods
  - Incurred costs expected to be recovered through future rates should continue to be reported as assets

Other Transactions Addressed by the Standard

- **GASB 65 also addresses transactions in the following areas:**
  - Sales of future revenues and intra-entity transfers of future revenues
  - Leases
    - Initial direct costs of operating leases
    - Sale-leaseback transactions
  - Acquisition costs related to insurance activities
  - Lending activities
    - Loan origination fees and costs
    - Commitment fees
    - Purchase of a loan or group of loans
  - Mortgage banking activities
    - Loan origination fees and costs
    - Fees relating to loans held for sale

Transactions Without Change in Classification

- **In the Basis for Conclusions, GASB 65 affirms the following should continue to be reported as assets:**
  - Prepayments
    - Including when a pension plan's net position exceeds the total pension liability
  - Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements, other than time requirements, have not been met
  - Capitalized incurred costs related to regulated activities
  - The purchase of future revenues from a government outside the financial reporting entity
  - Initial subscriber installation costs in relation to cable television systems

Transactions Without Change in Classification

- **In the Basis for Conclusions, GASB 65 affirms the following should continue to be reported as liabilities:**
  - Resources received in advance in relation to a derived tax revenue nonexchange transaction
  - Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than time requirements have not been met
  - Resources received in advance of an exchange transaction
  - Excess of initial hookup revenue over direct selling costs in relation to cable television systems
  - Premium revenues for insurance entities and public entity risk pools received in advance
  - Commitment fees charged for entering into an agreement that obligates the government to make or acquire a loan or to satisfy an obligation of the other party under a specified condition, unless exercise is considered remote
  - Fees that are received for guaranteeing the funding of mortgage loans

GASB Statement No. 68,

Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27

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Overview

- **Statement No. 68:**
  - Issued in June 2012
  - Effective for fiscal periods beginning after June 15, 2014
- **Objective is to establish accounting and financial reporting requirements for defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements.**
- **Pension plans not administered through trusts or those that provide postemployment benefits other than pensions are to follow the requirements of Statements 27 and 50.**

Criteria for Plans covered

- Contributions are irrevocable
- Pension plan assets dedicated to providing benefits for plan members in accordance with the benefit terms
- Pension plan assets are legally protected from creditors of the plan sponsor

Definitions

- Single employer – those whose employees are provided defined benefit pensions though a single employer plan.
- Agent employer – those whose employees are provided with defined benefit pensions through multiple-employer pension plans.
- Cost-sharing employer – those whose employees are provided defined benefit pensions through cost-sharing multiple-employer pension plans.

Types of defined benefit pension plans

- Single employer pension plans are those which provide pension benefits to the employees of one employer.
- Agent multiple-employer pension plans are those where investments are pooled but separate accounts are maintained for individual employers.
- Cost sharing multiple employer pension plans are those where the plan assets are pooled and may be used to cover the benefits of any employee of any participating employer.

Single and Agent Employers

- For financials using the economic measurement focus the employer is to recognize the net pension liability as of the employer's prior fiscal year end.
- Pension expense, deferred outflows and deferred inflows are a result changes in the components of net pension liability.
- Most changes to net pension liability are recognized in the period of the change.

Single and Agent Employers (cont)

- Changes in net pension liability required to be recognized over current and future periods include:
  - Input changes such as demographic and economic assumptions
  - Differences between expected and actual experience
  - Differences in projected earnings and actual earnings
  - Changes not included in pension expense are to be included in deferred outflows or deferred inflows
  - Employer contributions subsequent to the measurement date of the net pension liability are to be reported as deferred outflows

Financials using current financial resources measurement focus

- Net pension liability is to be recognized if expected top be liquidated with expendable available resources.
- Pension expenditures should equal:
  - Amounts paid by the employer to the pension plan
  - Change between the beginning and ending balances of amounts expected to be liquidated with expendable available resources.

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Cost-Sharing Employers

- For economic resources measurement focus:
  - Recognize a liability for its proportionate share of the collective net pension liability determined on a basis consistent with the determination of pension contributions.
  - Recognize their proportionate share of pension expense and deferred outflows and deferred inflows.
  - Effects of change in net pension liability and differences between actual required contributions is to be determined and recognized in pension expense in a systematic and rational manner.
  - Changes not included in pension expense are to be included in deferred outflows or deferred inflows.
  - Employer contributions subsequent to the measurement date of the net pension liability are to be reported as deferred outflows.

Cost Sharing Employers (cont.)

- In governmental fund financial statements:
  - Employer's share of the collective net pension liability expected to be liquidated with expendable and available resources.
  - Pension expenditures equal to amounts paid by the employer to the pension plan and the change between beginning and ending balances of amounts expected to be liquidated with expendable available financial resources.

