

# Wednesday's News You Can Use

Joel Black & Miller Edwards

MAULDIN  
& JENKINS

## GASB 63 & 65



# Today's Presenters



**Joel Black, CPA**, is a partner with Mauldin & Jenkins LLC specializing in serving local and state governmental and non-profit entities throughout the Southeast. Joel serves on the firm's Accounting and Audit Committee and serves on the Executive Committee of the AICPA's Government Audit Quality Center. He is on the AICPA committee responsible for the Annual Government and Not for Profit Training Program and was recently the chairman of an AICPA sub-taskforce for improving the quality of internal control and compliance testing in Single Audits. He has 20 years of experience providing attestation, consulting and instructional services – serving many major governments in the Southeast. Joel has a B.B.A. in Accounting from Georgia State University.



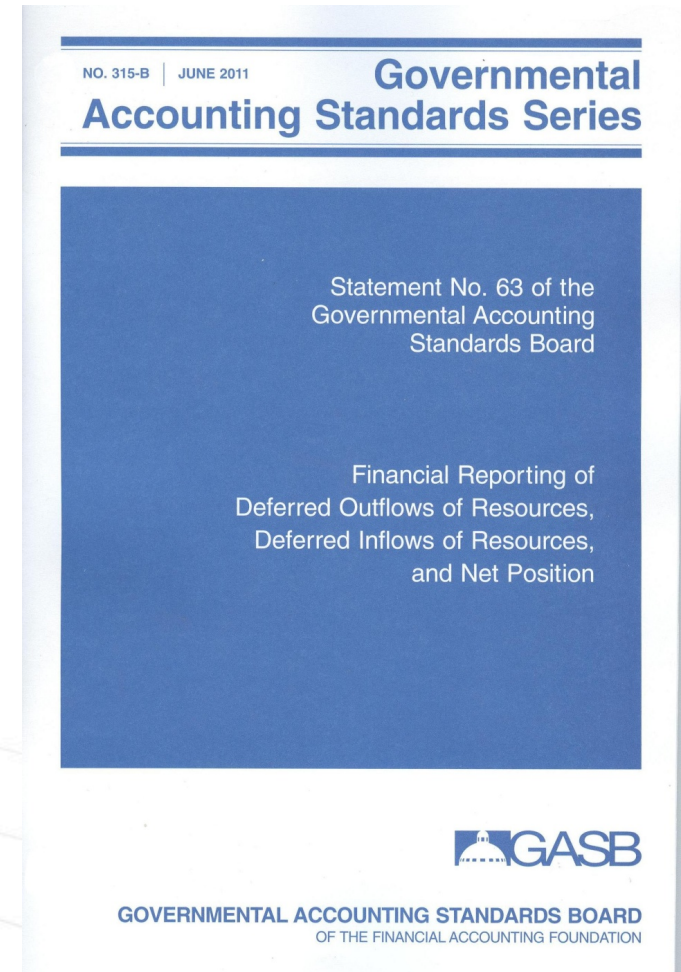
**Miller Edwards, CPA**, is a partner with Mauldin & Jenkins, LLC and is the industry leader for the firm's governmental practice. He is a member of Mauldin & Jenkins' Executive Committee and Accounting and Audit Committee. Since joining Mauldin & Jenkins in 1986, Miller has gained substantial experience serving clients in the federal, state, and local governmental sector, and currently spends 100% of his time serving governments. Miller teaches for the University of Georgia's Carl Vinson Institute of Government on an annual basis. Miller has been recognized in past years by the GGFOA for outstanding service to that organization and to the governmental industry as a whole. Miller received his B.B.A. with dual majors in Accounting and Risk Management & Insurance from the University of Georgia.

## **GASB 63:**

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

Effective for periods beginning  
after December 15, 2011

(fiscal years 12/31/12, 6/30/13,  
or 9/30/13)



# GASB 63

- **Background**

- GASB Concepts Statement 4 identifies 5 elements that make up a statement of financial position:
  - Assets
  - Liabilities
  - Deferred outflows of resources
  - Deferred inflows of resources
  - Net position
- This differs from the composition currently required by Statement 34 which requires the presentation of assets, liabilities, and net assets
- This standard brings current guidance in line with Concepts Statement 4.

