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Statement No. 65 of the Governmental Accounting Standards Board

Items Previously Reported as Assets and Liabilities

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

OF THE FINANCIAL ACCOUNTING FOUNDATION

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Summary

This Statement 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.

Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* 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, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement 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.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

Statement No. 65 of the
Governmental Accounting
Standards Board

Items Previously Reported as Assets and Liabilities

March 2012

Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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March 2012

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March 2012

INTRODUCTION

1. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements.*

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. In addition, this Statement amends or supersedes requirements for the determination of major funds and addresses other statement of net position and governmental funds balance sheet presentation issues.

3. This Statement establishes accounting and financial reporting standards for the financial statements of state and local governments. The requirements of this Statement apply only to accounting and financial reporting for governmental activities, business-type activities, proprietary funds, and fiduciary funds, except that:

a. The following paragraphs also apply to governmental funds, subject to the accounting and financial reporting distinctions of governmental funds:
   (1) Paragraphs 8−10 pertaining to nonexchange transactions
   (2) Paragraphs 11−13 pertaining to sales of future revenues and intra-entity transfers of future revenues
   (3) Paragraphs 16−18 pertaining to accounting for leases
   (4) Paragraph 31 pertaining to the use of the term *deferred.*
b. Paragraphs 32 and 33 pertaining to major fund criteria apply only to governmental funds and proprietary funds.
c. Paragraphs 28 and 29 pertaining to regulated operations apply only to certain business-type activities and enterprise funds that meet and apply the criteria in paragraph 476 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
d. Paragraph 30 pertaining to revenue recognition in governmental funds applies only to governmental funds.

4. This Statement supersedes National Council on Governmental Accounting (NCGA) Interpretation 3, *Revenue Recognition—Property Taxes,* paragraph 4; Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* paragraph 30; Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,* footnote 5; Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* footnote 4; and Statement 62, paragraphs 414, 444−447, and footnotes 206 and 225. This Statement also amends *Audits of State and Local Governmental Units;* the 1974 Industry Audit Guide of the American Institute of Certified Public Accountants, as amended, page 15; NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* paragraphs 63, 66, and 119; NCGA Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments,* paragraph 15; NCGA Interpretation 3, paragraph 7; Statement No. 6, *Accounting and Financial Reporting for Special Assessments,* paragraphs 15 and 22; Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* paragraph 32; Statement 10, paragraphs 29, 38, 45, 49, and 130; Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* paragraph 9; Statement 23, paragraph 4, and footnotes 3 and 4; Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance,* paragraph 6; Statement No. 30, *Risk Financing Omnibus,* paragraphs 4 and 5; Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* paragraphs 15, 16, 18,

19, and 21; Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* paragraphs 58, 61, 76, and 87; Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus,* paragraph 15; Statement 48, paragraphs 13−16; Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies,* paragraph 6; and Statement 62, paragraphs 30, 31, 69, 74, 137, 187, 221, 227, 242, 413, 416, 417, 419, 429, 434, 437, 442, 443, 467, 469, and 482 and footnotes 58, 112, 113, and 211−213.

Refundings of Debt

5. Statement 23, as amended, establishes accounting and financial reporting for current refundings and advance refundings resulting in defeasance of debt.[1] In addition, paragraph 221 of Statement 62 provides accounting and financial reporting guidance for refundings and advance refundings of tax-exempt debt that result in a change in the provisions of a lease.

6. For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price[2] and the net carrying amount[3] of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and 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.

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[1]Refundings involve the issuance of new debt whose proceeds are used to repay previously issued ("old") debt. The new debt proceeds may be used to repay the old debt immediately (a current refunding); or the new debt proceeds may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding). As described in paragraphs 3 and 4 of Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt,* an advance refunding may result in the in-substance defeasance of the old debt provided that certain criteria are met.

[2]*Reacquisition price* is the amount required to repay previously issued debt in a refunding transaction. In a current refunding, this includes principal of the old debt and any call premium. In an advance refunding, it is the amount placed in escrow that, together with interest earnings, is necessary to pay interest and principal on the old debt and any call premium. A premium or discount pertaining to the new debt is not considered part of the reacquisition price but, instead, is a separate item related to and amortized over the life of the new debt.

[3]*Net carrying amount* is the amount due at maturity, adjusted for any unamortized premium or discount related to the old debt, as well as any deferred outflows of resources or deferred inflows of resources associated with a derivative instrument that is an effective hedge of the old debt.

7. Prior to the expiration of the lease term, if a change in the provisions of a lease results from a refunding by the lessor of tax-exempt debt, including an advance refunding, in which (a) the perceived economic advantages of the refunding are passed through to the lessee and (b) the revised agreement is classified as a capital lease by the lessee, then the lessee should adjust the lease obligation to the present value of the future minimum lease payments under the revised lease. The adjustment of the lease obligation to present value should be made using the effective interest rate applicable to the revised agreement. The resulting difference should be reported as a deferred outflow of resources or a deferred inflow of resources. The deferred outflow of resources or the deferred inflow of resources 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.

Nonexchange Transactions

8. Statement 33, as amended, establishes accounting and financial reporting standards for nonexchange transactions.

Imposed Nonexchange Revenue Transactions

9. Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a 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 the enabling legislation includes time requirements.

Government-Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

10. Providers of resources in government-mandated or voluntary nonexchange 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 as liabilities by the recipient.[4]

[4]Recognition of assets and revenues should not be delayed pending completion of purely routine requirements, such as the filing of claims for allowable costs under a reimbursement program (paragraph 20c of Statement 33) or the filing of progress reports with the provider.

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.

Sales of Future Revenues and Intra-Entity Transfers of Future Revenues

11. Statement 48 provides accounting and financial reporting guidance for transactions that meet the criteria to be recognized as sales, in which a government receives proceeds in exchange for the right to cash flows from specific future revenues.

Sales of Future Revenues

12. In a sale of future revenues, the transferor government should report the proceeds as a deferred inflow of resources in both the government-wide and fund financial statements except for instances wherein recognition as revenue in the period of sale is appropriate as discussed in paragraph 14 of Statement 48.

Intra-Entity Transfers of Future Revenues

13. When accounting for intra-entity sales of future revenues in accordance with paragraph 15 of Statement 48, a transferee government should not report an asset and related revenue until recognition criteria appropriate to that type of revenue are met. Instead, the transferee government should report the amount paid as a deferred outflow of resources to be recognized over the duration of the sale agreement. The transferor government should report the amount received from the intra-entity sale as a deferred inflow of resources in its government-wide and fund financial statements and recognize the amount as revenue over the duration of the sale agreement.[5]

[5]Deferred inflows of resources and deferred outflows of resources resulting from intra-entity sales of future revenues and the periodic recognition of those balances as revenue and expense/expenditure should be accounted for similarly to internal balances and intra-entity activity within the financial reporting entity.

Debt Issuance Costs

14. Paragraph 187 of Statement 62 establishes standards of accounting and financial reporting for debt issuance costs. Paragraph 12 of Statement 7 indicates that debt issuance costs include all costs incurred to issue the bonds, including but not limited to insurance costs (net of rebates from the old debt, if any), financing costs (such as rating agency fees), and other related costs (such as printing, legal, administrative, and trustee expenses).

15. 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 in a systematic and rational manner over the duration of the related debt.

Leases

16. Paragraphs 211−271 of Statement 62 establish standards of accounting and financial reporting for leases by lessees and lessors.

Initial Direct Costs of Operating Leases

17. Paragraph 271 of Statement 62 defines initial direct costs. The lessor should recognize initial direct costs of an operating lease as an expense/expenditure in the period incurred.

Sale-Leaseback Transactions

18. Paragraph 241 of Statement 62 describes sale-leaseback transactions. The gain or loss on the sale[6] of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life should be recorded as a deferred inflow of resources or a deferred outflow of resources, respectively, and recognized in a systematic and rational manner

[6]*Gain or loss on the sale* is used in this paragraph to refer to the gain or loss that would be recognized on the sale if there were no leaseback. For example, on a sale of real estate subject to the provisions in paragraphs 282−349 of Statement 62, the gain on the sale to be reported as a deferred inflow of resources and recognized in proportion to the leaseback would be the gain that could otherwise be recognized in accordance with those paragraphs.

over the lease term in proportion to the recognition of the leased asset,[7] if a capital lease, or in proportion to the related gross rental charged to expense/expenditure over the lease term, if an operating lease, subject to the exceptions in paragraphs 242a−242c of Statement 62.

Acquisition Costs Related to Insurance Activities

19. Paragraphs 400−430 of Statement 62 establish standards of accounting and financial reporting for short-duration insurance contracts underwritten by insurance entities other than public entity risk pools, while paragraphs 17−51 and paragraph 81 of Statement 10 establish accounting and financial reporting standards for public entity risk pools.

20. Paragraph 412 of Statement 62 and paragraph 28 of Statement 10 describe acquisition costs. Acquisition costs should be recognized as an expense in the period incurred.

Lending Activities

21. Paragraphs 431−451 of Statement 62 and paragraph 45 of Statement 10 establish standards of accounting and financial reporting for nonrefundable fees and costs associated with lending activities and loan purchases. Lending, committing to lend, refinancing or restructuring loans, arranging standby letters of credit, and leasing activities are "lending activities" for purposes of applying those paragraphs.

Loan Origination Fees and Costs

22. Paragraph 434 of Statement 62 establishes standards of accounting and financial reporting for loan origination fees and costs. In addition, paragraph 451 of Statement 62 defines loan origination fees. Loan origination fees, except any portion related to points, should be recognized as revenue in the period received. Points received by a lender in relation to a loan origination should be reported as a deferred inflow of resources and recognized as

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[7] If the leased asset is land only, the recognition should be on a straight-line basis over the lease term.

revenue in a systematic and rational manner over the duration of the related loan. Direct loan origination costs defined in paragraph 435 of Statement 62 should be recognized as an expense in the period incurred.

Commitment Fees

23. Paragraph 437 of Statement 62 establishes standards of accounting and financial reporting for commitment fees. In addition, paragraph 451 of Statement 62 defines commitment fees. Except as set forth in subparagraphs (a) and (b) below, fees received for a commitment to originate or purchase a loan or group of loans should be recorded as a liability and, if the commitment is exercised, recognized as revenue in the period of exercise. If the commitment expires unexercised, the commitment fees should be recognized as revenue upon expiration of the commitment.

a. If the government's experience with similar arrangements indicates that the likelihood that the commitment will be exercised is remote,[8] the commitment fee should be recognized as revenue in the period received.
b. If the amount of the commitment fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, if that percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee should be recognized as revenue as of the determination date.

Purchase of a Loan or Group of Loans

24. Paragraph 442 of Statement 62 establishes standards of accounting and financial reporting for a purchased loan or group of loans. Any fees paid or any fees received related to this purchase should be recognized as an expense or revenue, respectively, in the period that the loan(s) was purchased.

[8]The term *remote* is used here, consistent with its use in paragraph 100 of Statement 62, to mean that the likelihood is slight that a loan commitment will be exercised prior to its expiration.

