NO. 3-23 | AUGUST 17, 2011

Governmental Accounting Standards Series

EXPOSURE DRAFT

Proposed Statement of the Governmental Accounting Standards Board

Reporting Items Previously Recognized as Assets and Liabilities

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 3-23

Comment Deadline: November 18, 2011

GASB

Governmental Accounting Standards Board
of the Financial Accounting Foundation

REPORTING ITEMS PREVIOUSLY RECOGNIZED AS ASSETS AND LIABILITIES

REQUEST FOR WRITTEN COMMENTS

Deadline for submitting written comments: November 18, 2011

Requirements for written comments. Comments should be addressed to the Director of Research and Technical Activities, Project No. 3-23, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public hearing. The Board has not scheduled a public hearing on the issues addressed in this Exposure Draft.

Public files. Written comments will become part of the Board's public file and will be available for inspection at the Board's offices. Photocopies of those materials may be obtained for a specified charge. The GASB will make all comments publicly available by posting them to the Projects portion of its website.

Orders. Any individual or organization may obtain one photocopy of this Exposure Draft on request without charge until November 18, 2011, by writing or phoning the GASB Order Department. For information on prices for additional copies and copies requested after that date, please contact the Order Department. The Exposure Draft also may be downloaded from the GASB's website at www.gasb.org.

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Notice to Recipients of This Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for developing standards of state and local governmental accounting and financial reporting and other accounting and financial reporting communications that will (1) result in useful information for users of financial reports and (2) guide and educate the public, including issuers, auditors, and users of those financial reports.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement that would amend the financial reporting requirements for certain items previously recognized as assets and liabilities. In addition, the proposed Statement would modify requirements for determination of major funds and address other statement of net position and governmental fund balance sheet presentation issues.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board's deliberations leading to a final Statement. When the Board is satisfied that all alternatives have adequately been considered and modifications, if any, have been made, a vote is taken on the Statement. A majority vote is required for adoption.

Summary

This proposed Statement reclassifies certain items reported as assets and liabilities to deferred outflows of resources or outflows of resources, or deferred inflows of resources or inflows of resources.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements. In addition, Concepts Statement 4 provides that recognition of a deferred outflow of resources and 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. 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 deferred inflows of resources to be recognized by a transferor government in a qualifying service concession arrangement. This proposed Statement amends the financial reporting element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. Appendix C presents a list of items deliberated by the Board and classified based on the proposed conclusions reached. In addition, Appendix C presents a markup of paragraphs in the current original pronouncements that are significantly modified by this proposed Statement.

This proposed Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflow of resources and deferred inflow of resources, such as changes in the major fund calculation and use of the term *deferred*.

The provisions of this proposed Statement would be effective for financial statements for periods beginning after June 15, 2012. Earlier application would be encouraged.

How the Changes in This Proposed Statement Would Improve Financial Reporting

The requirements of this proposed Statement would improve financial reporting by applying the use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. It would alleviate uncertainty regarding the classification of certain items that may appear to meet the definition of a deferred outflow of resources or a deferred inflow of resources.

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.

Proposed Statement of the Governmental Accounting Standards Board

Reporting Items Previously Recognized as Assets and Liabilities

August 17, 2011

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INTRODUCTION

1. The objective of this Statement is to examine the classification of certain items previously reported as assets or liabilities to determine whether any of these items should be reported as a deferred outflow of resources or an outflow of resources (expense/expenditure), or a deferred inflow of resources or an inflow of resources (revenue).

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

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

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

a. Paragraphs 8–10 pertaining to nonexchange transactions also apply to governmental funds, subject to the accounting and financial reporting distinctions of governmental funds.
b. Paragraphs 11–13 pertaining to sales of future revenues and intra-entity transfers of future revenues also apply to governmental funds, subject to the accounting and financial reporting distinctions of governmental funds.
c. Paragraphs 16–18 pertaining to accounting for leases also apply to governmental funds, subject to the accounting and financial reporting distinctions of governmental funds.
d. Paragraphs 28 and 29 pertaining to regulated operations can apply to certain business-type activities and enterprise funds that meet 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*.
e. Paragraph 30 pertaining to revenue recognition in governmental funds applies only to governmental funds.

f. Paragraph 31 pertaining to the use of the term *deferred* also applies to governmental funds, subject to the accounting and financial reporting distinctions of governmental funds.
g. Paragraphs 32 and 33 pertaining to major fund criteria also apply to governmental funds, subject to the accounting and financial reporting distinctions of governmental funds.

4. This Statement supersedes 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 444–447 and footnote 206. This Statement also amends *Audits of State and Local Governmental Units* (ASLGU); the 1974 Industry Audit Guide of the AICPA, as amended, page 15; NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* paragraphs 66 and 119; NCGA Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*, paragraphs 10 and 15; 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 and 45; Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* paragraph 9; Statement 23, paragraph 4, footnotes 3, 4, 23, and 24; Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, paragraph 6; 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 85; 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 62, paragraphs 30, 31, 69, 74, 187, 221, 227, 242, 413, 414, 434, 437, 442, 443, 467, 469, and 482 and footnotes 112 and 113; and NCGA Interpretation 3, *Revenue Recognition—Property Taxes,* paragraphs 4 and 7.

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 results 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.

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.

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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. Premium or discount pertaining to the new debt are not considered part of the reacquisition price but, instead, are separate items 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 or resources associated with a derivative instrument that is an effective hedge of the old debt.

Imposed Nonexchange Revenue Transactions

9. Deferred inflows of resources should be recognized when resources are received or recognized 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] Resources received or recognized as 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.

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 transfers of future revenues in accordance with paragraph 15 of Statement 48, a transferee government should not recognize 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 transfer agreement. The transferor government should report the amount received from the intra-entity transfer as a deferred

[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.

inflow of resources in its government-wide and fund financial statements and recognize the amount as revenue over the duration of the transfer agreement.[5]

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 expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as expense in a systematic and rational manner.

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 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 over the arrangement 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.

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

[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 paragraphs 282–349 of Statement 62, the gain on the sale to be deferred and recognized in proportion to the leaseback would be the gain that could otherwise be recognized in accordance with those paragraphs.

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

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 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 revenue in a systematic and rational manner. Direct loan origination costs defined in paragraph 435 of Statement 62 should be recognized as 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.