Notes to financial statements—all single and agent employers

- The total (aggregate for all pensions, whether provided through single employer, agent, or cost-sharing pension plans) of the employer's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements.
- Pension expenditures equal to amounts paid by the employer to the pension plan and the change between beginning and ending balances of amounts expected to be liquidated with expendable available financial resources.

Notes to financial statements—all single and agent employers

The employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as follows, if applicable:

1) Differences between expected and actual experience in the measurement of the total pension liability
2) Changes of assumptions or other inputs
3) Net difference between projected and actual earnings on pension plan investments
4) If the employer has a special funding situation, changes in the employer proportion (paragraph 86) and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the pension plan and the employer's proportionate share of contributions (paragraph 87)
5) The employer's contributions to the pension plan subsequent to the measurement date of the net pension liability

Notes to financial statements—all single and agent employers

A schedule presenting the following:

1) For each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in subparagraph (h) that will be recognized in the employer's pension expense
2) If the employer does not have a special funding situation, the amount of the employer's balance of deferred outflows of resources in subparagraph (h) that will be recognized as a reduction of the net pension liability
3) If the employer has a special funding situation, the amount of the employer's balance of deferred outflows of resources in subparagraph (h) that will be included as a reduction of the collective net pension liability

QUESTIONS & ANSWERS

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Statement No. 63

Z.63.1. ***Q***—Can a deferred outflow of resources be combined with a deferred inflow of resources and reported as a net amount if the underlying transactions are similar?

For example, can a deferred *outflow* of resources arising from an effective hedging arrangement be combined with a deferred *inflow* of resources arising from an effective hedging arrangement? (Q&A2013-Z.63.1)

Statement No.63

- ***A***—Paragraph 7 of Statement 63 requires presentation in separate sections. In this example, unless there is a specific right of offset provision in the hedging arrangements, the deferred amounts should be classified separately.

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Statement No. 34

7.22.7. ***Q***—What are the requirements and limitations for reporting the difference between assets and liabilities in the government-wide statement of net position?

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Statement No. 34

A—The difference between a government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is its *net position*. Terms such as *equity, net worth*, or *fund balance* should not be used in the statement of net position. Net position should be displayed in three components—*net investment in capital assets, restricted,* and *unrestricted*, based on paragraph 8 of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Commitments and assignments of fund balances in governmental funds should not be reported on the face of the statement of net position. The amount of net position restricted by enabling legislation, if any, should be disclosed in the notes to the financial statements.

Statement No. 34

7.23.3. ***Q***—Which component(s) of net position do prepaid bond insurance costs, premiums and discounts, and deferred outflows of resources or deferred inflows of resources from refundings affect—net investment in capital assets, restricted, or unrestricted?

Statement No. 34

A—Premiums, discounts, and deferred outflows of resources or deferred inflows of resources from refundings "follow the debt" in calculating the components of net position. That is, if debt is capital related, those amounts would be included in the calculation of the *net investment in capital assets* component of net position. If the debt is restricted for a specific purpose and the proceeds are unspent, the net proceeds would affect the *restricted* component of net position. Reporting both within the same component of net position prevents one classification from being overstated while another is understated by the same amount. If the debt proceeds are not restricted for capital or other purposes, the unamortized premiums, discounts, and deferred outflows of resources or deferred inflows of resources from refundings would be included in the calculation of unrestricted net position

Statement No. 34

Prepaid bond insurance costs should be included in the unrestricted component of net position because those outlays do not acquire, construct, or improve capital assets. If the prepaid bond insurance costs were paid from bond proceeds, the portion of outstanding debt attributable to those insurance costs also should be included in the unrestricted component of net position.

Statement No. 65

Z.65.1. ***Q***—Paragraph 119 in Statement 34 requires disclosures about changes in long-term liabilities. As part of that requirement, should information be provided about the changes in deferred outflows of resources and deferred inflows of resources arising from debt refunding transactions?

Statement No. 65

A—No. Statement 63 requires that deferred outflows of resources and deferred inflows of resources be presented in separate sections from assets and liabilities, respectively. Because the deferred amounts from refundings do not affect the carrying value of the refunding debt, the changes in the deferred outflows of resources or deferred inflows of resources do not represent changes in long-term liabilities and would not be included in the required disclosures.

Statement No. 65

Z.23.2. ***Q***—In a debt refunding, the difference between the reacquisition price and the net carrying amount of the old debt (refunded debt) should be reported as a deferred outflow of resources or as a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the shorter of the remaining life of the old debt or the new debt (paragraph 4 of Statement 23). Does the remaining life of the old debt extend to its call date or its normal maturity date?

Statement No. 65

A—For purposes of determining the amortization period of the difference between the reacquisition price and the net carrying amount of old debt, the remaining life of the old debt extends to the normal maturity date.