Mortgage Banking Activities

25. Paragraphs 452–475 of Statement 62 establish standards of accounting and financial reporting for certain mortgage banking activities. Similar to lending activities, mortgage banking activities may include the receipt or payment of nonrefundable loan and commitment fees representing compensation for a variety of services.

Loan Origination Fees and Costs

26. Paragraph 467 of Statement 62 establishes standards of accounting and financial reporting for loan origination fees and costs. In addition, paragraph 451 of Statement 62 defines loan origination fees. If the loan is held for investment, loan origination fees, except any portion related to points, and the direct loan origination costs as specified in paragraph 22 of this Statement should be recognized as revenue or expense, respectively, in the period the loan is originated. Points received by a lender in relation to a loan held for investment should be reported as a deferred inflow of resources and recognized as revenue, in a systematic and rational manner over the duration of the related loan. If the loan is held for sale, origination fees, including any portion related to points, and direct loan origination costs should be recorded as a deferred inflow of resources and a deferred outflow of resources, respectively, until the related loan is sold. Once the related loan is sold, the amount reported as a deferred inflow of resources related to the loan origination fees, including any portion related to points, and the amount reported as a deferred outflow of resources related to the direct loan origination costs should be recognized as revenue and expense, respectively, in the period of sale.

Fees Relating to Loans Held for Sale

27. Paragraph 469 of Statement 62 establishes standards of accounting and financial reporting for fees relating to loans held for sale. Fees received for guaranteeing the funding of mortgage loans to borrowers, builders, or developers should be accounted for as prescribed in paragraph 23. Fees paid to permanent investors to ensure the ultimate sale of the loans (residential or commercial loan commitment fees) should be recognized as an expense in the period when the loans are sold to permanent investors or when it becomes evident the commitment will not be used. Prior to the sale of the loans, the fees paid to permanent investors should be recorded as a deferred outflow of resources until the sale of the loan occurs.

Regulated Operations

28. Paragraphs 476–500 of Statement 62 establish standards of accounting and financial reporting for regulated operations.

General Standards of Accounting for the Effects of Regulation

29. Rate actions of a regulator can result in a liability or a deferred inflow of resources being imposed on a regulated business-type activity. Liabilities are usually obligations to the regulated business-type activity's customer, and deferred inflows of resources represent an acquisition of net assets from the regulated business-type activity's customers that is applicable to a future reporting period. The usual ways in which a transaction results in a liability or a deferred inflow of resources and the resulting accounting are as follows:

a. A regulator may require refunds to customers.[9] Refunds that meet the criteria of paragraph 102 of Statement 62 for accrual of loss contingencies should be recorded as liabilities and as reductions of revenue or as expenses of the regulated business-type activity.
b. A regulator can establish current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred, future rates will be reduced by corresponding amounts. If current rates are intended to recover such costs and the regulator requires the regulated business-type activity to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose, the regulated business-type activity should not recognize as revenues amounts charged pursuant to such rates. Those amounts should be reported as a deferred inflow of resources and recognized as revenue when the associated costs are incurred.
c. A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. That would be accomplished, for rate-making purposes, by allocating in a systematic and rational manner, the gain or other reduction of net allowable costs over those future periods and adjusting rates to reduce revenues in approximately the amount of the allocation. If a gain or other reduction of net allowable costs is to be allocated over future periods for rate-making purposes, the regulated business-type

[9]Refunds can be paid to the customers who paid the amounts being refunded; however, they usually are provided to current customers by reducing current charges.

activity should not recognize that gain or other reduction of net allowable costs in the current period. Instead, it should be reported as a deferred inflow of resources for future reductions of charges to customers that are expected to result.

Revenue Recognition in Governmental Funds

30. Paragraph 62 of NCGA Statement 1 provides that revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. 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 such time as the revenue becomes available.

Use of the Term *Deferred*

31. The use of the term *deferred* should be limited to items reported as deferred outflows of resources or deferred inflows of resources.

Major Fund Criteria

32. Paragraph 76 of Statement 34, as amended, establishes the criteria for major fund determination.

33. Assets should be combined with deferred outflows of resources and liabilities should be combined with deferred inflows of resources for purposes of determining which elements meet the criteria for major fund determination as set forth in paragraph 76 of Statement 34, as amended.

EFFECTIVE DATE AND TRANSITION

34. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. 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. If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position or fund balance, as appropriate, for the earliest period re-

stated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

The provisions of this Statement need not be applied to immaterial items.

This Statement was issued by the affirmative vote of six members of the Governmental Accounting Standards Board. Mr. Fish abstained.

Members of the Governmental Accounting Standards Board:

Robert H. Attmore, *Chairman*
William W. Fish
Michael H. Granof
David E. Sundstrom
Jan I. Sylvis
Marcia L. Taylor
James M. Williams

Appendix A

BACKGROUND

35. Paragraph 38 of Concepts Statement No. 4, *Elements of Financial Statements,* provides that recognition of a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Only two such pronouncements have been issued prior to this Statement. First, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires a deferred outflow of resources or a deferred inflow of resources to be reported for the changes in fair value of hedging derivative instruments. The second pronouncement, Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* requires a deferred inflow of resources to be reported by a transferor government in a service concession arrangement for (a) the difference between the fair value, when placed in operation, of a new facility or improvements made to an existing facility and any contractual obligations or (b) the difference between an up-front payment or present value of installment payments and any contractual obligations. This project was added to the Board's technical agenda to address the potential classification as a deferred outflow of resources or a deferred inflow of resources for other items currently reported in statements of financial position by state and local governments.

36. Originally, the objective of this project was to identify, in the existing authoritative literature, requirements to report an item as an asset or a liability that may appear to meet the definitions in Concepts Statement 4 of a deferred outflow of resources or a deferred inflow of resources, respectively, and to determine whether the item should continue to be reported as an asset or a liability or should be reclassified for financial reporting purposes as a deferred outflow of resources or a deferred inflow of resources, respectively. Concepts Statement 4 defines *assets* as resources with present service capacity that the government presently controls and *liabilities* as present obligations to sacrifice resources that the government has little or no discretion to avoid. In addition, Concepts Statement 4 defines a *deferred outflow of resources* as a consumption of net assets by the government that is applicable to a future reporting period and a *deferred inflow of resources* as an acquisition of net assets by the government that is applicable to a future reporting period. A deferred outflow of resources has a positive effect on net position, similar to assets, and a deferred

inflow of resources has a negative effect on net position, similar to liabilities. Notwithstanding those similarities, Concepts Statement 4 clearly establishes that a deferred outflow of resources is not an asset and a deferred inflow of resources is not a liability and, accordingly, should not be included in those sections of a statement of financial position.

37. As these elements are mutually exclusive, the Board decided to first consider whether identified items met the definition in Concepts Statement 4 of an asset or a liability. If the Board concluded that an item did not meet the definition of an asset or a liability, the Board then considered whether the identified item met the definition of a deferred outflow of resources or a deferred inflow of resources, respectively.

38. After beginning deliberations, however, the Board determined that some items may not meet the definition of either (a) an asset or a liability or (b) a deferred outflow of resources or a deferred inflow of resources. The Board decided to consider whether the recognition of these items as either an outflow of resources (expenses/expenditures) or an inflow of resources (revenues) would be more appropriate. The definitions of an *outflow of resources* and *inflow of resources* in Concepts Statement 4 are the same as a deferred outflow of resources and a deferred inflow of resources except, instead of relating to future periods, an outflow of resources and an inflow of resources refer to the consumption or acquisition, respectively, of net assets by the government that is applicable to the current reporting period. Accordingly, rather than being reported as balances on a statement of net position or balance sheet, transactions that the Board determined to be outflows of resources or inflows of resources were concluded to be more appropriately recognized on the resource flows statement in the current period.

39. A project prospectus was discussed by the Governmental Accounting Standards Advisory Council (GASAC) in October 2010. At the December 2010 meeting, the Board reviewed the project prospectus, considering the GASAC member input, and the project was added to the current agenda.

40. The Board assembled a task force comprising 10 persons broadly representative of the GASB's constituency. The task force members reviewed and commented on papers prepared for the Board's deliberations and on drafts of this Statement. In addition, further input was sought from the GASAC members at its meetings.

41. In August 2011, the Board issued an Exposure Draft, *Reporting Items Previously Recognized as Assets and Liabilities.* The Board received 26 responses to the Exposure Draft. As discussed throughout the Basis for Conclusions of this Statement, the comments and suggestions from the organizations and individuals who responded to the Exposure Draft also contributed to the Board's deliberations in finalizing the requirements of this Statement.

Appendix B

BASIS FOR CONCLUSIONS

42. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope

43. The Board identified, in the existing authoritative literature, requirements to report items as assets or liabilities that may appear to meet the definitions in Concepts Statement 4 of a deferred outflow of resources or an outflow of resources, or a deferred inflow of resources or an inflow of resources, respectively. This process was necessary as Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements.

44. In establishing the process for analyzing each requirement to report certain items that have been classified as assets or liabilities, the Board considered two approaches. Those approaches were deliberated and an approach was selected as part of the discussions on the conceptual framework—recognition and measurement attributes project, and it was reconfirmed for this Statement.

45. The Board agreed upon an approach that established a hierarchy for applying the definitions of the elements in Concepts Statement 4. That approach involved first reviewing the items to see if they met the definition of an asset or a liability as defined in Concepts Statement 4. If the items did not meet the definition of an asset or a liability, the items were then reviewed to see if they met the definition of a deferred outflow of resources or a deferred inflow of resources. Finally, if the items did not meet the definition of an asset or a liability, or a deferred outflow of resources or a deferred inflow of resources, then the items were recognized as an outflow of resources or an inflow of resources, as applicable.

46. The alternative approach considered by the Board involved choosing the items that may require reclassification and then determining which definition of the elements of Concepts Statement 4 (assets, deferred outflows of resources, liabilities, deferred inflows of resources, outflows of resources, or inflows of resources) most appropriately fit each specific balance. The Board believed this alternative approach had a higher level of subjectivity in the application of the definitions in Concepts Statement 4 and could have resulted in reclassifying items that meet the definition of an asset or liability, but those same items also could be viewed as meeting the definitions of a deferred outflow of resources or an outflow of resources, or a deferred inflow of resources or an inflow of resources, respectively. The Board also thought that this approach could result in ambiguity and inconsistency in reporting items with similar characteristics, which is one of the major issues this Statement addresses. For these reasons, the Board did not elect to use this approach.

Items Reported as an Asset for Which the Classification Was Not Changed

47. Concepts Statement 4 defines *assets* as resources with *present service capacity* that the government presently *controls.* Paragraph 9 of Concepts Statement 4 indicates the present service capacity of a resource that is an asset is its existing capability to enable the government to provide services, which in turn enables the government to fulfill its mission. Paragraph 12 of Concepts Statement 4 defines control of an asset as the ability of the government to utilize the resource's present service capacity and to determine the nature and manner of use of the present service capacity embodied in the resource. Paragraph 12 of Concepts Statement 4 also indicates that the government controlling the asset generally has the ability to determine whether to (a) directly use the present service capacity to provide services to citizens; (b) exchange the present service capacity for another asset, such as cash; or (c) employ the asset in any of the other ways it may provide benefit.