[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.

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, and if that percentage is nominal in relation to the stated interest rate on any related borrowing, and, finally, 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 expense or revenue, respectively, in the period that the loan(s) was purchased.

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 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. 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 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. The result of 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 are 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,[10] the regulated business-type activity should not recognize as revenues amounts charged pursuant to such rates. Those amounts should be recorded 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 recorded as a deferred inflow of resources for future reductions of charges to customers that are expected to result.

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[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.

[10]The usual mechanism used by regulators for this purpose is to require the regulated business-type activity to record the anticipated cost as a liability in its regulatory accounting records.

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 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 June 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 restated. 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.

Appendix A

BACKGROUND

35. Paragraph 38 of Concepts Statement No. 4, *Elements of Financial Statements*, provides that recognition of deferred outflows of resources or deferred inflows 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. First, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of deferred outflows of resources and deferred inflows of resources 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 deferred inflows of resources to be recognized 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. To address the potential classification as deferred outflows of resources and deferred inflows of resources for other items currently reported in statements of financial position by state and local governments, this project was added to the Board's technical agenda.

36. Originally, the objective of this project was to identify, 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 deferred outflows of resources or deferred inflows of resources, respectively, and to determine whether those items should continue to be recognized as assets or liabilities or reclassified for financial reporting purposes as deferred outflows of resources or deferred inflows 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 *deferred outflows of resources* as a consumption of net assets by the government that is applicable to a future reporting period and *deferred inflows of resources* as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets, and deferred inflows of resources have a negative effect on net position, similar to liabilities. Notwithstanding those similarities, Concepts Statement 4 clearly establishes that deferred outflows of resources are not assets and deferred inflows of resources are not liabilities 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 did not believe an item met 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 classification of these items as either outflows of resources (expenses/expenditures) or inflows of resources (revenues) would be more appropriate. The definitions of *outflows of resources* and *inflows of resources* in Concepts Statement 4 are the same as deferred outflows of resources and deferred inflows of resources except, instead of relating to *future* periods, outflows of resources and inflows of resources refer to the consumption or acquisition of net assets by the government that is applicable to the *reporting* period. Accordingly, rather than being recognized as balances on a statement of net position or balance sheet, transactions that the Board determined to be outflows of resources and 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. A task force was assembled 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 Exposure Draft. In addition, further input was sought from the GASAC members at its meetings.

Appendix B

BASIS FOR CONCLUSIONS

41. 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

42. 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 was necessary as Concepts Statement 4 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.

43. In establishing the process for analyzing each requirement to recognize items that are reported 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.

44. 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 continued to meet 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 item was recognized as an outflow of resources or an inflow of resources, as applicable.

45. The alternative approach considered by the Board involved choosing the items that may require reclassification and then determining which definition of the six 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 result in reclassifying items that meet the definition of an asset or liability, but those same items also could be viewed as meeting the definition of a deferred outflow of resources or deferred inflow of resources, respectively. The Board also considered that this approach could result in ambiguity and inconsistency in reporting items with similar characteristics,

which is one of the major issues this Statement is intended to address. For these reasons, the Board did not elect to use this approach.

Items That Retain the Classification as an Asset

46. 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.

47. Using the approach described in paragraph 44 and considering the definition and characteristics of an asset as presented in Concepts Statement 4, the Board believes the items, as a result of the following transactions, should continue to be classified as assets as they have present service capacity that the government presently controls:

- Prepayments (paragraph 73 of NCGA Statement 1)
- 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 33)
- The purchase of future revenues from a government outside the financial reporting entity (paragraphs 13–16 of Statement 48)
- Initial subscriber installation costs in relation to cable television systems (paragraph 398 of Statement 62)
- Capitalized incurred costs related to regulated activities (paragraph 480 of Statement 62).

48. 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 classification of an item. The Board believes more emphasis should be placed on the notion of *control*, recognizing refundability as a potential manifestation of control.

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

49. 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 notes that the relationship between the employer and its employees is

an ongoing one in which employees 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 pay future pension benefit accruals, the Board believes that circumstance is similar to a prepayment. Therefore, like other prepayments, the Board believes the employer government indirectly has control of future service capacity.

Items That Retain the Classification as a Liability

50. 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.”

51. Using the approach described above and considering the definition and characteristics of a liability as presented in Concepts Statement 4, the Board believes the items as a result of the following transactions should continue to be classified as liabilities as 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, unless exercise is considered remote (paragraphs 437 and 438 of Statement 62)
- Fees that are received for guaranteeing the funding of mortgage loans (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).

52. 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 Obligation

53. 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 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 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 sacrifice resources and, therefore, meet the definition of a liability in Concepts Statement 4.

54. During its deliberations, the Board considered different ways to measure a performance obligation. One approach the Board considered to measure the performance obligation for the liability associated with resources received in advance of an exchange transaction was to record 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 recorded 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, would be recorded as a deferred inflow of resources.

55. 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.

56. If this approach was 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 recognize a liability for that amount. The difference between the transaction price and the estimated performance obligation would be recognized 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 very practical for a governmental entity when applying it to resources received in advance of an exchange transaction. The volume of different types 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.

57. 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.

58. 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. This is especially important when considering the potential volume of exchange transactions in which a governmental entity receives resources in advance.

59. 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 liability and deferred inflows 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 to Be Reclassified on the Statement of Net Position or Recognized in the Current Reporting Period

60. As previously mentioned, 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. If an item did not meet the definition of an asset or a liability, or a deferred outflow of resources or a deferred inflow

of resources, the remaining alternative was that it should be recognized as an outflow of resources or an inflow of resources, as applicable.

61. 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

62. In regard to the guidance in Statements 23 and 62 for refunding of debt, the Board believes 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 does not exceed the net carrying amount of the old bonds, the Board does not believe the resulting debit amount results in increased 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 funds required to refund the old bonds exceeds the net carrying amount of the old bonds, the resulting credit amount does not represent an obligation in any way to sacrifice resources for another unavoidable and specific purpose. Therefore, the Board concluded that the difference does not represent a liability of the government.

63. Because of the belief 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.

64. 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.

Nonexchange Transactions

Imposed Nonexchange Revenue Transactions

65. The Board believes that resources received or recognized as receivable 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 advancement of these resources does not create a liability that obligates a government to sacrifice resources as 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 (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.