Statement No.33

Z.33.2. ***Q*—**Are drivers' licenses and business permits exchange or exchange-like transactions, or are they nonexchange transactions?

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Statement No.33

***A*—**Licenses and permits are generally exchange or exchange-like transactions. Paragraph 1 of Statement 33 says that in an exchange or exchange-like transaction, "… each party [directly] receives and gives up essentially equal values…." Paragraph 50 of that Statement further describes exchange-like transactions as follows: "…

In an exchange-like transaction, there *is* an identifiable exchange between the reporting government and another party, but the values exchanged may not be quite equal or the direct benefits of the exchange may not be exclusively for the parties to the exchange. Examples include *certain fees for regulatory or professional licenses and permits* …" (emphasis added).

Many license and permit fees are designed specifically to offset the cost of processing the license or permit. Drivers' licenses and business permits are generally exchange or exchange-like transactions because the cost of a license or permit typically does not exceed the value of the services and rights received in exchange (the cost of processing the license or permit and the value of the right to drive on public roads or conduct business).

Statement No.33

Z.33.3. ***Q*—**Does Statement 33 apply to donated services?

No. Statement 33 applies to nonexchange transactions involving only financial or capital resources, not to contributed services.

Z.33.4. ***Q*—**Are donated food commodities within the scope of Statement 33?

***A*—**Yes. Statement 33 applies to nonexchange transactions involving capital or financial resources. The fair value of donated commodities should be recognized as revenue in the period when all eligibility requirements are met (typically, the period when the commodities are received).

Statement No.33

Z.33.5. ***Q*—**Paragraph 11 of Statement 33 states that recognition of nonexchange transactions "is required unless the transactions are not *measurable* (reasonably estimable) or are not *probable of collection*" (footnote omitted). Paragraphs 16, 18, and 21 of that Statement require each of the classes of nonexchange transactions to be recognized "net of estimated uncollectible amounts." What is the difference between the *probable-of-collection* criterion and the requirement to recognize each class of nonexchange transaction *net of estimated uncollectible amounts?*

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Statement No.33

***A*—**The probable-of-collection criterion in paragraph 11 establishes an initial hurdle for recognition; that is, recognition of the transaction (both the receivable and the revenue) is not required if the entire transaction is not probable of collection. Although applicable to all nonexchange transactions, for practical reasons it generally applies to those transactions that, in practice, are individually recorded (for example, separate donations) rather than those that are recorded in the aggregate (for example, sales taxes).

Conversely, the requirement in paragraphs 16, 18, and 21 applies to nonexchange transactions that have met the probable-of-collection criterion (for example, separate grants that historical evidence indicates are partially uncollectible in the aggregate even though the particular grants that are partially uncollectible may not be identifiable). It requires *revenue* for each class of nonexchange transactions to be recognized net of estimated uncollectible amounts and results in an increase to an allowance account (for example, allowance for doubtful accounts) rather than a reduction of the receivable.

Statement No.33

Z.33.9. ***Q*—**When should revenues resulting from tax audits be recognized?

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Statement No.33

A—Sales taxes and income taxes to be recovered in tax audits should be recorded, if measurable, in the same period as the underlying exchange regardless of when they will be collected (or as deferred inflows of resources in governmental funds if not *available*). Put another way, assessments from subsequent tax audits, if reasonably estimable, are integral to the estimate of uncollectible sales and income taxes.

Assessments in tax audits typically result from unreported or underreported sales or income. These are examples of exchange transactions underlying derived tax revenue transactions (for example, sales taxes and income taxes). Paragraph 16 of Statement 33 provides that revenues from derived tax revenue transactions "should be recognized, net of estimated refunds and estimated uncollectible amounts," when the underlying exchange transaction occurs.

Statement No.33

Z.33.10. ***Q*—**Should revenue from traffic tickets, fines, and other violations be recorded when the ticket is issued, when the judge rules, when payments are made, or when the time allowed for dispute lapses?

Statement No.33

***A*—**Undisputed fines should be recognized when payments are made or when the statutory time allowed for dispute lapses, whichever occurs first.
Disputed fines should be recognized when the appropriate legal authority (for example, traffic court) rules that the fine is valid (legally enforceable) and should be recognized net of estimated refunds from rulings overturned on appeal. Paragraph 17 of Statement 33 requires governments to "recognize *assets* from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when resources are received, whichever occurs first."

Paragraph 18 requires revenue to be recognized, net of estimated refunds, "in the same period that the assets are recognized unless the enabling legislation includes time requirements." Legal enforceability generally occurs when the parties pay their fines, when the statutory time allowed for dispute lapses, or, if disputed, when a court later rules that the fine is enforceable.

