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To: **Chief Fiscal Officers**

From: **Division of Local Government and School Accountability**

Subject: **Reporting Deferred Inflows and Outflows of Resources as Required by GASB 63 and 65**

Please provide copies of this bulletin to others who may need this information.

Purpose of Bulletin

This bulletin provides information on the reporting requirements of deferred inflows of resources and deferred outflows of resources as required by Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Statement 63), and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement 65).

Summary

Concepts Statement No.4, *Elements of Financial Statements* (Concept 4), established two new elements required to be reported within financial statements: (1) deferred outflows of resources, and (2) deferred inflows of resources. A deferred outflow of resources is defined as "a consumption of net assets by the government that is applicable to a future reporting period," and a deferred inflow of resources is defined as "an acquisition of net assets by the government that is applicable to a future reporting period."

Concept 4 also established that "only those instances identified by the Board in authoritative pronouncements" will be considered a deferred outflow or inflow of resources. Statement 65 is the first such significant pronouncement.[1] It amends the financial statement element classifications of certain items previously reported as assets or liabilities, and reclassifies them as deferred outflows and/or inflows of resources.

[1] Prior to Statement 65, only two items had been reclassified as a deferred outflow and/or inflow of resources: (1) changes in fair value of hedging derivative instruments (GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*), and (2) qualifying service concession arrangements (GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*).

Statement 63 established that a deferred outflow of resources should be reported on the statement of financial position in a separate section directly following assets, and a deferred inflow of resources section should directly follow liabilities.

Article 3 of the General Municipal Law (GML) requires local governments to file an annual financial report with the Office of the State Comptroller (OSC). This reporting is accomplished by local governments through filing of the Annual Updated Document (AUD), and school districts by filing the ST-3. OSC will make the necessary adjustments to the balance sheets for the fund level statements of the AUD and ST-3 to align statutory reporting requirements under GML with generally accepted accounting principles at the fund level. The adjustments to the AUD will be implemented beginning with local governments with a December 31, 2013 fiscal year end. The adjustments to the ST-3 will be implemented beginning with the June 30, 2014 school district fiscal year end.

Reporting Requirements

OSC believes that local governments in New York will be more likely to have deferred inflows of resources than deferred outflows of resources; therefore, this bulletin will focus more on them. All deferred outflows of resources would be reported in account code 495 Deferred Outflow of Resources (account code 485 Deferred Charges has been deleted).

The items that Statement 65 classified that are most relevant to local governments in New York include; debt refunding, imposed nonexchange revenue transactions, government-mandated nonexchange transactions, voluntary nonexchange transactions, sales of future revenues, intra-entity transfers of future revenues and debt issuance costs.

If a local government has a deferred inflow of resources, it should be accounted for within the "Deferred Inflows of Resources" category of the AUD or ST-3. The general ledger account codes included within this category of the AUD or ST-3 are as follows:[2]

- 691 Deferred Inflow of Resources (formerly Deferred Revenues);
- 692 Deferred Inflow of Resources – Planned Balance (formerly Deferred Revenues – Planned Balance) (ST-3 only);
- 693 Deferred Special Taxes, Suffolk County (formerly Deferred Revenues, Special Taxes, Suffolk County) (ST-3 only);
- 694 Deferred Taxes (formerly Deferred Tax Revenues);
- 695 Deferred Taxes – Reserve for Excess Tax Levy (formerly Deferred Tax Revenue – Reserve for Excess Tax Levy);
- 696 Deferred Accrued Taxes (AUD only); and
- 699 Deferred Service Concession Arrangement Receipts (AUD only).[3]

The following is a summary of Statement 65 reclassifications of items which may be relevant to local governments in New York, and a discussion of the rationale behind each change. Unless

[2] Statement 65 eliminates the use of the term *deferred* except in reference to deferred outflows and inflows of resources.

[3] Account code 699 – Deferred Service Concession Arrangement Receipts is only available for enterprise funds.

otherwise specified, the requirements below only apply to accrual-based financial reporting (i.e., government-wide statements, proprietary funds and fiduciary funds).