Government-Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

66. 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 definition 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 believes the balance does not meet the definition of an asset for the provider or a liability for the recipient.

67. 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.

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

Sales of Future Revenues

68. In 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 deferred rather than recognized in the period of the sale.

69. 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 would have met revenue recognition criteria.

Intra-Entity Transfers of Future Revenues

70. In analyzing the intra-entity transfers of future revenues, the Board considered the discussions in paragraph 53 of the Basis for Conclusion for Statement 48. In paragraph 53 of Statement 48, the Board noted that without deferral, the cost of acquiring future revenues is expensed immediately and therefore is charged to one period, rather than ratably over the same periods in which the revenues will be realized. The concept of interperiod equity implies that the cost of acquiring the future cash flows should be attributed to the future periods benefiting from those cash flows in order to show "whether current-year revenues are sufficient to pay for current-year services." Otherwise, one period absorbs all the cost, whereas others enjoy the benefits with no reported costs.

71. 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 transfer agreement, and the transferor government should report the resources recognized from the intra-entity transfer 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 transfer agreement.

Debt Issuance Costs

72. 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 does believe prepaid insurance associated with the issuance of debt should be considered an asset as these costs have present service capacity that the government generally indirectly controls.

73. The Board concluded that debt issuance costs, other than prepaid insurance, do not meet the definition of a deferred outflow of resources as the Board does not believe the costs are 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 issue costs incurred; therefore, the transactions resulting in debt issuance costs are complete. The Board concluded that recording 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 defined in Concepts Statement 4. As a result, the Board concluded that these costs should be recorded as an outflow of resources in the reporting period in which they are incurred.

Leases

Initial Direct Costs of Operating Leases

74. The Board does not believe initial direct costs of an operating lease 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, nor can the government employ the costs to provide a benefit in any other way. In addition, 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 directly 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 are complete, and any costs associated with the transaction should be considered a period cost (an outflow of resources). The Board believes recording 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 defined in Concepts Statement 4.

Sale-Leaseback Transactions

75. 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 nor does the loss represent a balance with present service capacity that the seller-lessee government controls.

76. 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

77. Consistent with initial direct costs associated with an operating lease, the Board does not believe acquisition costs related to insurance activities 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, nor can it employ 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 directly 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 are complete and any costs associated with the transaction should be considered a period cost or an outflow of resources. The Board concluded that recording 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 defined in Concepts Statement 4.

Lending Activities

Loan Origination Fees and Costs

78. 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 loan origination fees, including any portion related to points, represent an acquisition of net assets; however, the Board does not believe the loan origination 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 only relate to the loan origination process, which is an event that occurred during the period. The transactions of the period are complete 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 should be recognized as an inflow of resources in the reporting period. The Board concluded that recording 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 defined in Concepts Statement 4.

79. 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. The Board concluded that recording the receipt of payment for points as a deferred inflow of resources and recognizing the balance in a systematic and rational manner is consistent with the concept of interperiod equity as defined in Concepts Statement 4.

80. 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, nor can it employ 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 are complete, and any costs associated with the transaction should be considered a period cost (or an outflow 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 should be recognized as an outflow of resources in the reporting period. The Board also concluded that recording 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 defined in Concepts Statement 4.

Commitment Fees and Costs

81. As discussed in paragraph 56, the Board believes that commitment fees meet the definition of a liability as they are given in exchange for the government to make or acquire a loan or to satisfy an obligation of the other party under a specified condition. The Board believes these fees obligate the government to sacrifice resources within a contractual period for which it has little or no discretion to avoid and, therefore, should be considered a liability.

82. 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 deferring and

recognizing the fees over the life of the loan is contrary to the concept of interperiod equity as defined 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

83. The Board believes that any fees and costs related to the purchase of a loan or a group of loans should be classified in the same manner as those fees and costs related to lending activities discussed in paragraphs 78–80.

84. 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 a group of loans, which is an event that occurred during the period. The transactions of the period are complete 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 a 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.

85. The Board does not believe any fees paid related to a purchase of a loan or a 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, nor can it employ 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 are complete and any costs associated with the transaction should be considered a period cost (or an outflow of resources). For this reason, the Board concluded that any fees paid related to a purchase of a loan or a group of loans do not meet the definition of a deferred outflow of resources and should be recognized as an outflow of resources in the reporting period. The Board also concluded that recording 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 defined in Concepts Statement 4.

Mortgage Banking Activities

Loan Origination Fees and Costs

86. 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 78–80.

87. 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 and 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 should be recognized as an inflow of resources in the reporting period.

88. As discussed in paragraph 79, 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 is a deferred inflow of resources and should be recognized as an inflow of resources in a systematic and rational manner.

89. 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.

90. 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, nor can it employ 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 complete, 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 a period cost or an outflow 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 should be recognized as an outflow of resources in the reporting period.

91. 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 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 sale.

Fees Relating to Loans Held for Sale

92. 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 classified 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

93. The Board considered numerous examples of regulatory liabilities. One specific example, which appeared to be a common example, relates to "public good" programs of a regulated business-type activity, which represents amounts collected in its current rates for specifically identified programs 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 recorded as a liability until the disbursements on identified projects occur, which is when revenue is recognized.

94. 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, it does not have an obligation to sacrifice the resources it has received from the original rates it charged.

95. 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 deferred so that the resources received are attributed to the periods in which the related services and benefits will be provided. For these reasons, 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, as the government acquires net assets that are applicable to future periods when ratepayers will receive the services.

Gain or Other Reduction of Net Allowable Costs

96. The Board considered numerous examples of gains or other reductions of net allowable costs. For rate-making purposes, one specific example considered 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 record the difference as a liability and recognize it over the period during which permitted rates will be reduced.

97. 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 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.

98. 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 and that those gains should be deferred so that the resources received are attributed to the periods in which the related services and benefits will be provided to the ratepayers. For this reason, the Board concluded that gains or other reductions of net allowable costs meet the definition of a deferred inflow of resources, as the government acquires net assets that are applicable to future periods when ratepayers will receive services and benefits. 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

99. 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 recognized as a deferred inflow of resources.