# GASB 63

- Definitions (from Concept Statements)
  - Assets: resources with present service capacity that the government presently controls
  - Deferred outflow of resources: a consumption of net position by the government that is applicable to a future reporting period
    - Has a positive effect on net position, similar to assets
  - Outflow of resources: a consumption of net position by the government that is applicable to the reporting period

# GASB 63

- **Definitions (continued)**

- Liabilities: present obligations to sacrifice resources that the government has little or no discretion to avoid
- Deferred inflow of resources: an acquisition of net position by the government that is applicable to a future reporting period
  - Has a negative effect on net position, similar to liabilities
- Inflow of resources: an acquisition of net position by the government that is applicable to the reporting period
- Net position
  - The residual of all elements presented in a statement of financial position
  - = [assets + deferred outflows] – [liabilities + deferred inflows]

# GASB 63

- **Display Requirements**
  - No more Statement of Net Assets – is [Statement of Net Position](#)
  - Deferred outflows are reported in a separate section following assets
  - Deferred inflows are reported in a separate section following liabilities
  - No more Net Assets – is Net Position
  - Applies to all full accrual accounting statements but no change in governmental fund balance or use of the term “Balance Sheet”
    - Will add deferred outflows and inflows as elements in governmental fund statements, if necessary

# GASB 63

- **Display Requirements**
  - [Net position components](#) resemble net asset components from Statement 34, but include the effects of the deferred outflows and inflows
    - Net investment in capital assets
      - Still calculated net of related debt but that term is no longer added to the face of the statement.
    - Restricted
      - Still show by major category on face of statement or notes.
    - Unrestricted



## Statement of Net Position

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,712,829	\$ 10,516,820	\$ 22,229,649	\$ 303,935
Investments	29,250,291	64,575	29,314,866	7,428,952
Derivative instrument—rate swap	1,040,482		1,040,482	
Receivables (net)	11,792,650	3,609,615	15,402,265	4,042,290
Internal balances	313,768	(313,768)		—
Inventories	322,149	126,674	448,823	83,697
Equity interest in joint venture	2,303,256	—	2,303,256	—
Capital assets:				
Land, improvements, and construction in progress	28,435,025	6,408,150	34,843,175	751,239
Other capital assets, net of depreciation	141,587,735	146,513,065	288,100,800	36,993,547
Total capital assets	<u>170,022,760</u>	<u>152,921,215</u>	<u>322,943,975</u>	<u>37,744,786</u>
Total assets	<u>226,758,185</u>	<u>166,925,131</u>	<u>393,683,316</u>	<u>49,603,660</u>
<b>DEFERRED OUTFLOWS</b>				
Accumulated decrease in fair value of hedging derivatives	—	127,520	127,520	—
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	7,538,543	659,592	8,198,135	1,803,332
Advances from grantors	1,435,599		1,435,599	38,911
Forward contract		127,520	127,520	
Long-term liabilities:				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	<u>101,512,520</u>	<u>79,695,671</u>	<u>181,208,191</u>	<u>30,375,033</u>
<b>DEFERRED INFLOWS</b>				
Accumulated increase in fair value of hedging derivatives	1,040,482	—	1,040,482	—
<b>NET POSITION</b>				
Net investment in capital assets	103,711,386	79,088,574	182,799,960	15,906,392
Amounts Restricted for:				
Transportation and public works	10,655,737	—	10,655,737	—
Debt service	3,076,829	1,451,996	4,528,825	—
Housing and community redevelopment	6,845,629	—	6,845,629	—
Other purposes	1,483,387	—	1,483,387	492,445
Unrestricted Amounts (deficit)	(1,567,785)	6,816,410	5,248,625	2,829,790
Total net position	<u>\$ 124,205,183</u>	<u>\$ 87,356,980</u>	<u>\$ 211,562,163</u>	<u>\$ 19,228,627</u>

# GASB 63

- **Disclosures**

- Provide details of different types of deferred amounts if components of the total are obscured by aggregation on the face of the statements.
- If the amount reported for a component of net position is significantly affected by the difference between deferred inflows or outflows and their related assets or liabilities – provide an explanation in the notes.