48. Using the approach described in paragraph 45 and considering the definition and characteristics of an asset in Concepts Statement 4, the Board reaffirmed that the items resulting from the following transactions should be classified as assets as indicated by the applicable statement because they have present service capacity that the government presently controls:

- Prepayments (paragraph 73 of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*)

- 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 (paragraph 19 of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*)
- The purchase of future revenues from a government outside the financial reporting entity (paragraph 14 of Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*)
- Initial subscriber installation costs in relation to cable television systems (paragraph 398 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*)
- Capitalized incurred costs related to regulated activities (paragraph 480 of Statement 62).

49. In regard to prepayments, the Board considered whether a prepayment is refundable or nonrefundable and concluded that refundability should not be the main determining factor in classifying an item. The Board believes more emphasis should be placed on the notion of *control,* recognizing refundability as a potential manifestation of control.

50. Some respondents to the Exposure Draft expressed concerns with classifying prepayments as assets. These respondents believed that prepayments relate to future periods and should be classified as deferred outflows of resources. The Board does not disagree that prepayments may relate to future periods; however, as discussed in paragraphs 44−46, the Board established a hierarchy approach for applying the definitions of Concepts Statement 4. When considering prepayments, the Board believes these items meet the definition of an asset as the entity controls the use of the prepayments to provide services to citizens regardless of the period in which the services will be provided.

Circumstances in Which a Pension Plan's Net Position Exceeds the Total Pension Liability

51. In reaching its decision on circumstances in which a pension plan's net position exceeds the total pension liability, the Board considered the definition of an asset as discussed above. With regard to one of the principal features of an asset—present service capacity—the Board noted that the relationship between the employer and its employees is an ongoing one in which employ-

ees are expected to accrue additional pension benefits as they provide services in future periods. Therefore, an excess of pension plan net position represents present service capacity on the part of the employer that can be used to “pay” future pension benefits to employees for services that they will provide in the future. With regard to the other principal feature of an asset—control—the Board acknowledges that the excess pension plan net position is not under the direct control of the employer government. However, because the employer can use the excess net position to effectively reduce future pension benefit accruals, the Board believes that circumstance is similar to a prepayment. Therefore, the Board concluded that the employer government indirectly has control of future service capacity.

Items Reported as a Liability for Which the Classification Was Not Changed

52. Concepts Statement 4 defines *liabilities* as present *obligations* to sacrifice resources that a government has *little or no discretion to avoid.* Paragraph 18 of Concepts Statement 4 indicates that an obligation is a social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action. Paragraph 20 of Concepts Statement 4 states, “a government has little or no discretion to avoid the sacrifice when it does not have the power to decline making the sacrifice of resources, when it cannot indefinitely defer when the sacrifice of resources will occur, or when the penalty or consequences for failing to sacrifice the resource is more than insubstantial.”

53. Using the approach described above and considering the definition and characteristics of a liability as presented in Concepts Statement 4, the Board affirmed that the items resulting from the following transactions should be classified as liabilities as indicated by the applicable statement because they represent a present obligation to sacrifice resources that the government has little or no discretion to avoid:

- Resources received in advance in relation to a derived tax revenue nonexchange transaction (paragraph 16 of Statement 33)
- 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 (paragraph 19 of Statement 33)

- Resources received in advance of an exchange transaction (paragraph 23 of Statement 62)
- Excess of initial hookup revenue over direct selling costs in relation to cable television systems (paragraph 397 of Statement 62)
- Premium revenues for insurance entities and public entity risk pools (paragraphs 19–21 of Statement 10, and paragraphs 405 and 406 of Statement 62)
- 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, except as discussed in paragraph 23 of this Statement (paragraphs 437 and 438 of Statement 62)
- Fees that are received for guaranteeing the funding of mortgage loans, except as discussed in paragraph 27 of this Statement (paragraph 469 of Statement 62)
- Fees received for arranging a commitment directly between a permanent investor and a borrower (paragraph 470 of Statement 62)
- Refunds imposed by a regulator (paragraph 482 of Statement 62).

54. In regard to resources received in advance of an exchange transaction, the Board considered whether the advance was refundable or nonrefundable and concluded that refundability should not be the main determining factor in the classification of an item. The Board believes the receipt of resources in advance of an exchange transaction represents a present obligation for a government to sacrifice resources regardless of whether the resources received in advance of an exchange transaction are refundable. The Board believes emphasis should be placed on the obligation of the government to perform; that is, the notion of a *performance obligation.*

Performance Obligations

55. The Board considers a performance obligation to be a promise in a contract, whether written or oral, with a customer to transfer an asset (such as a good or service) to that customer. The Board believes that if a government receives resources in advance of an exchange transaction, it has promised in a contract with a customer to transfer a good or provide a service to that customer. Until such time as the government has fulfilled this promise to a customer, the Board believes resources received in advance of an exchange transaction represent an obligation to perform or to sacrifice resources and, therefore, meet the definition of a liability in Concepts Statement 4.

56. During its deliberations, the Board considered different ways to measure a performance obligation. One approach the Board considered for the liability associated with resources received in advance of an exchange transaction was to report a liability at the amount of resources a government would have to sacrifice. The remaining difference between the transaction price and amount of resources a government would have to sacrifice would be reported as a deferred inflow of resources. The Board acknowledges that a governmental entity's cost to provide the good or service in the exchange transaction is the only obligation the government has to sacrifice resources. Conceptually, the difference between the transaction price and the extent to which the government will have to sacrifice resources relates to a future period and, therefore, should be reported as a deferred inflow of resources.

57. The Board believes the measurement approach discussed above is similar to how liabilities for pollution remediation obligations are measured in Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* Statement 49 uses a cost-accumulation approach to measure pollution remediation obligations. It requires a government to measure a pollution remediation liability at the current value of its expected pollution remediation outlays using an expected cash flow technique. The expected cash flow technique measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts—the estimated mean or average.

58. If this approach were applied to resources received in advance of an exchange transaction, the government would be required to estimate its cost to satisfy the performance obligation using an expected cash flow technique and report a liability for that amount. The difference between the transaction price and the estimated performance obligation would be reported as a deferred inflow of resources. The Board believes applying this approach may be the most conceptually correct approach; however, the approach may not be practical for a governmental entity when applying it to resources received in advance of an exchange transaction. The volume of exchange transactions that a governmental entity would have to consider would make this approach very costly to apply for some governments. In the Board's view, to separate an amount received in advance between a liability and a deferred inflow of resources for one or two transactions would not be that difficult, similar to separating the up-front payment and contractual obligations required by Statement 60, but to do so for many transactions would not be cost beneficial. For this reason, the Board decided not to elect to use the cost-accumulation approach to measure a liability arising from resources received in advance of exchange transactions addressed in this Statement.

59. The Board also considered the more practical approach to measuring a performance obligation by using the original transaction price approach. That is, the performance obligation would be measured at the consideration received from the customer in exchange for promised goods or services.

60. The transaction price is typically observable at contract inception, and there is generally little or no estimation process involved. The Board believes using the transaction price to measure the performance liability avoids the cost and complexity of estimating the cost to satisfy a performance obligation and classifying the difference between that cost and the transaction price as deferred inflows of resources.

61. The Board recognizes that in using the original transaction price approach, the transaction price—or resources received in advance of an exchange transaction—could include more than just the cost to satisfy a performance obligation; it could include an amount necessary to recover the resources that are to be sacrificed and, if applicable, a margin. For this reason, some may contend the original transaction price approach would overstate a government's obligation to sacrifice resources. The Board believes this disadvantage is outweighed by the complexity of separating resources received in advance of an exchange transaction between a performance obligation reported as a liability and a deferred inflow of resources. For this reason and the reasons discussed above, the Board elected to use the original transaction price approach to measure the performance obligation associated with resources received in advance of exchange transactions addressed in this Statement.

Items That Are Reclassified on the Statement of Net Position or Recognized in the Current Reporting Period

62. As previously mentioned, if the Board concluded that items did not meet the definition of an asset or a liability, the Board then considered whether the items met the definition of a deferred outflow of resources or a deferred inflow of resources. Based on the approach adopted by the Board, if items did not meet the definition of an asset or a liability, or a deferred outflow of resources or a deferred inflow of resources, the Board's conclusion was that the items should be recognized as an outflow of resources or an inflow of resources of the reporting period, as applicable.

63. In applying this approach to the transactions discussed in the following paragraphs, the Board considered the following definitions from Concepts Statement 4:

- A *deferred outflow of resources* is a consumption of net assets by the government that is applicable to a future reporting period.
- A *deferred inflow of resources* is an acquisition of net assets by the government that is applicable to a future reporting period.
- An *outflow of resources* is a consumption of net assets by the government that is applicable to the reporting period.
- An *inflow of resources* is an acquisition of net assets by the government that is applicable to the reporting period.

Refundings of Debt

64. In regard to the guidance in Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,* and Statement 62 for refunding of debt, the Board concluded that the resulting difference from current refundings and advance refundings does not meet the definition of an asset or a liability. When the value of the resources required to refund the old bonds exceeds the net carrying amount of the old bonds, the Board does not believe the resulting debit amount represents an increase in service capacity that the government presently controls. The resources cannot be exchanged for another asset or used to directly provide present service capacity and, therefore, do not meet the definition of an asset. Similarly, if the value of the resources required to refund the old bonds does not exceed the net carrying amount of the old bonds, the resulting credit amount does not represent an obligation to sacrifice resources for another unavoidable and specific purpose. Therefore, the Board concluded that the difference does not represent a liability of the government.

65. Because of its conclusion that the debit amount or credit amount is not an asset or liability, respectively, the Board analyzed the balances to determine if they met the definition of a deferred outflow of resources or a deferred inflow of resources, respectively. As part of this analysis, the Board considered paragraphs 14 and 15 of the Basis for Conclusions in Statement 23. Paragraph 14 states, ". . . the Board concluded that reporting an accounting 'gain' or 'loss' in the period the old debt is refunded not only fails to report the purpose of the transaction, but also distorts operating results in the period the debt is refunded and in subsequent periods." Paragraph 15 of Statement 23 states, " . . . the

difference that results from the refunding is not a separate 'loss' transaction, but rather a reduction of the interest savings to be obtained in the future by substituting the new interest rate for the old." For these reasons, the Board concluded in Statement 23 that the deferral method more appropriately reports the substance of a current refunding transaction taken as a whole.

66. Based on the previous guidance in Statement 23 and applying the definitions in Concepts Statement 4, the Board concluded that the difference resulting from a current refunding, or an advance refunding, relates to future periods and, therefore, meets the definition of a deferred outflow of resources or a deferred inflow of resources, as applicable. The Board determined that this guidance also should be applicable to the advance refundings that result in defeasance of debt due to a change in capital lease terms for a lessee as discussed in paragraph 221 of Statement 62 because the transactions share similar characteristics.