Use of the Term *Deferred*

100. The Board believes that using terminology with multiple meanings may cause confusion to financial statement users as to what information is reported. The Board believes this confusion will be exacerbated when the elements of deferred inflows of resources or 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 to not 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's governmental fund balance sheet would report an amount for deferred revenue in the liability section of the balance sheet for the first expenditure-driven grant and an amount for deferred revenue in the deferred inflows of resources section of the balance sheet for the second expenditure-driven grant.

101. 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, and, for financial statements prepared using the current financial resources measurement focus, the financial statements would not use the same account referring to the results of two different types of revenue recognition transactions.

Major Fund Criteria

102. Paragraph 75 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* indicates 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 establishes the criteria for determining which funds should

be considered major funds. The Board believes the criteria for determining major funds should be 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 recorded as assets and liabilities to deferred outflows resources and deferred inflows of resources, respectively.

103. 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.

104. In this approach, the total of deferred outflows of resources and assets and the total of deferred inflows of resources and liabilities 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 deferred outflows of resources and assets and the total of deferred inflows of resources and liabilities of an individual governmental fund or enterprise fund would be compared to the corresponding total for all governmental enterprise funds combined using the 5 percent threshold. This approach would address the issue of giving too much weight to smaller deferral items that could lead to funds with insignificant deferred items being considered major from a quantitative perspective. Unlike an approach of excluding deferred outflows of resources and deferred inflows of resources from the major fund calculation, this approach captures all deferred outflows of resources and deferred inflows of resources regardless of the source of the transaction.

105. 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 allowing the combination of the elements for reporting net position under a balance sheet format (the sum of assets and deferred outflow 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 combining of the elements approach should be used in the major fund calculation, as it ensures that all significant deferral items are included in the calculation, it does not give insignificant deferral items 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

106. 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

107. 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 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

108. As part of this project, the Board also considered whether deferred outflows of resources and deferred inflows of resources should be presented to distinguish between current and long-term. Paragraph 97 of Statement 34 indicates assets and liabilities of proprietary funds should be presented in a classified format to distinguish between current and long-term 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 whose liquidation is reasonably expected to require the use of existing resources properly classified as current assets, or the creation of other current liabilities.

109. 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

110. Several respondents to the Exposure Draft of Statement 63 raised concerns regarding the effective date of that Statement and this Statement. Those respondents suggested the Statements should potentially be combined or 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 of the items addressed in this related project becoming effective. Those respondents were concerned with the various ramifications of the possibility that the effective financial reporting guidance of Statement 63 would only be initially applicable to Statement 53 and Statement 60, which also has an effective date for periods beginning after December 15, 2011, until a later effective date of this Statement.

111. The Board considered these factors; however, given the expected timing of the release of this Statement, the Board concluded this guidance should be effective for periods beginning after June 15, 2012. The Board believes the effective date allows governments sufficient time to analyze transactions and implement the provisions of this Statement. The Board notes that a government has the option of early implementation.

Appendix C

LISTING OF CLASSIFICATION OF ITEMS AND MARKUP OF PARAGRAPHS THAT ARE SIGNIFICANTLY MODIFIED

Introduction

112. Appendix C presents a list of items deliberated by the Board and classified based on the proposed conclusions reached. In addition, Appendix C presents a markup of paragraphs in the current original pronouncements that are significantly modified by this proposed Statement.

Listing of Classification of Items

113. Using the approach described in paragraph 44 and considering the definitions and characteristics presented in Concepts Statement 4, the Board believes items deliberated should be classified as follows:

Transactions in which the resulting item should continue to be reported as an asset

- Prepayments (paragraph 73 of NCGA Statement No. 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 (paragraphs 13–16 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)
- Circumstances in which a pension plan's net position exceeds the total pension liability (Exposure Draft, *Accounting and Financial Reporting for Pensions,* an amendment of GASB Statement No. 27).

Transactions in which the resulting item should be reported as a deferred outflow of resources

- Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when time requirements are the only eligibility requirements that have not been met by the other government (paragraph 19 of Statement 33)

- Deferred debit amounts resulting from the refunding of debt (paragraph 5 of Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, and paragraph 221 of Statement 62)
- The purchase of future revenues within the same financial reporting entity (paragraphs 13–16 of Statement 48)
- Loss resulting from sale-leaseback transactions (paragraph 242 of Statement 62)
- Direct loan origination costs, including any portion related to points, for mortgage loans held for resale prior to the point of sale (paragraph 467 of Statement 62)
- Fees paid to permanent investors to ensure the ultimate sale of loans prior to the point of sale (paragraph 469 of Statement 62).

Transactions in which the resulting item should be reported as an outflow of resources

- Acquisition costs for insurance entities and public entity risk pools (paragraphs 28–30 of Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and paragraphs 412–414 of Statement 62)
- Initial direct costs incurred by the lessor for operating leases (paragraph 227 of Statement 62)
- Debt issuance costs (paragraph 12 of Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, and paragraph 187 of Statement 62)
- Direct loan origination costs, including any portion related to points, related to lending activities (paragraph 45 of Statement 10, and paragraph 434 of Statement 62)
- Fees paid related to a purchased loan or a group of loans (paragraph 442 of Statement 62)
- Direct loan origination costs, including any portion related to points, for mortgage loans held for investment (paragraph 467 of Statement 62)
- Direct loan origination costs, including any portion related to points, for mortgage loans held for resale after the sale occurs (paragraph 467 of Statement 62)
- Fees paid to permanent investors to ensure the ultimate sale of loans after the ultimate sale occurs (paragraph 469 of Statement 62).

Transactions in which the resulting item should continue to be reported as a liability

- 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 received in advance (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, unless exercise is considered remote (paragraphs 437 and 438 of Statement 62)
- Fees that are received for guaranteeing the funding of mortgage loans (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).

Transactions in which the resulting item should be reported as a deferred inflow of resources

- Resources received in advance in relation to an imposed nonexchange transaction (paragraph 18 of Statement 33)
- Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when time requirements are the only eligibility requirements that have not been met by the receiving government (paragraph 19 of Statement 33)
- Credit amounts resulting from the refunding of debt (paragraph 5 of Statement 23, and paragraph 221 of Statement 62)
- Proceeds from the sale of future revenues (paragraphs 13–16 of Statement 48)
- Unavailable revenue related to the application of modified accrual accounting (Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, and Statement 33)
- Gain resulting from sale-leaseback transactions (paragraph 242 of Statement 62)
- Loan origination fees, excluding any portion related to points, for mortgage loans held for resale prior to the point of sale (paragraph 467 of Statement 62)
- Loan origination fees related to points for lending activities and mortgage loans held for investment (paragraph 45 of Statement 10, and paragraphs 434 and 467 of Statement 62)
- Resources generated by current rates intended to recover costs that are expected to be incurred in the future (paragraph 482 of Statement 62)
- Gains or other reductions of net allowable costs intended to reduce rates over future periods (paragraph 482 of Statement 62).