Statement No.33

Z.33.11. ***Q*—**Paragraph 18 of Statement 33 states that "governments should recognize *revenues* from property taxes, net of estimated refunds and estimated uncollectible amounts, *in the period for which the taxes are levied* …" (subject to the availability criterion in governmental funds). An independent school district files a property tax levy. The levy is processed and collected by a county that has a different fiscal period. The levy is assessed on property owned during yet another fiscal period. What is the period for which the taxes are levied?

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Statement No.33

Z.33.11. ***A*—**The laws and regulations governing the levy determine the period for which the taxes are levied. That period will generally coincide with the budget or fiscal period of the entity initiating the levy. All governments subject to the same laws and regulations should use the same period.

Statement No.33

.33.12. ***Q*—**An entity levies amounts in its *current* property tax levy for *future* debt service payments. Should the amounts levied for the future-period debt service payments be reported as a deferred inflow of resources until those future periods start?

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Statement No.33

.33.12. ***A*—**No. Governments often include amounts in their property tax levies that will be accumulated and not paid out until future periods (for example, amounts for other postemployment benefits).

Unless a legal requirement specifies otherwise, the period for which these amounts are levied is the same as the period for which the rest of the taxes are levied.

Statement No.33

Z.33.14. ***Q*—**Does Statement 33 change revenue recognition requirements for reimbursement-based (expenditure-driven) grants under the modified accrual basis of accounting?

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Statement No.33

Z.33.14. ***A*—**Yes. Paragraph 29 of Statement 33 notes that the Statement does not change the modified accrual basis revenue recognition requirement. Paragraph 11 of National Council on Governmental Accounting (NCGA) Statement 2, *Grant, Entitlement, and Shared Revenue Accounting by State and Local Governments,* required that all grants, including expenditure-driven grants, be recognized as revenue in governmental funds only when "both *measurable* and *available*" (as defined in paragraph 62 of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* as amended). For expenditure-driven grants, it added an additional requirement that "… revenues should be recognized when the expenditure is made." However, the second criterion often was applied without regard to the first criterion, and revenue was recognized whether or not resources were available. Subparagraph 30d of Statement 33 requires revenue recognition "in the period when all applicable eligibility requirements have been met *and* the resources are available."

Statement No.33

Z.33.15. ***Q*—**A state reimburses local governments for certain grant expenditures. Should the state accrue a liability for reimbursements based on (a) claims submitted or (b) claims submitted and claims incurred but not reported?

Statement No.33

Z.33.15. ***A*—**For reimbursement-based (expenditure-driven) grants, paragraph 21 of Statement 33 requires providers to recognize liabilities (or decreases in advances) when all eligibility requirements are met. Reimbursement eligibility requirements are met when recipients incur allowable costs, not when those costs are submitted for reimbursement. Therefore, on either the accrual or the modified accrual basis of accounting, the state should recognize a liability for the *estimated amount* of allowable costs incurred by potential recipients, based on both claims submitted and estimated claims incurred but not reported, provided that all other eligibility requirements are met

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Statement No. 53

Q—If an effective hedging relationship exists, should the government defer only the effective portion of the fair value changes of the hedging derivative instrument?

Statement No. 53

A—No. If an effective hedging relationship exists, all changes in fair value of the hedging derivative instrument should be reported as deferred inflows of resources or deferred outflows of resources on the statement of net position (paragraphs 20 of Statement 53).

Statement No. 68

5.68.1. ***Q***—In paragraph 14 of Statement 67, deferred outflows of resources and deferred inflows of resources are identified in the list of elements that should be included, as applicable, in a statement of fiduciary net position for a defined benefit pension plan. However, paragraphs 15–21 of that Statement, which discuss recognition of specific items in a defined benefit pension plan's statement of fiduciary net position, do not include any specific items to be recognized as deferred outflows of resources or deferred inflows of resources. Does this mean that there are no transactions for which a defined benefit pension plan would be required to report a deferred outflow of resources or a deferred inflow of resources in its statement of fiduciary net position?

Statement No. 68

A—No. A pension plan should report deferred outflows of resources or deferred inflows of resources if that recognition is required by other accounting and financial reporting requirements applicable to the transactions and other events reported in its basic financial statements (for example, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended). Statement 67 does not include requirements for the recognition of deferred outflows of resources or deferred inflows of resources by defined benefit pension plans because the approach used in that Statement is to establish requirements for transactions for which the accounting or financial reporting is specific to pension plans. No pension-plan specific transactions or other events were identified during the development of Statement 67 for which reporting deferred outflows of resources or deferred inflows of resources would be required.

Recap

Do you have an exchange or non exchange transaction?

Have all eligibility requirements been met other than time requirement?

Is it addressed in GASB No. 65?

Non exchange transactions where the eligibility requirements have not been met are an asset or liability such as unearned revenues.

Non exchange transactions where all eligibility requirements except the time requirement would be a deferred inflow or outflow.

Questions?

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Thank You!

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