Nonexchange Transactions

Imposed Nonexchange Revenue Transactions

67. The Board believes that resources received prior to the period when the resources are required to be used or when use is first permitted do not meet the definition of a liability. The Board concluded that the advancing of these resources does not create a liability that obligates a government to sacrifice resources, because the government does not have to sacrifice those resources in an imposed nonexchange transaction. Rather, the Board concluded that these resources relate to a future period (for example, when the advance is first permitted to be used in accordance with the imposed nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time. Any purpose restriction should be reported in accordance with paragraph 14 of Statement 33.

Government-Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

68. The Board does not believe that the advance payments by a provider and the resources received in advance by a recipient in government-mandated nonexchange transactions and voluntary nonexchange transactions, including "reimbursement-type" or "expenditure driven" grant programs, meet the defi-

nition of an asset and a liability, respectively, when the only eligibility requirement not met is a time requirement. Once all eligibility requirements have been met, other than time requirements, the Board believes that the provider no longer maintains control of the present service capacity of the advance payments, and the recipient no longer has a present obligation to sacrifice resources. If the eligibility requirements, other than time requirements, have been met, it is not likely the provider can reacquire its resources from the recipients and, conversely, the recipient likely no longer has an obligation to the provider. Therefore, the Board concluded that the balance does not meet the definition of an asset for the provider or a liability for the recipient.

69. As it did with respect to imposed nonexchange transactions, the Board concluded that these resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred outflow of resources by the provider and a deferred inflow of resources by the recipient until such time as the resources are first permitted to be used.

70. A respondent to the Exposure Draft expressed concerns with the cost and time commitment associated with separately reporting these items based on time requirements. The respondent noted that the additional cost and time commitment that may be necessary to track time requirements separately from other eligibility requirements and to report these transactions separately as an asset or a liability or as a deferred outflow of resources or a deferred inflow of resources may far exceed any perceived benefits for financial statement users. The Board acknowledges that the determination of advance payments and resources received in advance that have not met time requirements as opposed to the other eligibility requirements may take additional time in certain circumstances; however, the Board believes this information generally is known to both the provider and the recipient and is regularly used for other financial reporting and programmatic purposes.

Sales of Future Revenues and Intra-Entity Transfers of Future Revenues

Sales of Future Revenues

71. When analyzing the sales of future revenues outside of the governmental entity, the Board considered the discussions in paragraph 52 of the Basis for Conclusions for Statement 48. Paragraph 52 indicates the Board believed that, by their nature, most future revenues would not meet the criteria to be regarded as sold and that accelerating revenue recognition ahead of the point at which those revenues would otherwise meet the appropriate criteria for recognition does not result in a faithful representation of the government's financial position or changes in financial position. As a result, in Statement 48, the Board concluded that transactions involving the transfer of future revenues will rarely qualify as sales, and in those rare instances, the resulting revenue generally will be reported as a deferred revenue rather than recognized in the period of the sale.

72. For these reasons, the Board concluded that the resources received from the sales of future revenues should be classified as a deferred inflow of resources. The Board believes the net increase in assets resulting from the sale represents an acquisition of net assets that will be recognized in future periods when the underlying revenues meet revenue recognition criteria.

Intra-Entity Transfers of Future Revenues

73. When analyzing intra-entity sales of future revenues, the Board considered the discussions in paragraph 53 of the Basis for Conclusions of Statement 48. In that paragraph, the Board noted that by not recognizing the amount paid for the ability to collect future revenues ratably over the same periods in which the revenues will be realized, the amount paid would be expensed immediately. The concept of interperiod equity implies that the amount paid to collect the future cash flows should be attributed to the future periods benefiting from those cash flows in order to reflect "whether current-year revenues are sufficient to pay for current-year services."

74. For the reasons discussed above, the Board concluded that the transferee government should report the amount paid as a deferred outflow of resources to be recognized over the duration of the sale agreement, and the transferor

government should report the resources recognized from the intra-entity sale as a deferred inflow of resources in its government-wide and fund financial statements and recognize these resources as revenue over the duration of the sale agreement.

Debt Issuance Costs

75. The Board concluded that most debt issuance costs do not meet the definition of an asset, because the costs incurred do not result in service capacity that the government presently controls. The Board acknowledges that incurring debt issuance costs could result in lower interest rates or extended payment periods that would not otherwise have been obtained; however, the Board does not believe these benefits result in service capacity that the government presently controls. The Board believes prepaid insurance associated with the issuance of debt should be considered an asset because these costs have present service capacity that the government generally indirectly controls.

76. The Board concluded that debt issuance costs, other than prepaid insurance, do not meet the definition of a deferred outflow of resources because the costs are not applicable to a future period. The issuance of debt is an event that occurs during a period, and the cost of that event is applicable to that period. Typically, once the debt is issued, there are no additional issuance costs incurred; therefore, the transactions resulting in debt issuance costs have concluded. The Board concluded that reporting these costs as an asset or a deferred outflow of resources and recognizing either balance over the life of the related debt is contrary to the concept of interperiod equity as described in Concepts Statement 4. As a result, the Board concluded that these costs should be recognized as an outflow of resources in the reporting period in which they are incurred.

77. Several respondents to the Exposure Draft expressed concerns with the proposed reporting for debt issuance costs. In most cases, these respondents believed debt issuance costs relate to future periods and, therefore, should be recognized over the life of the debt rather than expensed in the period incurred. Some respondents indicated these costs should be considered in the total cost of the debt and, therefore, are inseparable from the associated debt. Other respondents suggested lower interest costs or extended payment terms are a direct result of incurring debt issuance costs and, therefore, should be recognized over the life of the associated debt. These arguments were considered in

the Board's initial deliberations regarding debt issuance costs. The Board considered those respondent concerns and reaffirmed its earlier conclusion that debt issuance costs do not meet the definition of an asset, and they do not meet the definition of a deferred outflow of resources as discussed above.

78. Some respondents to the Exposure Draft believe the Board is inconsistent with the proposals relating to the accounting for debt issuance costs and the balance that results from a debt refunding. These respondents indicated that a portion of the resulting debit or credit balance from a debt refunding would not have occurred unless the new debt issuance costs were incurred and, therefore, the issuance costs should not be recognized as a consumption of current period's net position. The result of the refunding will either change the length of the debt service schedule or decrease future interest outflows. In the case in which only the length of the debt schedule is changed, the Board believes that the issuance costs for the refunding debt are similar to initial issuance costs. After considering respondent comments, the Board continues to believe that these costs do not relate to future periods as no additional issuance costs are expected to be incurred and, therefore, these costs associated with changing the length of the debt service schedule should be considered period costs. In the case in which future interest outflows are decreased, the Board believes that same conclusion applies. Although these costs were incurred to decrease the future interest outflows, these costs do not relate to future periods. Once the refunding transaction is complete, there will not be any additional costs incurred by the government related to the decreasing of future outflows of resources. Therefore, the Board concluded that the transaction is a completed event of the period, and any issuance costs associated with the transaction should be considered an outflow of resources in the reporting period in which the costs are incurred.

Leases

Initial Direct Costs of Operating Leases

79. The Board does not believe initial direct costs of an operating lease meet the definition of an asset as the costs do not result in service capacity that the government presently controls. The government cannot directly use the present service capacity to provide services or exchange the present service capacity of the previously expended costs for another asset, such as cash, and the government cannot use the costs to provide a benefit in any other way. Furthermore, the Board does not believe the initial direct costs should be

classified as a deferred outflow of resources. The Board recognizes that the incurred costs represent a consumption of net assets; however, the Board does not believe the costs incurred to originate the lease relate to future periods. The Board believes the initial direct costs incurred relate to the period in which the lease transaction is initiated and, therefore, should be considered an outflow of resources of that period. Once the initiation of the lease transaction is complete, the Board does not believe there will be any additional costs incurred related to the origination of the lease. Therefore, the transactions of the period have concluded, and any costs associated with the transactions should be considered period costs (outflows of resources). The Board believes reporting these costs as an asset or a deferred outflow of resources and recognizing either balance over the life of the lease is contrary to the concept of interperiod equity as described in Concepts Statement 4.

80. Some respondents expressed concerns with the proposed accounting for initial direct costs of operating leases for reasons similar to those related to debt issuance costs. As with debt issuance costs, the Board continues to believe initial direct costs of operating leases do not meet the definition of an asset, and they do not meet the definition of a deferred outflow of resources as discussed above.

Sale-Leaseback Transactions

81. The Board does not believe the gain or loss that results from a sale-leaseback transaction meets the definition of a liability or an asset, respectively. The Board does not believe the gain represents an obligation that requires the seller-lessee government to sacrifice resources, and the Board does not believe the loss represents a balance with present service capacity that the seller-lessee government controls.

82. Similar to the conclusions reached on the sales of future revenues, the Board believes the gain or the loss that results from a sale-leaseback transaction represents an acquisition of net assets or a consumption of net assets, respectively, to the seller-lessee that are applicable to a future period. Therefore, the Board concluded that the differences that result from a sale-leaseback transaction should be reported either as a deferred inflow of resources or a deferred outflow of resources.

Acquisition Costs Related to Insurance Activities

83. Consistent with initial direct costs associated with an operating lease, the Board does not believe acquisition costs related to insurance activities meet the definition of an asset as the costs do not result in service capacity that the government presently controls. The government cannot use the present service capacity to provide services or exchange the present service capacity of the previously expended costs for another asset, such as cash, and they cannot use the costs to provide a benefit in any other way. In addition, the Board acknowledges that the acquisition costs represent a consumption of net assets; however, the Board concluded that these costs incurred to acquire insurance contracts do not relate to future periods. The Board concluded that the acquisition costs incurred relate to the period in which the insurance contract is initiated and, therefore, should be considered an outflow of resources of that period. Once the initiation of the insurance contract is complete, the Board does not believe there will be any additional costs incurred related to acquisition of insurance contracts. Therefore, the transactions of the period have concluded, and any costs associated with the transactions should be considered period costs (outflows of resources). The Board concluded that reporting these costs as an asset or a deferred outflow of resources and recognizing either balance over the period of the insurance contract is contrary to the concept of interperiod equity as described in Concepts Statement 4.

84. Some respondents expressed concerns with the proposed accounting for acquisition costs related to insurance activities for reasons similar to those expressed related to debt issuance costs. As with debt issuance costs, the Board continues to believe acquisition costs related to insurance activities do not meet the definition of an asset, and they do not meet the definition of a deferred outflow of resources.

Lending Activities

Loan Origination Fees and Costs

85. The Board does not believe that loan origination fees, including any portion related to points, meet the definition of a liability because the government does not have a duty or obligation to the borrower after the loan transaction has been completed and the loan proceeds have been issued. The Board acknowledges that loan origination fees, including any portion related to points, represent an acquisition of net assets; however, the Board does not believe the loan origi-

nation fees, other than any portion related to points, are applicable to a future period. The origination fees, other than any portion related to points, received at the time of origination relate only to the loan origination process, which is an event that occurred during the period. The transactions of the period have concluded and any fees associated with the loan origination should be considered revenue of the period (an inflow of resources). For this reason, the Board concluded that the loan origination fees received, other than any portion related to points, do not meet the definition of a deferred inflow of resources and, therefore, should be recognized as an inflow of resources in the reporting period. The Board concluded that reporting these fees, excluding any portion related to points, as a liability or a deferred inflow of resources and recognizing either balance over the life of the loan is contrary to the concept of interperiod equity as described in Concepts Statement 4.