Transactions in which the resulting item should be reported as an inflow of resources

- Loan origination fees, excluding any portion related to points, related to lending activities (paragraph 45 of Statement 10, and paragraph 434 of Statement 62)
- Commitment fees realized upon exercise or expiration of the commitment (paragraphs 437 and 438 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 when exercise is considered remote (paragraphs 437 and 438 of Statement 62)
- Fees received related to a purchased loan or a group of loans (paragraph 442 of Statement 62)
- Loan origination fees, excluding any portion related to points, for mortgage loans held for investment (paragraph 467 of Statement 62)
- Loan origination fees, including any portion related to points, for mortgage loans held for resale after the sale occurs (paragraph 467 of Statement 62)
- Fees that are realized after the funding of mortgage loans has occurred or after the commitment to guarantee the funding of mortgage loans expires (paragraph 469 of Statement 62)
- Fees realized when a commitment is arranged directly between a permanent investor and a borrower (paragraph 470 of Statement 62).

Markup of Paragraphs That Are Significantly Modified

114. The following represents a markup of paragraphs that are significantly modified by the proposed Statement.

Refundings of Debt

115. Paragraph 4 of Statement 23, as amended by paragraphs 15 and 91 of Statement 34, should be amended as follows:

> 4. For current refundings and advance refundings resulting in defeasance of debt reported by <u>**governmental activities, business-type activities, and**</u> proprietary

funds, the difference between the reacquisition price[3] and the net carrying amount[4] of the old debt should be **<u>reported as a deferred outflow of resources or a deferred inflow of resources and recognized</u>**~~deferred and amortized~~ 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. ~~On the statement of net assets, this deferred amount should be reported as a deduction from or an addition to the new debt liability.~~[5]

[3]*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. Premium or discount ~~and issuance costs~~ pertaining to the new debt are not considered part of the reacquisition price~~,~~ but**<u>,</u>** instead**<u>,</u>** are separate items related to and amortized over the life of the new debt.

[4]*Net carrying amount* is the amount due at maturity, adjusted for any unamortized premium or discount ~~and issuance costs~~ 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.

~~[5]The new debt may be reported "net," with either parenthetical or note disclosure of the deferred amount on refunding; or it may be reported "gross," with both the debt liability and related deferred amount presented in the statement of net assets.~~

116. Paragraph 221 of Statement 62 should be amended as follows:

221. If prior to the expiration of the lease term 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 the perceived economic advantages of the refunding are passed through to the lessee and the revised agreement is classified as a capital lease by the lessee, the change should be accounted for as follows:

a. 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**<u>.</u>**~~, and~~ ~~should defer~~ ~~t~~**<u>T</u>**he resulting **<u>difference should be reported as a deferred outflow of resources or a deferred inflow of resources</u>**~~gain or loss and amortize it~~**<u>. The deferred outflow of resources or the deferred inflow of resources should be recognized</u>** as a component of interest expense~~/expenditure~~ in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

b. If the provisions of a lease are changed in connection with an advance refunding by the lessor of tax-exempt debt that results in a defeasance of debt at the date of the advance refunding and the lessee is obligated to reimburse the lessor for any costs related to the debt to be refunded that have been or will be incurred, such as unamortized discount or issue costs or a call premium, the lessee should accrue those costs by the "interest" method[98] over the remaining life of the old debt or the life of the new debt, whichever is shorter.

[98]See paragraph 218 and footnote 93 thereto.

Nonexchange Transactions

Imposed Nonexchange Revenue Transactions

117. Paragraph 18 of Statement 33 should be amended as follows:

18. Governments should recognize *revenues* from property taxes, net of estimated refunds and estimated uncollectible amounts, *in the period for which the taxes are levied,* even if the enforceable legal claim arises or the due date for payment occurs in a different period. All other imposed nonexchange revenues should be recognized in the same period that the assets are recognized unless the enabling legislation includes time requirements. If so, revenues should be recognized in the period when the resources are required to be used or when use is first permitted. ~~(Resources received or recognized as receivable before that period should be reported as deferred revenues.)~~ **Deferred inflows of resources should be recognized when resources are received or recognized 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

118. Paragraph 21 of Statement 33 should be amended as follows:

21. Providers should recognize liabilities (or a decrease in assets) and expenses from government-mandated or voluntary nonexchange transactions, and recipients should recognize receivables (or a decrease in liabilities) and revenues (net of estimated uncollectible amounts), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met **(excluding time requirements)** should be reported as **assets** ~~advances~~ by the provider and as **liabilities** ~~deferred revenues~~ by **the** recipients[10] ~~except as indicated in paragraph 22 for recipients of certain resources transmitted in advance~~. **Resources received or recognized as 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**.

[10]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) or the filing of progress reports with the provider.

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

Sales of Future Revenues

119. Paragraph 14 of Statement 48 should be amended as follows:

> 14. In a sale of future revenues, the transferor government should report the proceeds as **a deferred inflow of resources** ~~deferred revenue~~ or revenue, in both the government-wide and fund financial statements. Generally, revenue should be deferred and recognized over the duration of the sale agreement; however, there may be instances wherein recognition in the period of the sale is appropriate. For transactions with parties outside the financial reporting entity, deferral is required if the future revenue sold was not recognized previously because the event that would have resulted in revenue recognition had not yet occurred (for example, tobacco settlement revenues). Except as noted in the following sentence, consummation of the future revenue sale transaction is not a substitute for a revenue recognition event and, consequently, revenue from the sale should be deferred. Revenue should be recognized at the time of the sale only if the revenue sold was not recognized previously because of uncertainty of realization or the inability to reliably measure the revenue. If the transferee is a government outside of the transferor government's financial reporting entity, the transferee government should recognize the acquisition at cost and amortize the balance over the life of the transfer agreement. The transferee government, as owner of the future revenues, should recognize receivables and revenue when the recognition criteria appropriate to the specific type of revenue acquired are met. Recognition by transferors and transferees within the same financial reporting entity as the transferor is addressed in paragraph 15.

