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RETRO GASB WEBINAR SERIES

Revisiting the Standards That Shaped Government Financial Reporting

TUESDAY

AUGUST 11

10:00 AM PST

GASB 65

Items Previously Reported as Assets and Liabilities

PAST GUIDANCE.
Learn from where it all started.

PRESENT IMPACT.
See how legacy standards still shape today.

EARN 1 CPE CREDIT!

Your Presenter

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Retro GASB Series

The **Retro GASB Series** takes a step back to connect the dots. We'll revisit key legacy standards that continue to influence today's reporting requirements, break down how they've evolved over time, and explain how those changes are showing up in current and upcoming guidance.

Deferred inflows and outflows are unique to governmental accounting. Today we'll discuss the basis and reasons for GASB's implementation of these concepts.

Why Governments Use Multiple Bases

Governmental reporting answers more than one accountability question

Operational accountability

Did the government raise and spend current financial resources according to legal, budgetary, and grant restrictions?

This lens is especially important for governmental funds and budgetary comparison information.

Economic accountability

What is the government's overall financial position, including capital assets, long-term debt, pensions, OPEB, leases, and SBITAs?

This lens is reflected in government-wide statements.

Two Vocabulary Items Matter First

Measurement Focus

What resources are being measured?

Basis of Accounting

When are transactions recognized?

Current financial resources

Near-term inflows and outflows available to finance current-period obligations. Paired with modified accrual for governmental funds.

Economic resources

All economic assets and liabilities, including capital assets and long-term obligations. Paired with accrual for government-wide, proprietary, and fiduciary statements.

At-a-Glance: Four Common Bases

Basis	Revenue Recognition	Expense / Expenditure Recognition	Common Use
Cash	When cash is received	When cash is paid	Small governments or internal reporting
Modified cash	Cash basis with selected accruals	Cash basis with selected accruals	Budgetary or special-purpose reporting
Accrual	When earned	When incurred	Government-wide, proprietary, fiduciary
Modified accrual	When measurable and available	Generally, when fund liability is incurred, with exceptions	Governmental funds

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Cash Basis Accounting

Recognition rule

Record revenues when cash is received.
Record expenditures when cash is paid.

No receivable or payable is recorded until cash moves.

Illustration

Property taxes are levied in June but collected in August.

June: no revenue recorded.
August: revenue recorded when cash is received.

Useful for discussion

Easy to explain and reconcile to bank activity

Does not show receivables, payables, or long-term financial condition

Can make timing of cash receipts/payments look like performance

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Modified Cash Basis or Budgetary Basis

Definition

Modified cash basis starts with cash basis accounting and adds selected accrual-style adjustments.

Examples may include certain receivables, payables, capital assets, or long-term debt.

Training message

This basis can be useful for budgetary or special-purpose presentations, but it is not the same as GAAP basis governmental reporting.

Note:

Do not confuse modified cash basis with modified accrual basis.

Modified accrual is a GASB governmental fund reporting model. Modified cash is a non-GAAP or special-purpose approach that depends on the specific reporting framework.

Cash + selected accruals

Accrual Basis Accounting

Recognition model

Revenues are recorded when earned.

Expenses are recorded when a liability is incurred.

Cash timing does not control recognition.

Long-term assets and obligations are reported.

Used for

Government-wide statements

Proprietary fund statements

Fiduciary fund statements

Common audit areas: capital assets, depreciation, long-term debt, pensions, OPEB, leases, SBITAs.

POLLING QUESTION #1

Our staff struggles with recording accrual basis accounting at year end:

A. Sometimes
B. Always
C. Never

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Modified Accrual Basis

Core idea

Governmental funds focus on current financial resources.

Revenue is recognized only when it is both measurable and available.

Fund types

General Fund
Special Revenue Funds
Debt Service Funds
Capital Projects Funds
Permanent Funds

Training anchor: measurable + available

Modified Accrual Revenue Test

Both conditions must be satisfied

1. Measurable

The amount of the transaction can be reasonably determined.