86. The Board believes points represent fees that are being charged to the borrower as future interest or to reduce the loan's nominal interest rate, such as interest buy-downs. As previously mentioned, the Board does not believe the receipt of payment for points is a liability because the government does not have a duty or obligation to the borrower after the loan transaction has been completed and the loan proceeds have been issued. As points represent fees charged for future interest or to reduce the loan's nominal interest rate, the Board believes they are applicable to future periods. For this reason, the Board concluded the receipt of payment for points is a deferred inflow of resources and should be recognized as an inflow of resources in a systematic and rational manner over the duration of the related loan. The Board concluded that reporting the receipt of payment for points as a deferred inflow of resources and recognizing the balance in a systematic and rational manner over the duration of the related loan is consistent with the concept of interperiod equity as described in Concepts Statement 4.

87. The Board does not believe direct loan origination costs meet the definition of an asset because the expended funds do not enhance the present service capacity of the loan. The government cannot directly use the present service capacity to provide services or exchange the present service capacity of the previously expended costs for another asset, such as cash, and they cannot use the costs to provide a benefit in any other way. The Board acknowledges that the incurred costs represent a consumption of net assets; however, the Board does not believe the costs incurred to originate the loan directly relate to future periods. The origination of the loan is an event that occurred during the period, and the costs of initiating the loan are applicable to that period. Once the initiation of the loan transaction is complete, there will not be any additional

costs incurred by the government related to the origination of the loan. Therefore, the transactions of the period have concluded, and any costs associated with the transactions should be considered period costs (outflows of resources). For this reason, the Board concluded that the direct loan origination costs do not meet the definition of a deferred outflow of resources and, therefore, should be recognized as an outflow of resources in the reporting period. The Board also concluded that reporting these costs as an asset or a deferred outflow of resources and recognizing either balance over the life of the loan is contrary to the concept of interperiod equity as described in Concepts Statement 4.

88. Several respondents to the Exposure Draft expressed concerns with the proposed reporting for loan origination fees and costs related to lending activities. Some respondents believe that loan origination fees are indistinguishable from compensation for surrendering the opportunity to use the resources loaned for other investments in the future. Other respondents indicated these fees and costs represent adjustments to yield for loans held for investment and, therefore, are inseparable from the loan. In all cases, the respondents believed the net balance of origination fees and loan origination costs relate to future periods and, therefore, should be recognized over the life of the loan rather than in the period received. These same concerns were expressed for the proposed reporting for loan origination fees and costs related to mortgage banking activities. These arguments were considered in the Board's initial deliberations regarding loan origination fees and costs for lending activities and mortgage banking activities. After considering respondent comments, the Board continues to believe loan origination fees and costs do not meet the definition of a liability or an asset, respectively, and they do not meet the definition of a deferred inflow of resources or deferred outflow of resources, respectively, as discussed above.

Commitment Fees and Costs

89. The Board believes that commitment fees meet the definition of a liability because they are received (a) in exchange for the government to make or acquire a loan or (b) to satisfy an obligation of the other party under a specified condition. The Board believes the receipt of these fees establishes a performance obligation within a contractual period and, therefore, should be considered a liability.

90. However, in the event the commitment is exercised, the Board believes the commitment fees represent an acquisition of net assets that is applicable to the current period because the transaction and exchange have been completed. Making the commitment is an event that occurred during the period, and the costs of making that commitment are applicable to that period. In this situation, the Board concluded that the commitment fees should be recognized as an inflow of resources, because recognizing the fees over the life of the loan is contrary to the concept of interperiod equity as described in Concepts Statement 4. Additionally, if the commitment expires unexercised, the Board concluded that the acquisition of net assets also should be recognized immediately as an inflow of resources in the current period as indicated in paragraph 437 of Statement 62. For similar reasons, the Board also concluded that when the possibility of a commitment fee being exercised is remote, the commitment fee should be recognized as an inflow of resources in the period received.

Purchase of a Loan or Group of Loans

91. The Board believes that any fees and costs related to the purchase of a loan or group of loans should be classified in the same manner as those fees and costs related to lending activities discussed in paragraphs 85−88.

92. The Board does not believe that any fees received related to a purchase of a loan or group of loans meet the definition of a liability because the government does not have a duty or obligation to the borrower after the loan transaction has been completed and the loan proceeds have been issued. The Board acknowledges that the fees received represent an acquisition of net assets; however, the Board does not believe these fees are applicable to a future period. Any fees received at the time of agreement only relate to the purchase of a loan or group of loans, which is an event that occurred during the period. The transactions of the period have concluded, and any fees associated with the purchase should be considered revenue of the period (an inflow of resources). For this reason, the Board concluded that any fees received related to a purchase of a loan or group of loans do not meet the definition of a deferred inflow of resources and should be recognized as an inflow of resources in the reporting period.

93. The Board does not believe any fees paid related to a purchase of a loan or group of loans meet the definition of an asset because the expended funds do not enhance the service capacity of the loan or group of loans purchased. The government cannot directly use the present service capacity to provide services or exchange the present service capacity of the previously expended

costs for another asset, such as cash, and they cannot use the costs to provide a benefit in any other way. The Board acknowledges that the fees paid represent a consumption of net assets; however, the Board does not believe the fees to purchase a loan or a group of loans directly relate to future periods. Any fees paid at the time of the agreement only relate to the purchase of the loan or group of loans. There will not be any additional costs incurred by the government related to the purchase. Therefore, the transactions of the period have concluded, and any costs associated with the transactions should be considered period costs (or outflows of resources). For this reason, the Board concluded that any fees paid related to a purchase of a loan or group of loans do not meet the definition of a deferred outflow of resources and, therefore, should be recognized as an outflow of resources in the reporting period. The Board also concluded that reporting any fees received or paid as a liability or an asset, or a deferred inflow of resources or a deferred outflow of resources, and recognizing any of the balances over the life of the loan is contrary to the concept of interperiod equity as described in Concepts Statement 4.

Mortgage Banking Activities

Loan Origination Fees and Costs

94. The Board believes the loan origination fees and direct loan origination costs related to mortgage banking activities should be classified in the same manner as those fees and costs related to lending activities discussed in paragraphs 85−88.

95. Consistent with its position on loan origination fees for lending activities, the Board concluded that loan origination fees, including any portion related to points, associated with a mortgage loan held for investment do not meet the definition of a liability because the government does not have a duty or an obligation to the recipient of the loan after the loan transaction has been completed and the loan proceeds have been issued. In the event the mortgage loans are held for investment, the Board believes the loan origination fees, including any portion related to points, represents an acquisition of net assets; however, the Board does not believe the loan origination fees, excluding any portion related to points, are applicable to a future period. The origination fees, excluding any portion related to points, received at the time of origination only relate to the loan origination process, which is an event that occurred during the period; therefore, any fees associated with the loan origination are applicable to that period. For this reason, the Board concluded that the loan origination fees,

excluding any portion related to points, associated with a mortgage loan held for investment do not meet the definition of a deferred inflow of resources and, therefore, should be recognized as an inflow of resources in the reporting period.

96. As discussed in paragraph 86, the Board believes points represent fees that are being charged to the borrower as future interest or to reduce the loan's nominal interest rate, such as interest buy-downs. For this reason, the Board concluded the receipt of payment for points for a mortgage loan held for investment should be considered a deferred inflow of resources and should be recognized as an inflow of resources in a systematic and rational manner over the duration of the related loan.

97. In the event the mortgage loans are held for resale, the Board concluded that loan origination fees, including any portion related to points, received prior to the sale should be classified as a deferred inflow of resources because these fees are applicable to the future period when the sale of the mortgage loan takes place. As indicated in Statement 62, once the sale of the mortgage loan takes place, the loan origination fees, including any portion related to points, associated with mortgage loans held for resale should be recognized as an inflow in the period of sale.

98. Consistent with its position on direct loan origination costs for lending activities, the Board concluded that direct loan origination costs associated with a mortgage loan held for investment do not meet the definition of an asset because the expended funds do not enhance the service capacity of the loan. The government cannot directly use the present service capacity to provide services or exchange the present service capacity of the previously expended costs for another asset, such as cash, and the government cannot use the costs to provide a benefit in any other way. The Board acknowledges that the incurred costs represent a consumption of net assets; however, the Board does not believe the costs incurred to originate the mortgage loan directly relate to future periods. Once the initiation of the mortgage loan transaction is completed, there will not be any additional costs incurred by the government related to the origination of the mortgage loan. Therefore, the transaction is a completed event of the period, and any costs associated with the transaction should be considered period costs (or outflows of resources). For this reason, the Board concluded that direct loan origination costs associated with a mortgage loan held for investment do not meet the definition of a deferred outflow of resources and, therefore, should be recognized as an outflow of resources in the reporting period.

99. If mortgage loans are held for resale, the Board concluded that the direct loan origination costs incurred prior to the sale should be classified as a deferred outflow of resources because these net costs are applicable to the future period when the sale of the mortgage loan takes place. As indicated in Statement 62, once the sale of the mortgage loan takes place, the net balance of the direct loan origination costs should be recognized as an outflow of resources in the period of the sale.

Fees Relating to Loans Held for Sale

100. The Board concluded that the fees paid to permanent investors to ensure the ultimate sale of the loans do not represent an asset, because the incurred costs to ensure the ultimate sale of loans do not provide service capacity that the government presently controls. The Board believes that, in instances in which the fees are paid prior to the sale of the related loans or before it becomes evident the commitment will not be used, the fees should be classified as a deferred outflow of resources until the related loan is sold or until it is determined the commitment will not be used. Otherwise, the Board concluded that the fees paid represent a consumption of net assets in the current period and should be recognized as an outflow of resources.

Regulated Operations

Revenue Generated by Current Rates Intended to Recover Costs That Are Expected to Be Incurred in the Future

101. The Board considered numerous examples of regulatory liabilities. One common example relates to "public good" programs of a regulated business-type activity, which represent amounts that are collected in its current rates for specifically identified programs and that have not been fully expended. Examples of such programs include noncapital expenditures for energy efficiency programs, low-income subsidies, and technology research and development. The revenues related to these programs were previously reported as a liability until the disbursements on the identified projects occur, which is when revenue is recognized.

102. In this example and in general, the Board concluded that the revenues generated by current rates intended to recover costs that are expected to be incurred in the future do not meet the definition of a liability. The Board does not

believe that the transaction results in a sacrifice of resources by the regulated business-type activity. The government receives resources from its current rates; however, it is not obligated to repay those resources in future periods. Although the government may be required to lower future rates if the expected future costs are not incurred, the Board believes the government does not have an obligation to sacrifice the resources it has received from the original rates it charged.