Intra-Entity Transfer of Future Revenues

120. Paragraph 15 of Statement 48 should be amended as follows:

> 15. When accounting for the transfer of capital and financial assets and future revenues within the same financial reporting entity, the transferee should recognize the assets or future revenues received at the carrying value of the transferor. For example, in an intra-entity sale of receivables, the transferee government should recognize the receivables acquired at the carrying value of the transferor government. The difference between the amount paid (exclusive of amounts that may be refundable) and the carrying value of the receivables transferred should be reported as a gain or loss by the transferor and as a revenue or expenditure/expense by the transferee in their separately-issued statements, but reclassified as transfers or subsidies, as appropriate, in the financial statements of the reporting entity.[3] In an intra-entity sale of future revenues, the transferor government has reported no carrying value for the rights sold because the asset recognition criteria have not been met. Therefore, the transferee government should not recognize 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**~~charge~~ to be **recognized**~~amortized~~ over the duration of the

transfer agreement. The transferor government should ~~defer the recognition of revenue~~**report the amount received** from the **intra-entity transfer** ~~sale~~ **as a deferred inflow of resources** in its government-wide and fund financial statements and recognize **the amount as revenue**~~it~~ over the duration of the **transfer**~~sale~~ agreement.[4]

[3]Application of the provisions of this Statement should be the same for both discretely presented and blended component units. That is, the standard should first be applied in the separate financial statements of the component unit.

[4]Deferred ~~revenues and charges~~ **inflows of resources and deferred outflows of resources** resulting from intra-entity ~~sales~~ **transfers** of future revenues and the periodic ~~amortization~~ **recognition** of those balances **as revenue and expense/expenditure** should be accounted for similar~~ly~~ to internal balances and intra-entity activity within the financial reporting entity.

Debt Issuance Costs

121. Paragraph 187 of Statement 62 should be amended as follows:

187. The discount or premium resulting from the determination of present value in cash or noncash transactions is not an asset or liability separable from the note that gives rise to it. Therefore, the discount or premium should be reported in the statement of net assets[75] as a direct deduction from or addition to the face amount of the note. It should not be classified as a deferred charge or deferred credit. The description of the note should include the effective interest rate; the face amount also should be disclosed in the notes to the financial statements. Amortization of discount or premium should be reported as interest in the flows statement.[76] **Debt** ~~issue~~ **issuance** costs**, except any portion related to prepaid insurance costs,** should be ~~reported in the statement of net assets as deferred charges~~ **recognized as expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as expense in a systematic and rational manner**.

[75]For purposes of applying paragraphs 173–187, the term *statement of net assets* includes the government-wide statement of net assets and the proprietary fund statement of fund net assets.

[76]For purposes of applying paragraphs 173–187, the term *flows statement* includes the government-wide statement of activities and the proprietary fund statement of revenues, expenses, and changes in fund net assets.

Leases

Initial Direct Costs of Operating Leases

122. Paragraph 227 of Statement 62 should be amended as follows:

227. Operating leases should be accounted for by the lessor as follows:

a. The leased property should be included with or near capital assets in the statement of net assets. The property should be depreciated following the lessor's normal depreciation policy, and in the statement of net assets, the accumulated depreciation should be deducted from the investment in the leased property.

b. Rent should be reported as revenue over the lease term as it becomes receivable according to the provisions of the lease. However, if the rentals vary from a straight-line basis, the revenue should be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which use benefit from the leased property is diminished, in which case that basis should be used.

c. Initial direct costs should be **recognized as expense/expenditure in the period incurred**~~deferred and allocated over the lease term in proportion to the recognition of rental revenue~~.

d. If, at the inception of the lease, the fair value of the property in an operating lease involving real estate that would have been classified as a sales-type lease except that it did not meet the criterion in paragraph 213a is less than its cost or carrying amount, if different, then a loss equal to that difference should be recognized at the inception of the lease.

Sale-Leaseback Transactions

123. Paragraph 242 of Statement 62 should be amended as follows:

242. If the lease meets one of the criteria for treatment as a capital lease (see paragraph 213), the seller-lessee should account for the lease as a capital lease; otherwise as an operating lease. Any gain or loss on the sale[112] 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**~~deferred and amortized~~ in proportion to the ~~amortization~~ **recognition** of the leased asset,[113] if a capital lease, or in proportion to the related gross rental charged to expense/expenditure over the lease term, if an operating lease, unless:

a. The seller-lessee relinquishes the right to *substantially all* of the remaining use of the property sold (retaining only a *minor* portion of such use),[114] in which case the sale and the leaseback should be accounted for as separate transactions based on their respective terms. However, if the amount of rentals called for by the lease is unreasonable under market conditions at the inception of the lease, an appropriate amount should be deferred or accrued, by adjusting the gain or loss on the sale, and amortized as specified in the introduction of this paragraph to adjust those rentals to a reasonable amount.

b. The seller-lessee retains more than a minor part but less than substantially all[115] of the use of the property through the leaseback and realizes a gain on the sale[116] in excess of (1) the present value of the minimum lease payments over the lease term, if the leaseback is classified as an operating lease, or (2) the recorded amount of the leased asset, if the leaseback is classified as a capital lease. In that case, the gain on the sale in excess of either the present value of the minimum lease payments or the recorded amount of the leased asset, whichever is appropriate, should be recognized at the date of the sale. For purposes of applying this provision, the present value of the minimum lease payments for an operating lease should be computed using the interest rate that would be used to apply the 90 percent recovery criterion of paragraph 213d.

c. The fair value of the property at the time of the transaction is less than its undepreciated cost, in which case a loss should be recognized immediately up to the amount of the difference between undepreciated cost and fair value.

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[112]*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 paragraphs 282–349, the gain on the sale to be deferred and ~~amortized~~ **recognized** in proportion to the leaseback would be the gain that could otherwise be recognized in accordance with those paragraphs.

