



GASB 65

Presented by
Amy Willard, WVDE Office of
School Finance






Before we discuss GASB 65, we need to refresh our memory.....

GASB Statement No. 63


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





- Objective - To provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.
- Applicability - Applies to all state and local governments.
- Effective - For all periods beginning after December 15, 2011. **Implemented for FY13.**





 **EDUCATION**

- What is a deferred outflow of resources?

A consumption of net assets by the government that is applicable to a future reporting period.

Has a positive effect on net position, similar to assets.





 **EDUCATION**

- What is a deferred inflow of resources?

An acquisition of net assets by the government that is applicable to a future reporting period.


Has a negative impact on net position, similar to liabilities.




 **EDUCATION**


Statement of Net Position


- GASB 63 changes the entity-wide “Statement of Net Assets” to the “Statement of Net Position.”
- Governments are encouraged to have a format that shows:
Assets + Deferred Outflows of Resources – Liabilities
- Deferred Inflows of Resources = Net Position





Statement of Net Position


- A balance sheet format may be used instead
Assets + Deferred Outflows of Resources =
Liabilities + Deferred Inflows of Resources + Net
Position
- The net position represents the difference
between all of the other categories and
should be displayed in 3 components:
 - Net Investment in Capital Assets, Restricted, and
Unrestricted





Net Investment in Capital Assets


- Consists of Capital Assets, net of accumulated
depreciation, reduced by the outstanding
balances of bonds, mortgages, notes or other
borrowings that are attributable to the
acquisition, construction, or improvement of
those assets.
- Deferred outflows or inflows that are attributable
to the acquisition, construction, or improvement
of those assets or related debt should also be
included in this component of net position.




Restricted Net Position


- Consists of restricted assets reduced by
liabilities and deferred inflows of resources
related to those assets.




 **West Virginia Department of EDUCATION**

Unrestricted Net Position


- The net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or restricted net position.
- Essentially the leftover balance




 **West Virginia Department of EDUCATION**

- Governmental Funds Balance Sheet


Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Fund Balance



 **West Virginia Department of EDUCATION**

Disclosures

- Balances of deferred inflows and outflows may be presented as aggregations of different types of deferred amounts.
- Governments should provide details of the different types of deferred amounts in the footnotes if significant components are obscured by aggregation.
- Disclosure of the details in the notes is only required if the information is not displayed on the face of the financial statements.



West Virginia Department of
EDUCATION

- What types of transactions are considered deferred inflows and outflows of resources under GASB 63?
 - Changes in fair value of hedging derivatives
 - Service concession arrangement receipts

EducateWV

West Virginia Department of
EDUCATION

GASB Statement No. 65


“Items Previously Reported as Assets and Liabilities”

EducateWV


West Virginia Department of
EDUCATION


- Objective – To properly classify/recognize certain items that were previously reported as assets and liabilities as deferred outflows or deferred inflows of resources.
- Applicability – Applies to all state and local governments
- Effective – For all periods beginning after December 15, 2012. **Effective for FY14.**

EducateWV



Refundings of Debt


- The difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow (loss) or deferred inflow (gain) and recognized as a component of interest expenses over the remaining life of the old or new debt, whichever is shorter.





Imposed Non-exchange Revenue Transactions


- Imposed non-exchange revenue transactions that are reported as receivable prior to their formal levy (such as property taxes recorded in June but not fully levied until July) or transactions recorded as receivable prior to the period when resources are required to be used (such as license fees billed in June for licenses valid the following year beginning in July) should be reported as deferred inflows.




Government-Mandated Non-Exchange Transactions and Voluntary Non-Exchange Transactions


- Providers of resources in such transactions frequently establish eligibility requirements. Resources transmitted before the eligibility requirements are met (excluding time requirements) should be reported as assets by the provider and liabilities by the recipient .




 **West Virginia Department of EDUCATION**

Government-Mandated Non-Exchange Transactions and Voluntary Non-Exchange Transactions


- Resources 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.


 **Educate WV**

 **West Virginia Department of EDUCATION**

Sales and Intra-Entity Transfers of Future Revenues


- These are now generally reported as Deferred Inflows of Resources.
- Not common to county boards of education.


 **Educate WV**

 **West Virginia Department of EDUCATION**

Debt Issuance Costs


- Debt Issuance Costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred.
- Prepaid insurance costs should be reported as an asset and recognized as an expense over the duration of the related debt.


 **Educate WV**

 **EDUCATION**

Leases


- Initial direct costs of an operating lease should be treated as an expenditure in the period incurred.
- Gains or losses arising from sale and leaseback transactions result in a deferred inflow or deferred outflow of resources that are recognized systematically over the life of the lease. Not common to county boards of education.