2. Available

Collected in the current period or soon enough thereafter to pay liabilities of the current period.

Example: Property tax collections

$920,000 collected by year-end + $60,000 collected within 60 days = $980,000 recognized as revenue.
$20,000 collected after the availability period is reported as a deferred inflow.

Modified Accrual Expenditures

The general rule has important exceptions

General rule

Expenditures are generally recorded when the related fund liability is incurred.

Key exceptions

Certain long-term obligations are recognized only to the extent they have matured or are due for payment from current financial resources.

Common exception areas

General long-term debt principal and interest

Compensated absences

Claims and judgments

Certain other long-term obligations

Audit reminder: identify whether the obligation affects current financial resources or belongs only at the government-wide level.

Same Transaction, Different Reporting

Use examples to reinforce the basis and measurement-focus differences

Transaction	Governmental Fund / Modified Accrual	Government-Wide / Accrual
Capital asset purchase	Report expenditure when purchased	Capitalize asset and depreciate over useful life
Long-term debt issued	Report other financing source	Report bonds payable liability
Property taxes after availability period	Deferred inflow; not current revenue	Revenue if earned and eligibility met
Payroll incurred before year-end	Generally accrue expenditure/liability	Accrue expense/liability

Which Funds Use Which Basis?

Governmental funds

General, special revenue, debt service, capital projects, permanent funds

Measurement focus: current financial resources
Basis: modified accrual

Proprietary funds

Enterprise and internal service funds

Measurement focus: economic resources
Basis: accrual

Fiduciary funds

Pension trust, investment trust, private-purpose trust, custodial funds

Measurement focus: economic resources
Basis: accrual

Government-wide statements also use economic resources measurement focus and accrual basis.

Audit Implications

Where basis-of-accounting errors frequently show up

Modified accrual focus areas

- Availability calculations
- Deferred inflows
- Property tax cutoff
- Grant receivables
- Expenditure accruals
- Matured long-term obligations

Accrual focus areas

- Capital assets and depreciation
- Long-term debt
- Leases and SBITAs
- Pensions and OPEB
- Compensated absences
- Government-wide reconciliations

Tie procedures back to the reporting model: current financial resources vs. economic resources

Discussion & Practice Prompts

Property taxes	What portion is measurable and available? What is deferred?
Grant revenues	Have eligibility requirements been met? Does availability affect fund-level recognition?
Capital asset acquisition	Is it an expenditure in the fund statements or an asset at the government-wide level?
Bond issuance	Is the inflow another financing source or a liability?
Compensated absences	What portion has matured and affects current financial resources?

Key takeaway: match the recognition model to the reporting objective.

GASB Statement No. 65 Overview

Purpose of GASB Statement No. 65

Introduced to enhance consistency and transparency in governmental financial reporting by reclassifying items properly.

Deferred Outflows and Inflows

GASB 65 established deferred outflows and inflows as distinct financial elements, improving classification clarity.

Impact on Financial Statements

The statement changed how governments present financial information, enhancing comparability and clarity.

Effective Date and Benefits

Effective after December 2012, GASB 65 benefits governments, auditors, and users with clearer financial distinctions.

POLLING QUESTION #2

I remember when GASB 65 was released?

A. Yes
B. No

Why GASB 65 Was Developed

Improving Financial Reporting Quality

GASB 65 enhances consistency by aligning financial balances with GASB Concept Statement No. 4 definitions.

Introduction of Deferred Items

Deferred outflows and inflows represent future economic effects, improving the accuracy of financial reporting.

Enhancing Transparency

GASB 65 increases clarity in bond transactions, grants, and revenue recognition practices.

Reducing User Confusion

Limits inappropriate use of 'deferred' to provide clearer, more meaningful financial information.

Deferred Outflows of Resources versus Assets

Definition of Assets

Assets represent present service capacity that governments control to provide services currently.

Definition of Deferred Outflows

Deferred outflows represent consumption of net position applicable to future reporting periods without present service potential.

