

Significant Changes in Financial Reporting by Standards Issued by GASB

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GASB Statements No. 63 and No. 65

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This pronouncement is a follow-up to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

Three (3) of the more significant changes under Statement No. 65 are as follows:

1. Deferred revenue is currently reported as a liability in the governmental funds when an asset is reported in the fund but the revenue is not “available” (for example, property taxes and special assessments). Statement No. 65 treats this item as a "deferred inflow of resources" rather than a "liability", and also limits the use of the term "deferred" to *deferred outflows of resources* and *deferred inflows of resources*. The financial statement line item currently and commonly referred to as "deferred revenue" will require new terminology which is not defined by the GASB.
2. For current and advance refunding transactions reported in governmental activities, business type activities and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is combined and reported with bonds payable liability. This is another change under Statement No. 65 for which the difference will now be reported as a *deferred outflow of resources* or a *deferred inflow of resources*.
3. Debt issuance costs are currently reported as assets (often referred to as “deferred charges”) for the governmental activities, business type activities and proprietary funds.

This will also change under Statement 65 for which all issuance costs, except the prepaid bond insurance costs, will be recognized as an expense in the period incurred.

Additionally, Statement No. 34 established criteria for determining which funds should be reported as major funds. The criteria did not anticipate new financial statement categories such as *deferred outflows of resources* and *deferred inflows of resources*. Statement No. 65 amends the rules for calculating major funds by providing guidance to combine *assets* and *deferred outflows of resources*, and also combine *liabilities* and *deferred inflows of resources* before applying the major fund criteria.

Statement No. 63 is effective for years which begin after December 15, 2011 (meaning for years ended December 31, 2012), and Statement No. 65 is effective for years which begin after December 15, 2012 (meaning for years ending December 31, 2013). Considering the fact that both of the above two statements concern and address the concept of deferred outflows and deferred inflows of resources, it may be a good idea to early implement the provisions of Statement No. 65 in conjunction with the adoption of Statement No. 63.

GASB Statement No. 68

Another new pronouncement recently issued by GASB is Statement No. 68, *Accounting and Reporting for Pensions* will be effective for fiscal years beginning after June 15, 2014 (years ending June 30, 2015 and December 31, 2015). This pronouncement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria, including agent and cost-sharing multiple employer plans.

Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This means that governments who provide defined benefit pension plans to their employees will be required to record and reflect the net long-term liabilities (the difference between plan assets and actuarial plan liabilities) associated with such plans. In many cases, this will result in a significant reduction of fund net assets (or equity), and the potential for many governments to reflect significant deficits at the entity-wide level.