 **EDUCATION**

Other Items Not Common to LEAs


- 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
- Regulated Operations




 **EDUCATION**

Revenue Recognition in Governmental Funds


- When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until the revenue becomes available.
- Examples: Property Taxes and other receivables not available to finance expenditures of the current period that are currently reflected as Deferred Revenue in the Liability section of the balance sheet will now be called Deferred Inflows of Resources instead.




 **West Virginia Department of EDUCATION**

Use of the Term Deferred


- Paragraph 31 states that the use of the term “deferred” should be limited to items reported as deferred outflows of resources or deferred inflows of resources.
- Paragraph 111 indicates that the GASB Board concluded the statement should not prescribe new terminology for liabilities that were previously called “deferred revenue” and that the terminology used should be left to professional judgment.




 **West Virginia Department of EDUCATION**

Items that are still Assets


- Per paragraph 48, the following items are still considered assets:
 - Prepayments
 - Resources advanced to another government when eligibility requirements, other than time requirements, have not been met.
 - The purchase or future revenues from a government outside the financial reporting entity.
 - Initial Subscriber Installation Costs in relation to cable TV systems
 - Capitalized incurred costs related to regulated activities.



 **West Virginia Department of EDUCATION**

Items that are still Liabilities

- Per paragraph 53, the following items are still considered assets:
 - Resources received in advance when eligibility requirements other than time requirements have not been met
 - Resources received in advance of an exchange transaction
 - Others not common to LEAs



Grants Received in Advance (GASB 33) – July 9, 2014

During the July 2013 Office of School Finance Summer Conference, a question concerning revenue recognition for grants received in advance was posed. The question being: if a state grant award is received by a county board of education, in advance of qualifying expenditures, is that receipt to be recorded as a liability or as revenue? The common practice among county boards of education is to only record revenue to the extent that funds have been expended for qualifying program costs. However, upon further research by the Office of School Finance, it has been determined that this is not the correct accounting treatment. GASB Statement No. 33 specifically discusses such transactions, generally known as “nonexchange” transactions, and spells out the specific requirements to be satisfied in order for grant funds to be recorded as revenue.

GASB Statement No. 33 (*Accounting and Financial Reporting for Nonexchange Transactions*):

Classes of Nonexchange Transactions:

Grant funds received by LEA’s from WVDE can fall into two (2) of four (4) classes of nonexchange transactions.

- Government-mandated nonexchange transactions, which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specified purpose.
- Voluntary nonexchange transactions, which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement.

Eligibility Requirements:

In order for receipts of either of the types of nonexchange transactions listed above to be recorded as revenue (rather than a liability), the following eligibility requirements must be met.

- Required characteristics of recipients: The recipient has the characteristics specified by the provider.
- Time requirements: Time requirements specified by enabling legislation or the provider have been met (the period when the resources are required to be used or when use is first permitted.)
- Reimbursements: The provider offers resources on a reimbursement (“expenditure-driven”) basis and the recipient has incurred allowable costs under the applicable program.
- Contingencies (applies only to voluntary nonexchange transactions): The provider’s offer of resources is contingent upon a specified action of the recipient and that action has occurred. (For example, the recipient is required to raise a specific amount of resources from third parties or to dedicate its own resources for a specified purpose and has complied with those requirements.)

Purpose Restrictions:

Eligibility requirements DO NOT include purpose restrictions. Specifically, paragraph 62 of GASBS No. 33 states, "In contrast to time requirements, purpose restrictions are requirements of the provider that are mandated or expected to be met after a nonexchange transaction has occurred. They should not result in delayed recognition. On the contrary, purpose restrictions cannot be met *unless* a transaction has occurred."

Purpose restrictions do, however, affect the category of fund balance (or net assets) in which the recognized revenue is reported.

WVDE Conclusion:

None of the WVDE grant awards received in advance of qualifying expenditures include reimbursement basis requirements. Therefore, the LEA must record as revenue the advance grant funds entirely during the period in which the grant/project period begins and the recipient's required characteristics are met.

- In instances where a grant is received entirely in a period before the grant period begins, the time requirement has not been met; therefore, the receipt would be recorded entirely as a deferred inflow of resources.
- However, in instances where a grant award is received after the beginning of the grant period, but before the end of the grant period, the receipt would be recorded entirely as revenue during the period it was received (not as purpose restrictions are met.) This even applies to multiple-year grant awards.

Many LEAs would likely have had overstated liabilities at the end of FY13; therefore, total beginning fund balance would be understated for FY14. LEAs should consult with their auditors to determine if there is a need for a prior period adjustment for correction of an error. Going forward, WVDE expects that there will be minimal amounts of deferred/unearned grant revenues included in the liabilities section of the LEA's financial statements, if any.