103. The Board believes that the resources received from current rates represent an acquisition of net assets that is applicable to a future period. The Board believes that the revenues generated by current rates are related to the services provided over future periods and that those revenues should be reported as a deferred inflow of resources so that the resources received are attributed to the periods in which the related services and benefits will be provided. The Board concluded that revenue generated by current rates intended to recover costs that are expected to be incurred in the future meets the definition of a deferred inflow of resources because the government acquires net assets that are applicable to future periods when ratepayers will receive the services.

104. A respondent to the Exposure Draft expressed concerns with the reporting of revenue generated by current rates intended to recover costs that are expected to be incurred in the future. This respondent believes in this situation that the entity has a duty to provide services over future periods, which involves a sacrifice of resources. However, the Board believes the entity does not have an obligation to sacrifice resources. The entity may be required to reduce rates in the future, but this does not represent a sacrifice of resources and, therefore, should not be classified as a liability. After considering respondents' comments, the Board continues to believe these transactions should be reported as deferred inflows of resources.

Gain or Other Reduction of Net Allowable Costs

105. The Board considered numerous examples of gains or other reductions of net allowable costs. For rate-making purposes, one example considered by the Board relates to the accounting and financial reporting for early extinguishment of debt and indicates that the difference between the entity's net carrying amount of the extinguished debt and the reacquisition price may be recognized as an adjustment of interest expense over some future period. In the event of a "gain" on the early extinguishment of debt, in which the debt is reacquired for

an amount that is less than the enterprise's net carrying amount, the regulator's decision to reduce future rates by deferring the difference for rate-making purposes imposes a liability on the regulated enterprise based on current practice, and the enterprise would report the difference as a liability and recognize it over the period during which permitted rates will be reduced.

106. In this example and in general, the Board concluded that the gains or other reductions of net allowable costs do not meet the definition of a liability. The Board does not believe that the transaction results in a sacrifice of resources by the regulated business-type activity. On the contrary, the Board believes the early extinguishment of the debt for an amount less than the regulated business-type activity's net carrying amount of the debt lowers the regulated business-type activity's total present obligation to sacrifice resources.

107. The Board concluded that the gains or other reductions of net allowable costs meet the definition of a deferred inflow of resources. As it does for revenues generated by current rates intended to cover costs that are expected to be incurred in the future, the Board believes that the gain or reduction of net allowable costs is related to the services provided over future periods. Furthermore, those gains should be reported as a deferred inflow of resources so that the resources received are attributed to the periods in which the related services and benefits will be provided to the ratepayers. The Board concluded that gains or other reductions of net allowable costs meet the definition of a deferred inflow of resources because the government acquires net assets that are applicable to future periods when ratepayers will receive services and benefits. The Board believes this approach is consistent with the position taken by the Board related to the debit or credit recorded in the refunding of debt under Statement 23.

Revenue Recognition in Governmental Funds

108. The Board concluded that resources reported as assets that do not meet the availability criterion for recognition as revenue in governmental fund financial statements also do not meet the definition of a liability. The Board believes that there is not a present obligation to sacrifice resources at the period-end. However, those resources are not available for spending in the current period and, therefore, should be classified as a deferred inflow of resources.

Use of the Term *Deferred*

109. The Board believes that using terminology with multiple meanings may cause confusion to financial statement users regarding what information is reported. The Board believes this confusion would be exacerbated when the elements of deferred inflows of resources and deferred outflows of resources are also reported in the same financial statement as amounts identified as *deferred revenues.* In addition, the Board concluded that certain nonexchange transaction revenues received in advance should be reported as liabilities and others should be reported as deferred inflows of resources. For example, a government's general fund may (a) receive an expenditure-driven grant in advance of the incurrence of eligible costs and (b) have claimed reimbursements for incurred expenditures that are routinely not filed within the government's availability period (causing the government not to receive reimbursement within the availability period) for certain eligible expenditures for a different expenditure-driven grant. On the basis of the Board's decisions and without further guidance, the government would report an amount for deferred revenue in the liability section of the general fund's balance sheet for (a) and an amount for deferred revenue in the deferred inflows of resources section of the general fund's balance sheet for (b).

110. One way in which the Board believes some of this confusion may be alleviated is to limit the use of the term *deferred* to deferred outflows of resources and deferred inflows of resources. By using a term other than *deferred revenues,* the Board concluded that the financial statements may be more understandable to users. That is, financial statements would not report a liability account with a similar name to another element of the financial statements. For financial statements prepared using the current financial resources measurement focus, the financial statements would not use the same term referring to the results of two different types of revenue recognition transactions.

111. Several respondents to the Exposure Draft requested that the Board provide guidance on alternative terminology that can be used for balances previously reported as deferred revenue. The Board considered a few alternatives for deferred revenue such as *advances;* however, the Board concluded the Statement should not be that prescriptive and such terminology should be left to professional judgment.

Major Fund Criteria

112. Paragraph 75 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* indicates that the focus of governmental and proprietary fund financial statements should be on major funds and that fund financial statements should present the financial information of each major fund in a separate column. Nonmajor funds should be aggregated and displayed in a single column. Paragraph 76 of Statement 34, as amended, establishes the criteria for determining which funds should be considered major funds. The Board believes the criteria for determining major funds should be further amended due to the following:

- The addition of the financial statement elements, deferred outflows of resources and deferred inflows of resources, as discussed in Concepts Statement 4
- The guidance in Statements 53 and 60 related to deferred outflows of resources and deferred inflows of resources
- The conclusions reached by the Board to reclassify certain items reported as assets and liabilities to deferred outflows resources and deferred inflows of resources, respectively.

113. Without amending the major fund criteria, the Board believes the major funds may not properly reflect the financial information that Statement 34 intends to report. During its review of the impact of the new financial elements on the major fund calculation, the Board considered several alternatives in which the criteria for determining major funds could be amended and decided to combine deferred outflows of resources with assets and deferred inflows of resources with liabilities.

114. Using the approach required by this Statement, the total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources of an individual governmental or enterprise fund would be compared to the corresponding total for all funds of that category or type (that is, total governmental or total enterprise funds) using the 10 percent threshold. In addition, the total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources of an individual governmental fund or enterprise fund would be compared to the corresponding total for all governmental and enterprise funds combined using the 5 percent threshold.

115. The Board does not believe this approach indicates there is a relationship between the financial statement elements of (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources that is more substantive than simply that both are debit balances or both are credit balances. The Board reached a similar conclusion in Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* In Statement 63, the Board requires that deferred outflows of resources and deferred inflows of resources be displayed and totaled separately from assets and liabilities, respectively. However, Statement 63 allows the separate elements to be subtotaled for reporting net position under a balance sheet format (the sum of assets and deferred outflows of resources equals the sum of liabilities, deferred inflows of resources, and net position) to present the statement of net position. The Board believes this same subtotaling approach should be used in the major fund calculation because it ensures that all deferred outflows of resources and deferred inflows of resources are included in the calculation, it does not give insignificant deferred outflows of resources and deferred inflows of resources too much weight in the determination, and it is the most practical approach to amending the major fund calculation because it does not introduce a significant change to current practice.

Other Financial Reporting Issues

116. Paragraph 31 of Statement 34, as amended, encourages preparers to present assets and liabilities in the government-wide statement of net position in order of their relative liquidity. Statement 34 does not suggest anything related to order of liquidity for the fund financial statements; however, it does require proprietary funds to present assets and liabilities in a classified format.

Order of Liquidity

117. The Board considered whether deferred outflows of resources and deferred inflows of resources should be presented in order of relative liquidity in the government-wide statement of net position. Paragraph 31 of Statement 34 indicates an asset's liquidity should be determined by how readily it is expected to be converted to cash and whether the restrictions limit the government's ability to use the resources. Paragraph 31 of Statement 34 also indicates that a liability's liquidity is based on its maturity or when cash is expected to be used to liquidate it. The Board does not believe these concepts of liquidity can be applied to deferred outflows of resources and deferred inflows of resources. The nature of these elements is that the net assets have already been consumed,

in the case of a deferred outflow of resources, and the net assets have already been acquired, in the case of a deferred inflow of resources; therefore, the balances are not technically liquid. Given this background, the Board concluded that the order of liquidity, as it relates to deferred outflows of resources and deferred inflows of resources, should not be addressed.

Classification between Current versus Noncurrent

118. The Board also considered whether statements of position should distinguish deferred outflows of resources and deferred inflows of resources as current and noncurrent. Paragraph 97 of Statement 34 indicates assets and liabilities of proprietary funds should be presented in a classified format to distinguish between current and noncurrent assets and liabilities. Paragraph 30 of Statement 62 indicates that the term *current assets* is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed within a year, and paragraph 34 of Statement 62 indicates that the term *current liabilities* is used principally to designate obligations that are reasonably expected to require the use of existing resources properly classified as current assets to liquidate.

119. The Board believes that Statement 62 indicates there is a relationship between the distinction of current and noncurrent elements and the order of liquidity. Deferred outflows of resources and deferred inflows of resources are defined as the consumption or acquisition of net assets, respectively, that relate to a future period. The Board believes as the consumption of net assets or acquisition of net assets has occurred and there is no further relationship to cash, a distinction between current and noncurrent is not applicable.

Effective Date and Transition

120. Several respondents to the Exposure Draft of Statement 63 raised concerns regarding the effective date of that Statement and guidance expected from this related Statement. Those respondents suggested the Statements potentially should be combined or be required to be implemented simultaneously. This comment resulted, in part, from questions as to why financial reporting guidance would become effective prior to the reclassification or recognition of the items addressed in this related project becoming effective. Those respondents were concerned with the various ramifications of the pos-

sibility that the effective financial reporting guidance of Statement 63, which has an effective date for periods beginning after December 15, 2011, would be initially applicable to only Statement 53 and Statement 60.

121. The Board considered these factors; however, given the expected timing of the release of this Statement and because the Board is concerned with the number of pronouncements that potentially would become effective for periods beginning after June 15, 2012, the Board concluded this guidance should be effective for periods beginning after December 15, 2012. The Board believes the effective date allows governments sufficient time to analyze transactions and implement the provisions of this Statement. The Board also notes that governments are encouraged to early implement this Statement.