# GASB 63

- **Transition**

- Accounting changes adopted to conform to the provisions of the Statement should be applied retroactively by reclassifying the statement of net position and balance sheet information, if practical, for all prior periods presented.
- In the period this statement is first applied, the financial statements should disclose the nature of any reclassification and its effect
- Concepts Statement 4 provides that recognition of a deferred inflow or outflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after due process
  - Currently only GASB 53 & 60, however see GASB 65

# GASB 63

## Question #1

Fund Balance will now be called Fund Position...

- a) TRUE
- b) FALSE



# GASB 63

## Question #2

Which of the following statements will have a change in title to refer to Net Position?

- a) Government-wide
- b) Proprietary funds
- c) Fiduciary funds
- d) All of the above



# GASB 63

## Question #3

Upon implementation of GASB No. 63, which of the following will be included as a deferred inflow of resources?

- a) Exchange transaction revenue received in advance of recognition
- b) Value of effective hedge derivative
- c) Tax revenue received after availability period
- d) None of the above

**GASB 65:**  
**Items Previously Recognized as  
Assets and Liabilities**

Effective for periods beginning  
after December 15, 2012  
(fiscal years 12/31/13, 6/30/14,  
or 9/30/14)

# GASB 65

- **Approach to Standard**

- Concepts Statement 4 provides that recognition of a deferred inflow or outflow of resources should be limited to those instances identified by the Board in authoritative pronouncements.
- GASB just issued Statement No. 63
- Prior to this Standard the only deferrals identified by the Board were:
  - GASB 53 – Derivative instruments
  - GASB 60 – Service concession arrangements
- This project reviewed existing balances to see if they meet the definition of an asset or a liability as defined in Concepts Statement 4
- If not, did they meet the definition of a deferred outflow or deferred inflow of resources



# GASB 65

- Some Items That Retain the Classification as an Asset
  - Prepayments
    - This includes any bond insurance paid at closing
  - Grants paid in advance of meeting eligibility requirements (other than timing)
  - Rights to future revenues acquired from outside the reporting entity
  - “Regulatory” assets (capitalized incurred costs)
  - Pension asset (Plan net assets exceed total liabilities)

# GASB 65

- Some transactions in which the resulting item should be reported as a deferred outflow of resources (currently classified as assets)
  - Grant paid in advance of meeting timing requirement
  - Deferred amounts from the refunding of debt (debits)
  - Costs to acquire rights to future revenues (intra-entity)
  - Deferred loss from sale-leaseback

# GASB 65

- Some transactions in which the resulting item should be reported as an outflow of resources/expense (currently classified as assets)
  - Debt issuance costs (other than insurance)
  - Initial direct costs incurred by the lessor for operating leases
  - Acquisition costs for risk pools
  - Loan origination costs

# GASB 65

- Some Items That Retain the Classification as a Liability
  - Resources received in advance of an exchange transaction
  - Derived tax revenue received in advance
  - Premium revenue (risk pools)
  - Grants received in advance of meeting eligibility requirements (other than timing)
  - Refunds imposed by a regulator

# GASB 65

- Some transactions in which the resulting item should be reported as a deferred inflow of resources (currently classified as liabilities)
  - Grants received in advance of meeting timing requirement
  - Taxes received in advance
  - Deferred amounts from refunding of debt (credits)
  - Proceeds from sales of future revenues
  - Deferred gain from sale-leaseback
  - “Regulatory” credits (gains or other reductions)
  - “Unavailable” revenue in governmental funds

# GASB 65

- Some transactions in which the resulting item should be recognized as an inflow of resources/revenue (currently classified as liabilities)
  - Loan origination fees (excluding points) – lessor accounting
  - Commitment fees (after exercise of expiration)

# GASB 65

- **Loan accounting – lender activities**
  - Not covered on previous slides, but the standard establishes and amends accounting for various lending activities associated with government lenders – if you are a government lender refer to paragraph 21-27 for accounting related to origination fees, the sale of loans, and mortgage banking activities.