GASB Clarification Impact

GASB 65 clarified deferred outflows should not be reported as assets, improving financial statement integrity.

Benefits to Financial Reporting

This distinction enhances comparability among governments and strengthens conceptual integrity of reports.

Deferred Inflows of Resources versus Liabilities

Definition of Liabilities

Liabilities are present obligations requiring future resource sacrifices, representing current debts or responsibilities.

Understanding Deferred Inflows

Deferred inflows represent acquired resources applicable to future periods without current obligations, improving reporting accuracy.

GASB 65 Impact

GASB 65 created a distinct reporting category improving stakeholder understanding of revenues and financial performance.

Items Reclassified by GASB 65

Reclassification of Transactions

GASB 65 reclassified transactions from assets or liabilities to deferred outflows or inflows reflecting future-period effects.

Immediate Recognition of Items

Some items previously deferred must now be immediately recognized as revenues or expenses under GASB 65 guidance.

Impact on Governmental Reporting

GASB 65 influenced governmental fund reporting and major fund determination calculations for improved consistency.

Implementation Challenges

Implementing GASB 65 required reviewing historical balances and restatements for appropriate classification changes.

POLLING QUESTION #3

We most commonly see deferred outflows/inflows related to:

A. Unavailable Revenue
B. Pension/OPEB
C. Debt Refinancing

Treatment of Debt Issuance Costs

GASB 65 Impact on Debt Costs

GASB 65 requires debt issuance costs to be expensed immediately, not capitalized and amortized over time.

Effect on Financial Reporting

Immediate expensing affects operating results during the year debt is issued, altering reported financial outcomes.

Implementation Challenges

Governments often need to restate beginning balances and remove previously capitalized debt issuance costs.

Audit Focus and Compliance

Auditors focus on correct accounting of debt issuance costs due to frequent errors during transitions.

Refunding Gains and Losses

GASB 65 Reporting Changes

GASB 65 redefined how governments report refunding differences as deferred inflows or outflows instead of assets or liabilities.

Amortization of Balances

Refunding amounts are systematically amortized over the shorter life of the old or new debt to reflect economic impact.

Audit and Financial Impact

Correct identification of refunding balances is crucial for audit accuracy and affects net position and expense recognition.

Impact on Financial Statements

New Financial Statement Structure

GASB 65 introduces separate sections for deferred outflows and inflows, enhancing clarity in Statements of Net Position.

Enhanced Reporting and Disclosures

The standard affects fund reporting and requires careful evaluation of transactions for proper classification.

Improved Transparency and Consistency

GASB 65 and GASB 63 together promote transparency and consistency across governmental entities' financial reports.

Common Audit Focus Areas

Classification Accuracy Focus

Auditors prioritize classification accuracy to ensure deferred outflows and inflows meet GASB 65 criteria precisely.

Debt Issuance and Refunding

Special attention is given to debt issuance costs and refunding transactions due to their complexity and monetary significance.

Disclosure Completeness

Auditors evaluate whether disclosures fully and clearly explain deferred outflows and inflows for transparency.

Training and Controls

Training finance staff and strong internal controls reduce misclassification risks and support accurate reporting.

POLLING QUESTION #4

Unavailable Revenue is the same as Deferred Revenue:

A. True
B. False

Example and Key Takeaways

Bond Issuance Costs Treatment

GASB 65 requires bond issuance costs to be expensed immediately instead of being capitalized and amortized.

Debt Refunding Transactions

Gains and losses from debt refunding are recognized over time as deferred inflows or outflows, not immediately.

Financial Classification Principles

GASB 65 emphasizes accurate classification reflecting true nature of transactions for transparency and consistency.

Key Takeaways Summary

Understand asset vs deferred outflows, liability vs deferred inflows, and importance of proper expense recognition.

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THURSDAY	WEDNESDAY	THURSDAY
AUGUST 20	SEPTEMBER 2	SEPTEMBER 10
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34	7 + 23	54 + 31 + 72

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