Appendix C

CODIFICATION INSTRUCTIONS

122. The sections that follow update the June 30, 2011, *Codification of Governmental Accounting and Financial Reporting Standards*, for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

BASIS OF ACCOUNTING **SECTION 1600**

.114 [Replace current paragraph .114 with the following:] Material revenues received prior to normal time of receipt should be recorded as liabilities, unless the revenues are a result of a nonexchange transaction and all eligibility requirements, excluding time requirements, have been met. For example, property taxes or other revenues may be collected in advance of the fiscal year to which they apply. If all eligibility requirements, excluding time requirements, have been met, such amounts received in advance should be recorded as a deferred inflow of resources and recognized as revenue of the period to which they apply. [NCGAS 1, ¶66, as amended by GASBS 65, ¶31; 1974 ASLGU, p. 15, as amended by GASBS 65, ¶31]

.115 [Replace *deferred revenue* with *deferred inflow of resources*.] [NCGAS 1, ¶119, as amended by GASBS 33, ¶17, GASBS 54, ¶5, and GASBS 65, ¶30]

* * *

CASH FLOW STATEMENTS **SECTION 2450**

.129 [Replace the first sentence of current paragraph .111 with the following:] The reconciliation should determine and report the same amount for net cash flow from operating activities indirectly by adjusting operating income to remove the effects of depreciation, amortization, and other deferred outflows of resources and deferred inflows of resources of past operating cash receipts and payments, such as changes during the period in inventory, liabilities, and the like, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables. [GASBS 9, ¶32, as amended by GASBS 34, ¶100 and ¶105, and GASBS 65, ¶31; GASBS 9, ¶33 and ¶34, as amended by GASBS 34, ¶100 and ¶105]

* * *

FOOD STAMPS **SECTION F60**

.101 [Replace *deferred revenue* with *a liability.*] [GASBS 24, ¶6, as amended by GASBS 65, ¶31]

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NONEXCHANGE TRANSACTIONS **SECTION N50**

Sources: [Add the following:] GASB Statement 65

.112 [Replace *deferred revenues [liabilities]* with *liabilities*.] [GASBS 33, ¶15, as amended by GASBS 65, ¶31]

.113 [Replace *deferred revenues [liabilities]* with *liabilities*.] [GASBS 33, ¶16, as amended by GASBS 65, ¶31; GASBS 33, fn8]

.115 [Replace the last sentence of current paragraph .115 with the following:] 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 revenues in which the enabling legislation includes time requirements. [GASBS 33, ¶18, as amended by GASBS 65, ¶9; GASBS 65, ¶9]

.116 [Replace the last sentence of current paragraph .116 with the following:] 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]

.118 [Revise the last sentence as follows:] 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.[9] Resources received or recognized as a receivable 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. [GASBS 33, ¶21, as amended by GASBS 65, ¶10; GASBS 65, ¶10]

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[9][Insert footnote 9 from current Section N50.] [GASBS 33, fn10; GASBS 65, fn4]

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PROPERTY TAXES **SECTION P70**

.103 [Delete second sentence of current paragraph .103.] [NCGAS 1, ¶63, as amended by GASBS 65, ¶30]

.107 [Replace *deferred revenue* with *a deferred inflow of resources*.] [NCGAI 3, ¶7, as amended by GASBS 33, ¶18 and GASBS 65, ¶30]

* * *

PROPRIETARY FUND ACCOUNTING AND FINANCIAL REPORTING **SECTION P80**

.108 [Replace current paragraph .108 with the following:] Enterprise funds should be reported in separate columns as major funds based on these criteria:

a. The total of assets and deferred outflows of resources, the total of liabilities and deferred inflows of resources, revenues, or expenses[7] of that individual enterprise fund are at least 10 percent of the corresponding element(s) total (total of assets and deferred outflows of resources, total of liabilities and deferred inflows of resources, and so forth) for all funds of that category or type (that is, total enterprise funds), *and*
b. The same element(s) that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element(s) total for all enterprise funds combined.

In addition to funds that meet the major fund criteria, any other enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund. [GASBS 34, ¶76, as amended by GASBS 65, ¶33; GASBS 37, ¶15, as amended by GASBS 65, ¶33]

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[7][Insert current footnote 7.]

* * *

SALES AND PLEDGES OF RECEIVABLES AND FUTURE REVENUES AND INTRA-ENTITY TRANSFERS OF ASSETS AND FUTURE REVENUES **SECTION S20**

Sources: [Add the following:] GASB Statement 65

.110 [Replace *deferred revenues* with *liabilities*.] [GASBS 48, ¶13, as amended by GASBS 65, ¶31]

.111 [Replace the first sentence of current paragraph .111 with the following:] In a sale of future revenues, the transferor government should report the proceeds as a deferred inflow of resources or revenue in both the government-wide and fund financial statements. [GASBS 48, ¶14, as amended by GASBS 65, ¶12; GASBS 65, ¶12]

.112 [Replace the last two sentences of current paragraph .112, including current footnote 4, with the following:] Instead, the transferee government should report the amount paid as a deferred outflow of resources to be recognized over the duration of the sale agreement. The transferor government should report the amount received from the intra-entity sale as a deferred inflow of resources in its government-wide and fund financial statements and recognize the amount as revenue over the duration of the sale agreement.[4] [GASBS 48, ¶15, as amended by GASBS 65, ¶13; GASBS 65, ¶13]

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[4]Deferred inflows of resources and deferred outflows of resources resulting from intra-entity sales of future revenues and the periodic recognition of those balances as revenue and expense/expenditure should be accounted for similarly to internal balances and intra-entity activity within the financial reporting entity. [GASBS 65, fn5]

[Replace current paragraph .113, including the heading, with the following:]

Recognition of Deferred Inflows of Resources and Deferred Outflows of Resources

.113 Deferred inflows of resources and deferred outflows of resources arising from a sale of future revenues should be recognized over the life of the sale agreement using a systematic and rational method. For example, periodic recognition could be determined by applying, to the revenues recognized during the period by the transferee, the ratio of the resources received from the sale by the transferor to the estimated total future revenues sold by the transferee. [GASBS 48, ¶16, as amended by GASBS 65, ¶31]

* * *

SPECIAL ASSESSMENTS **SECTION S40**

.120 [Replace *deferred revenue* with *a deferred inflow of resources*.] [GASBS 6, ¶22, as amended by GASBS 65, ¶30]

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BANKRUPTCIES **SECTION Bn5**

.105 [Replace *issuance* with *prepaid insurance.*] [GASBS 58, ¶6 as amended by GASBS 65, ¶15]

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PUBLIC ENTITY RISK POOLS **SECTION Po20**

Sources: [Add the following:] GASB Statement 65

.116 [In second sentence of current paragraph .116, boldface the term *types of contracts*.]

.126 [Replace current paragraph .126 with the following:] Acquisition costs should be recognized as an outflow of resources in the period incurred. [GASBS 10, ¶29, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

[Delete current paragraph .127; renumber subsequent paragraphs.]

.132 [Replace current paragraph .132 with the following:] A premium deficiency should be recognized as a liability if the sum of expected claims costs (including IBNR) and all expected claim adjustment expenses, and expected dividends to policyholders or pool participants, exceeds related unearned premiums.[5] [GASBS 30, ¶4, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

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[5][Insert current footnote 5.]

.133 [Delete the first and second sentence of the current paragraph .133.] [GASBS 30, ¶5, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

.135 [Delete the first sentence of current paragraph .135.] [GASBS 10, ¶38, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

.148 [Delete c. of current paragraph .148; renumber subsequent subparagraphs.] [GASBS 10, ¶49, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

.527 [Replace current paragraph .527 with the following:] **Premium deficiency.** The amount by which expected claims costs (including IBNR) and all expected claim adjustment expenses, expected dividends to policyholders or pool participants, and incurred policy maintenance costs exceed related unearned premium revenue. [GASBS 10, ¶130, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

* * *

123. The sections that follow update the Codification Instructions of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* for the effects of this Statement. The requirements of Statement 62 are effective for periods beginning after December 15, 2011.

* * *

CLASSIFICATION AND TERMINOLOGY **SECTION 1800**

.109 [Delete the term *deferred*.] [GASBS 62, ¶30, as amended by GASBS 65, ¶31]

.110 [Before (e), insert *and;* delete *; and (f) long-term prepayments that are applicable to the operations of several years, or deferred charges such as bonus payments under a long-term lease*.] [GASBS 62, ¶31, as amended by GASBS 65, ¶31]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT **SECTION 2200**

.159 [Replace current paragraph .153 as follows:] The reporting government's main operating fund (the general fund or its equivalent) should always be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

a. The total of assets and deferred outflows of resources, the total of liabilities and deferred inflows of resources, revenues, or expenditures/expenses[29] of that individual governmental or enterprise fund are at least 10 percent of the corresponding element(s) total (total assets and deferred outflows of resources, total liabilities and deferred inflows of resources, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), *and*
b. The same element(s) that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element(s) total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund. [GASBS 34, ¶76, as amended by GASBS 65, ¶33; GASBS 37, ¶15, as amended by GASBS 65, ¶33]

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[29][Insert current footnote 28.]

.175 [Delete the term *deferred* from current paragraph .109.] [GASBS 62, ¶30, as amended by GASBS 65, ¶31]

.176 [Before (e), insert *and;* delete *; and (f) long-term prepayments that are applicable to the operations of several years, or deferred charges such as bonus payments under a long-term lease.*] [GASBS 62, ¶31, as amended by GASBS 65, ¶31]

* * *

ADDITIONAL FINANCIAL REPORTING CONSIDERATIONS — SECTION 2250

.132 [Revise the third sentence of current paragraph .132 as follows:] Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives and salvage values of depreciable assets, and periods benefited by an amount paid in advance. [GASBS 62, ¶69, as amended by GASBS 65, ¶31]

.137 [Revise the fourth sentence of current paragraph .137 as follows:] This does not imply, however, that a change in the estimated period to be benefited for an amount paid in advance (if justified by the facts) should not be recognized as a change in accounting estimate. [GASBS 62, ¶74, as amended by GASBS 65, ¶31]

* * *

DEBT EXTINGUISHMENTS AND TROUBLED DEBT RESTRUCTURING — SECTION D20

.128 [Replace *issue* with *prepaid insurance.*] [GASBS 62, ¶137 as amended by GASBS 65, ¶15]

.131 [In footnote 24, replace *issue* with *prepaid insurance,* revise sources as follows: GASBS 62, fn58, as amended by GASBS 65, ¶15]

* * *

INTEREST COSTS—IMPUTATION SECTION I30

Sources: [Add the following:] GASB Statement 65

.115 [Delete the third sentence; replace the last sentence of current paragraph .115 with the following:] 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, in a systematic and rational manner over the duration of the related debt. [GASBS 62, ¶187, as amended by GASBS 65, ¶15; GASBS 65, ¶15]

* * *

LEASES SECTION L20

Sources: [Add the following:] GASB Statement 65

.116 [Revise subparagraph a of current paragraph .116 as follows:] If a change in the provisions of a lease results from a refunding by the lessor of tax-exempt debt, including an advance refunding that results in a defeasance of debt, the lessee should adjust the lease obligation to the present value of the future minimum lease payments under the revised lease using the effective interest rate applicable to the revised agreement. The resulting difference should be reported as a deferred outflow of resources or a deferred inflow of resources. The deferred outflow of resources or the deferred inflow of resources 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. [GASBS 62, ¶221, as amended by GASBS 65, ¶7; GASBS 65, ¶7]

.132 [Replace *deferred amounts* with *amounts recognized as a deferred inflow of resources*.] [NCGAS 5, ¶10 and ¶15, as amended by GASBS 34, ¶79, ¶80, ¶83, and ¶88, and GASBS 65, ¶30]

.133 [Replace subparagraph c of current paragraph .133 with the following:] Initial direct costs should be recognized as an expense/expenditure in the period incurred. [GASBS 62, ¶227, as amended by GASBS 65, ¶17; GASBS 65, ¶17]