# GASB 65

- **Governmental Fund impact**
  - No change in governmental fund basic revenue recognition – still measurable and available.
  - While certain amounts (as specified in standard) impact governmental funds – the basic overriding criteria still apply
    - For example all debt related accrual considerations still only apply to full accrual accounting



# GASB 65

- Other reporting changes

- The use of the term deferred should be limited to deferred inflows and outflows as defined in the standard.

- Major fund criteria

- Assets should be combined with deferred outflows and liabilities should be combined with deferred inflows for purposes of determining major funds.

# GASB 63 & 65

## Accounting Exercise

Review the Statement of Net Position for the City of Sample on the next slide and see if you can spot any problems.

**CITY OF SAMPLE, GEORGIA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash	\$ 433,326	\$ 4,202,109	\$ 4,635,435
Taxes receivable, net of allowance	222,777	-	222,777
Accounts receivable, net of allowance	428,051	243,128	671,179
Derivative instrument - swap agreement	-	234,988	234,988
Inventories	31,404	16,967	48,371
Internal balances	678,314	(678,314)	-
Capital assets, nondepreciable	602,128	182,960	785,088
Capital assets, depreciable, net of accumulated depreciation	5,957,686	51,798,443	57,756,129
Deferred issuance costs	25,281	452,700	477,981
Total assets	<u>8,378,967</u>	<u>56,452,981</u>	<u>64,831,948</u>
<b>DEFERRED OUTFLOWS</b>			
Deferred amount from debt refunding	<u>34,238</u>	<u>-</u>	<u>34,238</u>
<b>LIABILITIES</b>			
Accounts payable	11,143	86,400	97,543
Deferred revenue	-	32,009	32,009
Bonds payable due within one year	191,216	658,000	849,216
Bonds payable due in more than one year	<u>2,412,165</u>	<u>30,722,820</u>	<u>33,134,985</u>
Total liabilities	<u>2,614,524</u>	<u>31,499,229</u>	<u>34,113,753</u>
<b>DEFERRED INFLOWS</b>			
Accumulated increase in fair value of hedging derivative	-	234,988	234,988
Deferred amount from debt refunding	<u>-</u>	<u>1,278,732</u>	<u>1,278,732</u>
Total deferred inflows	<u>-</u>	<u>1,513,720</u>	<u>1,513,720</u>
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	3,990,671	19,321,851	23,312,522
Restricted for:			
Capital projects	33,594	-	33,594
Debt service	-	250,000	250,000
Unrestricted	<u>1,774,416</u>	<u>3,868,181</u>	<u>5,642,597</u>
Total net assets	<u>\$ 5,798,681</u>	<u>\$ 23,440,032</u>	<u>\$ 29,238,713</u>

# GASB 63 & 65

- **Transition**
  - Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented

# GASB 63 & 65

## Accounting Exercise

A County is implementing GASB 65 and has 2004 GO Bonds outstanding which had issuance costs. The balances related to these bonds at the beginning of the year are as follows:

- GO Bonds - \$10,500,000
- Bond Discount - \$450,000
- Accum. amortization – bond discount - \$125,000
- Deferred Issuance Costs - \$300,000
  - Bond Insurance - \$100,000
  - Underwriter's discount - \$100,000
  - Attorney Fees - \$75,000
  - Printer Fees - \$25,000
- Accum. amortization – deferred issuance costs - \$100,000

How would the County implement GASB 65? Would a restatement of net position be required? If so, by how much?

# GASB 63 & 65

## Accounting Exercise - Answer

Deferred Issuance Costs	300,000	
Less Accumulated Amortization	<u>(100,000)</u>	33%
Net	<u>200,000</u>	67%

Break - out:

Insurance	100,000	
Less Accumulated Amortization	<u>(33,333)</u>	
Net	<u>66,667</u>	

Remainder - Other Issuance Costs 133,333

Reclassify Net Insurance of \$66,667 to Prepaid Asset.

Remaining Balance of 133,333 would be restated and reduce beginning Net Position.

# GASB 63 & 65

Questions ????



Joel Black – [jmblack@mjcpa.com](mailto:jmblack@mjcpa.com)

Miller Edwards – [medwards@mjcpa.com](mailto:medwards@mjcpa.com)