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

[114]*Substantially all* and *minor* are used here in the context of the concepts underlying the classification criteria of paragraphs 211–271. In that context, a test based on the 90 percent recovery criterion of those paragraphs could be used as a guideline; that is, if the present value of a reasonable amount of rental for the leaseback represents 10 percent or less of the fair value of the asset sold, the seller-lessee could be presumed to have transferred to the purchaser-lessor the right to substantially all of the remaining use of the property sold, and the seller-lessee could be presumed to have retained only a minor portion of such use.

[115]*Substantially all* is used here in the context of the concepts underlying the classification criteria of paragraphs 211–271. In that context, if a leaseback of *the entire property sold* meets the criteria of those paragraphs for classification as a capital lease, the seller-lessee would be presumed to have retained substantially all of the remaining use of the property sold.

[116]See footnote 112.

Acquisition Costs Related to Insurance Activities

124. Paragraph 413 of Statement 62 should be amended as follows:

> 413. Acquisition costs should be **recognized as expense in the period incurred**~~capitalized and charged to expense in proportion to premium revenue recognized~~. ~~To associate acquisition costs with related premium revenue, acquisition costs should be allocated by groupings of insurance contracts consistent with the entity's manner of acquiring, servicing, and measuring the gains on its insurance contracts. Unamortized acquisition costs should be classified as an asset~~.

Lending Activities

Loan Origination Fees and Costs

125. Paragraph 434 of Statement 62 should be amended as follows:

> 434. Loan origination fees**, except for any portion related to points,** should be ~~deferred and~~ recognized **as revenue in the period received** ~~over the life of the loan as an adjustment of yield[206] (interest revenue)~~. **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.** ~~Likewise, d~~ **D**irect loan origination costs defined in paragraph 435 should be

~~deferred and~~ recognized **as expense in the period incurred** ~~as a reduction in the yield of the loan except as set forth in paragraph 441 (for a troubled debt restructuring). Loan origination fees and related direct loan origination costs for a given loan should be offset, and only the net amount should be deferred and amortized~~.

[206]~~Methods for recognition of deferred fees and direct loan origination costs over the life of the loan as an adjustment of yield are set forth in paragraphs 445–447.~~

Commitment Fees and Costs

126. Paragraph 437 of Statement 62 should be amended as follows:

437. 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 ~~deferred~~ **recorded as a liability** and, if the commitment is exercised, recognized **as revenue in the period of exercise**~~over the life of the loan as an adjustment of yield or,~~**.** **If**~~if~~ the commitment expires unexercised, **the commitment fees should be** recognized ~~in~~ **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,[207] the commitment fee should be recognized ~~over the commitment period on a straight-line basis~~ as ~~service fee~~ revenue **in the period received**. ~~If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise should be recognized over the life of the loan as an adjustment of yield.~~
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, **and** if that percentage is nominal in relation to the stated interest rate on any related borrowing, and**,** **finally,** if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee should be recognized as ~~service fee~~ revenue as of the determination date.

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

Purchase of a Loan or Group of Loans

127. Paragraph 442 of Statement 62 should be amended as follows:

442. The initial investment in a purchased loan or group of loans should include the amount paid to the seller ~~plus~~ **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 expense or revenue, respectively, in the period that the loan(s) was purchased.** The initial investment frequently differs from the related loan's principal amount at the date of purchase. This difference should be recognized as an adjustment of yield

over the life of the loan. All other costs incurred in connection with acquiring purchased loans or committing to purchase loans should be charged to expense as incurred.

Mortgage Banking Activities

Loan Origination Fees and Costs

128. Paragraph 467 of Statement 62 should be amended as follows:

467. If the loan is held for **investment** ~~resale~~, loan origination fees**, except any portion related to points,** and the direct loan origination costs as specified in paragraphs 431–451 should be **recognized as revenue or expense, respectively, in the period the loan is originated**~~deferred until the related loan is sold~~. **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.** If the loan is held for **sale** ~~investment~~, **origination** ~~such~~ fees**, including any portion related to points,** and **direct loan origination** costs should be~~deferred and recognized~~ **recorded** as **a deferred inflow of resources or 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**~~an adjustment of yield as specified in paragraphs 445–447~~.

Fees Relating to Loans Held for Sale

129. Paragraph 469 Statement 62 should be amended as follows:

469. Fees received for guaranteeing the funding of mortgage loans to borrowers, builders, or developers should be accounted for as prescribed in paragraph 437. Fees paid to permanent investors to ensure the ultimate sale of the loans (residential or commercial loan commitment fees) should be recognized as **expense in the period** ~~expense~~ 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**~~Because residential loan commitment fees ordinarily relate to blocks of loans, fees recognized as revenue or expense as the result of individual loan transactions should be based on the ratio of the individual loan amount to the total commitment amount~~.

Regulated Operations

130. Paragraph 482 of Statement 62 should be amended as follows:

482. **The result of** ~~R~~ **r**ate actions of a regulator can ~~impose~~ **result in** a liability **or a deferred inflow of resources being imposed** on a regulated business-type activity. ~~Such l~~ **L**iabilities are usually obligations to the regulated business-type activity's customers **and deferred inflows of resources represent an acquisition of net assets from the regulated business-type activity's customers that are applicable to a future reporting period**. The usual ways in which **a transaction results in a** liabilit**y**~~ies can be imposed~~ **or a deferred inflow of resources** and the resulting accounting are as follows:

a. A regulator may require refunds to customers.[224] Refunds that meet the criteria of paragraph 102 (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** ~~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,[225] the regulated business-type activity should not recognize as revenues amounts charged pursuant to such rates. Those amounts should be **recorded 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,**~~amortizing~~ the gain or other reduction of net allowable costs over those future periods and **adjusting**~~reducing~~ rates to reduce revenues in approximately the amount of the **allocation**~~amortization~~. If a gain or other reduction of net allowable costs is to be **allocated**~~amortized~~ 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 **recorded as a** deferred **inflow of resources** for future reductions of charges to customers that are expected to result.

[224]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.
[225]The usual mechanism used by regulators for this purpose is to require the regulated business-type activity to record the anticipated cost as a liability in its regulatory accounting records.