.136 [Replace *deferred revenue* with *a deferred inflow of resources.*] [GASBS 13, ¶9, as amended by GASBS 34, ¶69, and GASBS 65, ¶30; GASBS 34, ¶6, ¶79, ¶82, ¶83, and ¶119]

.157 [Revise the second sentence of current paragraph .157 as follows:] Any gain or loss on the sale[34] should be recorded as a deferred inflow of resources or a deferred outflow of resources, respectively, and recognized in a systematic and rational manner over the arrangement in proportion to the recognition of the leased asset,[35] if a capital lease, or in proportion to the related gross rental charged to expenses/expenditures over the lease term, if an operating lease, unless: [GASBS 62, ¶242, as amended by GASBS 65, ¶18; GASBS 65, ¶18]

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[34][GASBS 65, fn6; update cross-reference.] [GASBS 62, fn112, as amended by GASBS 65, fn6; GASBS 65, fn6]
[35][GASBS 62, fn113] [GASBS 62, fn113; GASBS 65, fn7]

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LENDING ACTIVITIES **SECTION L30**

Sources: [Add the following:] GASB Statement 65

.105 [Replace current paragraph .105, including footnote, with the following; renumber subsequent footnotes:] Loan origination fees, except any portion related to points, should be recognized as revenue in the period received. Points received by a lender in relation to a loan origination should be reported as a deferred inflow of resources and recognized as revenue in a systematic and rational manner over the duration of the related loan. Direct loan origination costs defined in paragraph .106 should be recognized as an expense in the period incurred. [GASBS 62, ¶434, as amended by GASBS 65, ¶22; GASBS 65, ¶22]

.108 [Replace current paragraph .108 with the following:] Except as set forth in subparagraphs (a) and (b) below, fees received for a commitment to originate or purchase a loan or group of loans should be recorded as a liability and, if the commitment is exercised, recognized as revenue in the period of exercise. If the commitment expires unexercised, the commitment fees should be recognized as revenue upon expiration of the commitment.

a. If the governmen's experience with similar arrangements indicates that the likelihood that the commitment will be exercised is remote,[3] the commitment fee should be recognized as revenue in the period received.
b. If the amount of the commitment fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, if that percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee should be recognized as revenue as of the determination date.

[GASBS 62, ¶437, as amended by GASBS 65, ¶23; GASBS 65, ¶23]

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[3][GASBS 62, fn207; update cross-reference.] [GASBS 62, fn207; GASBS 65, fn8]

.113 [Revise the first sentence of current paragraph .113 as follows:] The initial investment in a purchased loan or group of loans should include the amount paid to the seller net of any fees paid or less any fees received. Any fees paid or any fees received related to this purchase should be recognized as an expense or revenue, respectively, in the period that the loan(s) was purchased. [GASBS 62, ¶442, as amended by GASBS 65, ¶24; GASBS 65, ¶24]

.114 [Delete *deferred fees and* from the last sentence of current paragraph .114.] [GASBS 62, ¶443, as amended by GASBS 65, ¶31]

[Delete current paragraphs .115−.118, including headings and footnotes; re-number subsequent paragraphs and footnotes.]

.132 [Replace GASBS 62, ¶467, with GASBS 65, ¶26; omit the first and second sentences; update cross-reference.] [GASBS 62, ¶467, as amended by GASBS 65, ¶26; GASBS 65, ¶26]

.134 [Replace GASBS 62, ¶469, with GASBS 65, ¶27; omit the first sentence; update cross-reference.] [GASBS 62, ¶469, as amended by GASBS 65, ¶27; GASBS 65, ¶27]

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INSURANCE ENTITIES—OTHER THAN PUBLIC ENTITY RISK POOLS **SECTION In3**

Sources: [Add the following:] GASB Statement 65

.123 [Replace the current paragraph .123 with the following:] Acquisition costs should be recognized as an outflow of resources in the period incurred. [GASBS 62, ¶413, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

.124 [Delete current paragraph .124; renumber subsequent paragraphs.]

.126 [Replace current paragraph .126 with the following:] A premium deficiency should be recognized as a liability if the sum of expected claim costs and claim adjustment expenses, and expected dividends to policyholders exceeds related unearned premiums.[2] [GASBS 62, ¶416, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

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[2][GASBS 62, fn201]

.127 [Delete the first and second sentence of the current paragraph .127.] [GASBS 62, ¶417, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

.129 [Delete the first sentence of current paragraph .129.] [GASBS 62, ¶419, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

.139 [Delete b. of current paragraph .139; renumber subsequent subparagraphs.] [GASBS 62, ¶429, as amended by GASBS 65, ¶20; GASBS 65, ¶20]

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PUBLIC ENTITY RISK POOLS **SECTION Po20**

.145 [Replace current paragraph .145 with the following:] Loan origination and commitment fees and direct loan origination costs should be accounted for as prescribed in Section L30, "Lending Activities," which establishes the accounting for nonrefundable fees and costs associated with lending, committing to lend, or purchasing a loan or group of loans. Those provisions apply to all types of loans (including debt securities); they also specify the accounting for fees and initial direct costs associated with leasing. Section L30 requires the following:

a. Loan origination fees, excluding points, should be recognized as revenue in the period received.
b. Points received by a lender in relation to a loan origination should be reported as a deferred inflow of resources and recognized as revenue in a systematic and rational manner over the duration of the related loan.
c. Direct loan origination costs should be recognized as an expense in the period incurred.
d. All loan commitment fees should be recorded as liabilities and, if the commitment is exercised, recognized as revenue in the period of exercise. If the commitment expires unexercised, the commitment fees should be recognized as revenue upon expiration of the commitment.
e. Purchase premiums and discounts on loans should be recognized as an adjustment of yield generally by the interest method based on the contractual terms of the loan; however, prepayments may be anticipated in certain specified circumstances.

[GASBS 10, ¶45, as amended by GASBS 62, ¶431−¶451 and GASBS 65, ¶22]

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REGULATED OPERATIONS **SECTION Re10**

Sources: [Add the following:] GASB Statement 65

.107 [Replace current paragraph .107 with the following; renumber subsequent footnotes:] Rate actions of a regulator can result in a liability or a deferred inflow of resources being imposed on a regulated business-type activity. Liabilities are usually obligations to the regulated business-type activity's customer and deferred inflows of resources represent an acquisition of net assets from the regulated business-type activity's customers that is applicable to a future reporting period. The usual ways in which a transaction results in a liability or a deferred inflow of resources and the resulting accounting are as follows:

a. A regulator may require refunds to customers.[5] Refunds that meet the criteria of Section C50, "Claims and Judgments," paragraph .157, for accrual of loss contingencies should be recorded as liabilities and as reductions of revenue or as expenses of the regulated business-type activity.
b. A regulator can provide current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred, future rates will be reduced by corresponding

amounts. If current rates are intended to recover such costs and the regulator requires the regulated business-type activity to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose, the regulated business-type activity should not recognize as revenues amounts charged pursuant to such rates. Those amounts should be reported as a deferred inflow of resources and recognized as revenue when the associated costs are incurred.

c. A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. That would be accomplished, for rate-making purposes, by allocating in a systematic and rational manner, the gain or other reduction of net allowable costs over those future periods and adjusting rates to reduce revenues in approximately the amount of the allocation. If a gain or other reduction of net allowable costs is to be allocated over future periods for rate-making purposes, the regulated business-type activity should not recognize that gain or other reduction of net allowable costs in the current period. Instead, it should be reported as a deferred inflow of resources for future reductions of charges to customers that are expected to result.

[GASBS 62, ¶482, as amended by GASBS 65, ¶29; GASBS 65, ¶ 29]

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[5]Refunds can be paid to the customers who paid the amounts being refunded; however, they usually are provided to current customers by reducing current charges. [GASBS 62, fn224; GASBS 65, fn9]

124. The sections that follow update the Codification Instructions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* for the effects of this Statement. The requirements of Statement 63 are effective for periods beginning after December 15, 2011.

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CLASSIFICATION AND TERMINOLOGY SECTION 1800

.103 [Revise the second sentence of current paragraph .103 as follows:] As a result, amounts reported in the funds as interfund receivables and payables, or as deferred inflows of resources and deferred outflows of resources resulting from intra-entity transactions as discussed in Section S20, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and

Future Revenues," paragraph .111, should be eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. [GASBS 34, ¶58, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

.106 [Revise the second sentence of current paragraph .106 as follows:] Resource flows (except those that affect the statement of financial position only, such as loans, repayments, and deferred inflows of resources and deferred outflows of resources resulting from intra-entity transactions as discussed in Section S20, paragraph .111) between a primary government and its discretely presented component units should be reported as if they were external transactions—that is, as revenues and expenses. [GASBS 34, ¶61, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

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COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

.152 [Revise the second sentence of current paragraph .146 as follows:] As a result, amounts reported in the funds as interfund receivables and payables, or as deferred inflows of resources and deferred outflows of resources resulting from the intra-entity transactions as discussed in Section S20, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," paragraph .111, should be eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. [GASBS 34, ¶58, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

.155 [Revise the second sentence of current paragraph .149 as follows:] Resource flows (except those that affect the statement of financial position only, such as loans, repayments, and deferred inflows of resources and deferred outflows of resources resulting from intra-entity transactions as discussed in Section S20, paragraph .111) between a primary government and its discretely presented component units should be reported as if they were external transactions—that is, as revenues and expenses. [GASBS 34, ¶61, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

.164 [Replace *deferred revenue* with *deferred inflow of resources*.] [GASBS 34, ¶87, as amended by GASBS 63, ¶8 and GASBS 65, ¶31]

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REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE **SECTION 2600**

.116 [Revise the second sentence of current paragraph .116 as follows:] Resource flows (except those that affect the statement of financial position only, such as loans, repayments, and deferred inflows of resources, and deferred outflows of resources resulting from intra-entity transactions as discussed in Section S20, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," paragraph .111) between a primary government and its discretely presented component units should be reported as if they were external transactions—that is, as revenues and expenses. [GASBS 34, ¶61, as amended by GASBS 63, ¶8 and GASBS 65, ¶13]

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DEBT REFUNDINGS **SECTION D20**

Sources: [Add the following:] GASB Statement 65

.108 [Replace current paragraph .108 with the following; renumber subsequent footnotes:] For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price[4] and the net carrying amount[5] of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and 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. [GASBS 23, ¶4, as amended by GASBS 34, ¶15 and ¶91, and GASBS 65, ¶6; GASBS 65, ¶6]

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[4][GASBS 65, fn2] [GASBS 23, fn3, as amended by GASBS 65, fn2; GASBS 65, fn2]

[5][GASBS 65, fn3] [GASBS 23, fn4, as amended by GASBS 53, ¶24, and GASBS 65, fn3; GASBS 65, fn3]

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.118 [Replace *deferred revenue* with *a deferred inflow of resources*.] [GASBS 6, ¶15, as amended by GASBS 33, ¶12, ¶13, ¶17, and ¶18, and GASBS 65, ¶30; GASBS 34, ¶80 and ¶82, as amended by GASBS 63, ¶8; GASBS 65, ¶30]