Debt Refunding

When the reacquisition price required to refund outstanding bonds does not equal the net carrying amount of the outstanding debt, the resulting accounting gain or loss does not result in an increase in service capacity that the government presently controls, or an obligation to sacrifice resources for an unavoidable and specific purpose; therefore, there is no asset or liability to recognize. The resulting difference should be recorded as a deferred outflow or inflow of resources, and the outflow or inflow should be recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. A gain should be reported as a deferred inflow of resources within account code 691. A loss should be reported as a deferred outflow of resources in account code 495.

Imposed Nonexchange Revenue Transactions (e.g., real property taxes)

Resources received prior to the period when they are required to be used, or when use is first permitted, do not meet the definition of a liability because the government is not obligated to sacrifice resources. Therefore, a deferred inflow of resources should be reported for resources associated with these transactions received or reported as a receivable *before* (a) the period for which the property taxes are levied, (b) the period when resources are required to be used, or (c) the time when use is first permitted. This change is also applicable to governmental funds, subject to reporting distinctions of those funds. These resources should be reported within account code 691, 693, 694, 695, or 696.

Government-Mandated Nonexchange Transactions (e.g., federal or state programs that local governments are mandated to perform) and Voluntary Nonexchange Transactions (e.g., grants entered into voluntarily)

If all eligibility requirements except those associated with time have been met, it is not likely that the provider can reacquire its resources from the recipient, or that the recipient no longer has an obligation to the provider. Therefore, government-mandated and voluntary nonexchange transactions received before time requirements are met, but after all other eligibility requirements have been met, should be reported as a deferred outflow of resources by the provider and a deferred inflow of resources by the recipient. This change is also applicable to governmental funds, subject to reporting distinctions of those funds. These resources should be reported as a deferred inflow of resources within account code 691 by the recipient. The provider would report a deferred outflow of resources in account code 495.

Sales of Future Revenues (e.g., sale of real property tax receivables)

The net increase in assets resulting from the sale of future revenues represents an acquisition of net assets that will be recognized in future periods when the underlying revenues meet revenue recognition criteria. Therefore, the transferor government should report a deferred inflow of resources except for instances where recognition as revenue in the period of sale is appropriate as discussed in GASB Statement No. 48, *Sale and Pledges of Receivables and Future Revenues and*

Intra-Entity Transfers of Assets and Future Revenues (Statement 48).[4] This change is also applicable to governmental funds, subject to reporting distinctions of those funds. These resources should be reported within account code 691.

Intra-Entity Transfers of Future Revenues (e.g., New York counties and tobacco asset securitization corporations)

When the government purchasing future revenues is within the same financial reporting entity as the selling government (e.g., New York counties that have created tobacco asset securitization corporations), then the purchasing government should report the proceeds from this transfer as a deferred inflow of resources, and the selling government should report a deferred outflow of resources. This change is also applicable to governmental funds, subject to reporting distinctions of those funds. These resources should be reported as a deferred inflow of resources within account code 691 for the purchasing government. The selling government would report a deferred outflow of resources in account code 495.

Debt Issuance Costs (e.g., rating agency fees, legal fees and administrative expenses)

The costs of debt issuance (other than prepaid insurance) are not applicable to future periods because issuance of debt is an event that occurs during a period, and the cost of that event is applicable to that period. These costs should be recognized in the period in which they are incurred. Therefore, no changes to the accounting treatment of debt issuance costs are needed by local governments.

Additional Information

If you have questions pertaining to this bulletin, please contact the State Comptroller's regional office that serves your local government.

[4] Revenue should be recognized at the time of the sale only if the revenue sold was not recognized previously because of uncertainty of realization or the inability to reliably measure the revenue. Refer to OSC Accounting Bulletin *Accounting for Sales of Real Property Tax Receivables and Future Tobacco Settlement Receipts* at www.osc.state.ny.us/localgov/pubs/releases/gasb48final.pdf for more information.