Appendix D

CODIFICATION INSTRUCTIONS

131. The sections that follow update the June 30, 2010, *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 XX, ¶31; 1974 ASLGU, p. 15, as amended by GASBS XX, ¶31]

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

* * *

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 Receiveables 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 assets, 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 XX, ¶13]

.106 [Revise the second sentence of current paragraph .106 as follows:] Resource flows (except those that affect the balance sheet only, such as loans, repayments, and deferred inflows of resources and deferred outflow 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 XX, ¶13]

* * *

CASH FLOW STATEMENTS **SECTION 2450**

.129 [Replace *deferred revenue* with *liabilities*.] [GASBS 9, ¶32, as amended by GASBS 34, ¶100 and ¶105, and GASBS XX, ¶31; GASBS 9, ¶33 and ¶34, as amended by GASBS 34, ¶100 and ¶105]

* * *

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 balance sheet 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 GASBSXX, ¶13]

* * *

DEBT REFUNDINGS **SECTION D20**

Sources: [Add the following:] GASB Statement XX

.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 XX, ¶6; GASBS XX, ¶6]

[4][GASBS XX, fn2] [GASBS 23, fn3, as amended by GASBS XX, fn2]
[5][GASBS XX, fn3] [GASBS 23, fn4, as amended by GASBS 53, ¶24, and GASBS XX, fn3]

* * *

FOOD STAMPS **SECTION F60**

.101 [Replace *deferred revenue* with *liabilities*.] [GASBS 24, ¶6, as amended by GASBS XX, ¶31]

* * *

NONEXCHANGE TRANSACTIONS **SECTION N50**

Sources: [Add the following:] GASB Statement XX

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

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

.115 [Replace the last sentence of current paragraph .115 with the following:] Deferred inflows of resources should be recognized when resources are received or recognized 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 XX, ¶9; GASBS XX, ¶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 XX, ¶10; GASBS XX, ¶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 XX, ¶10; GASBS XX, ¶10]

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

* * *

PROPERTY TAXES **SECTION P70**

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

.107 [Replace *deferred revenue* with *deferred inflow of resources*.] [NCGAI 3, ¶7, as amended by GASBS 33, ¶18 and GASBS XX, ¶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 XX, ¶33; GASBS 37, ¶15, as amended by GASBS XX, ¶33]

[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 XX

.110 [Replace *deferred revenues* with *liabilities.*] [GASB 48, ¶13, as amended by GASBS XX, ¶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 XX, ¶12; GASBS XX, ¶12]

.112 [Replace the last two sentences of current paragraph .112 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 transfer agreement. The transferor government should report the amount received from the intra-entity transfer 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 transfer agreement.[4] [GASBS 48, ¶15, as amended by GASBS XX, ¶13; GASBS XX, ¶13]

[4]Deferred inflows of resources and deferred outflows of resources resulting from intra-entity transfers 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 XX, fn5]

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

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 XX, ¶31]

* * *

SPECIAL ASSESSMENTS SECTION S40

.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 XX, ¶30; GASBS 34, ¶80 and ¶82]

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

* * *

PUBLIC ENTITY RISK POOLS SECTION Po20

Sources: [Add the following:] GASB Statement XX

.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 XX, ¶20; GASBS XX, ¶20]

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

* * *

132. 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 XX, ¶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 XX, ¶31]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

.151 [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 assets, 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 XX, ¶13]

.154 [Revise the second sentence of current paragraph .149 as follows:] Resource flows (except those that affect the balance sheet 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 XX, ¶13]

.158 [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[28] 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, the total of 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 XX, ¶33; GASBS 37, ¶15, as amended by GASBS XX, ¶33]

[28][Insert current footnote 28.]

.163 [Replace *deferred revenue* with *deferred inflow of resources*.] [GASBS 34, ¶85, as amended by GASBS XX, ¶31]

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

* * *

INTEREST COSTS—IMPUTATION **SECTION I30**

Sources: [Add the following:] GASB Statement XX

.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 expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as expense, in a systematic and rational manner. [GASBS 62, ¶187, as amended by GASBS XX, ¶15]

* * *

LEASES **SECTION L20**

.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 XX, ¶7; GASBS XX, ¶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 XX, ¶30]

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

.136 [Replace *deferred revenue* with *a deferred inflow of resources*.] [GASBS 13, ¶9, as amended by GASBS 34, ¶69, and GASBS XX, ¶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 expense/expenditure over the lease term, if an operating lease, unless: [GASBS 62, ¶242, as amended by GASBS XX, ¶18]

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[34][GASBS XX, fn6; update cross-reference] [GASBS 62, fn112, as amended by GASBS XX, fn6; GASBS XX, fn6]

[35][GASBS 62, fn113] [GASBS 62, fn113; GASBS XX, fn7]

* * *

LENDING ACTIVITIES **SECTION L30**

Sources: [Add the following:] GASB Statement XX

.105 [Replace current paragraph .105 with the following:] 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. Direct loan origination costs defined in paragraph .106 should be recognized as expense in the period incurred. [GASBS 62, ¶434, as amended by GASBS XX, ¶22; GASBS XX, ¶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 government's experience with similar arrangements indicates that the likelihood that the commitment will be exercised is remote,[2] 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, and if that percentage is nominal in relation to the stated interest rate on any related borrowing, and, finally, 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 XX, ¶23; GASBS XX, ¶23]

[2][GASBS 62, fn207; update cross-reference] [GASBS 62, fn207; GASBS XX, 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 expense or revenue, respectively, in the period that the loan(s) was purchased. [GASBS 62, ¶442, as amended by GASBS XX, ¶24]

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

[Delete current paragraphs .115–.118, including headings and footnotes; renumber subsequent paragraphs.]

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

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

* * *

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

Sources: [Add the following:] GASB Statement XX

.123 [Revise the first sentence of the current paragraph .123 as follows:] Acquisition costs should be recognized as an outflow of resources in the period incurred. [GASBS 62, ¶413, as amended by GASBS XX, ¶20; GASBS XX, ¶20]

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

* * *

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.
c. Direct loan origination costs should be recognized as 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 XX, ¶22]

* * *

REGULATED OPERATIONS **SECTION Re10**

Sources: [Add the following:] GASB Statement XX

.107 [Replace current paragraph .107 with the following:] The result of 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 are 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,[6] the regulated business-type activity should not recognize as revenues amounts charged pursuant to such rates. Those amounts should be recorded 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 recorded 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 XX, ¶29; GASBS XX, ¶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 XX, fn9]
[6][GASBS 62, fn225]

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