



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum # 2013-09 **REVISED**

TO: Local Government Officials and their Independent Auditors

FROM: Sharon Edmundson, Director, Fiscal Management

SUBJECT: GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - REVISED*

GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*

DATE: March 13, 2013 (original issue date), August 8, 2013 (revised)

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 63: ***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***. This statement is effective for fiscal periods that begin after December 15, 2011, meaning the fiscal year ending June 30, **2013** for most North Carolina governments. GASB Statement No. 65: ***Items Previously Reported as Assets and Liabilities***, is effective for fiscal periods beginning after December 15, 2012, meaning fiscal year ending June 30, 2014 for most North Carolina local governments. However, since GASB Statement No. 65 is so closely related to GASB Statement 63, we are recommending implementation for both as of June 30, 2013. GASB Statement No. 63 essentially replaces the Net Asset Statement with a Statement of Net Position and discusses various reporting issues. GASB Statement No. 65 provides specific guidance on when transactions will be classified as deferred outflows or inflows and reclassifies certain assets and liabilities as revenue and expenditures.

Following are key segments from Statement No. 63 on net position reporting.

1. Deferred outflows of resources should be reported in a statement of financial position in a separate section following assets.
2. Deferred inflows of resources should be reported in a statement of financial position in a separate section following liabilities.
3. The GASB and the State and Local Government Finance Division (SLGFD) encourage the Statement of Net Position to be presented as: assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resource, equals net position.

4. When calculating the “Net Investment in Capital Assets” component of Net Position, deferred outflows and inflows that are attributable to the capital assets and the related debt should be included.
5. The “restricted” component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
6. Note Disclosure is required for any significant deferred outflows and inflows of resources amounts that are not displayed on the face of the statements. Since some of these elements are required to calculate Restricted for Stabilization by State Statute, the Fiscal Management Section of the Department of State Treasurer requires note disclosure on deferred inflows and outflows.

The following paragraphs discuss GASB Statement No. 65 guidance for various transactions that will be reported in the deferred outflow or inflow of resources sections of the Net Position Statement. We have included all the examples that we believe will most likely occur in local governments of North Carolina. Attachment A to this memorandum provides an example of a municipal Net Position statement.

Transactions that will be Reported as Deferred Outflows of Resources

1. **Grants** (resources) paid in advance of meeting the GASB 33 timing requirements (Example: a unit of government sends money to a grantee early. This will apply to the governmental fund statements as well as the government-wide statement of net position);
2. Deferred loss from the **refunding of debt** – 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 and the net carrying amount of the old debt;
3. Decrease in fair value of **derivative instrument** associated with an effective hedge;
4. Amount paid in an **intra-entity transfer of future revenues** by transferee government (GASB 48) is reported as a deferred outflow. This item also applies to governmental funds.

Transactions that will be Reported as Deferred Inflows of Resources

1. **Grants** (resources) received in advance from another government in a government mandated or voluntary non-exchange transaction when time requirements are the only eligibility requirements that have not been met (GASB #33). This applies to governmental funds.
2. Resources received in advance related to an imposed nonexchange transaction (example: **prepaid property taxes**). This applies to governmental funds as well. Taxes need to be received before the property taxes are levied to fall into this category.
3. Assets recorded in governmental fund financial statements for which the revenue is not available should be reported as a deferred inflow of resources (example: property **taxes receivable**). This applies to governmental funds.
4. **Points received by a lender** – revenue must be recognized in a systematic manner over the life of the loan.
5. Deferred gains on **current and advance refundings** – the net carrying amount over the reacquisition price of the refunding debt.

6. Amount received from **intra-entity transfers of future revenues** by transferor government (GASB 48). This also applies to governmental funds.
7. Increase in fair value of **derivative instrument** associated with an effective hedge.
8. **Service concession** arrangements under GASB Statement No. 60 for up-front payments.

Transactions that will be Reported as Revenues (Inflow of Resources)

1. Amount received from the sale of revenues by transferor government in accordance with GASB 48, Paragraph 14. This also applies to governmental funds.
2. Fees received from purchase of loans.
3. Loan origination fees received (except points).
4. Commitment Fees are revenue either when the commitment is exercised or upon expiration of the commitment period if the commitment is unexercised. If the likelihood that the commitment will be exercised is remote, they are recognized in the period received.

Transactions that will be Reported as Expenses (Outflow of Resources)

1. **Debt issuance cost, except for prepaid insurance, is recorded as an expense. This change should not affect the calculation of "Net Investment in Capital Assets". Any unamortized balances are written off to expense in year of implementation. Current year expenses flow through operating statement and prior years flow through net position.**
2. Initial direct costs of operating leases are expensed by the lessor. This also applies to governmental funds.
3. Acquisition costs for insurance entities and public entity risk pools are expensed. (GASB 10, GASB 62).
4. Fee paid on purchase of loans.
5. Direct loan origination costs are expensed.

Items that will Remain Assets and Liabilities

Assets

1. Resources advanced to another government in a government-mandated or voluntary non-exchange transaction when eligibility requirements (other than time requirements) have not been met (GASB 33). This applies to governmental funds as well.
2. Purchase of future revenues from a government outside of the financial reporting entity (GASB 48, Paragraph 14)
3. Prepaid insurance cost on debt issuance is set up as an asset and expensed over the life of the related debt in a systematic and rational manner.
4. Pension plan's net position exceeds total pension liability (GASB 27)
5. Prepayments (NCGA 1) excluding the GASB 33 non-exchange examples previously mentioned.

Liabilities

1. Resources received in advance from another government in a government-mandated or voluntary non-exchange transaction when eligibility requirements (other than time requirements) have not been met (GASB 33). This applies to government funds as well.

2. Resources received in advance (prepaids) for an exchange transaction (GASB 62). Example – prepaid utilities and prepaid tenant rents.
3. Resources received in advance in relation to a derived tax-revenue nonexchange transaction (GASB 33). This applies to governmental funds as well.
4. Premium revenues for insurance entities and public entity risk pools received in advance (GASB 10, GASB 62).
5. Commitment fees to originate or purchase a loan before the commitment is exercised.

The State is treating the new unemployment payments from local governments as revenues. Reciprocal treatment would mean that the new unemployment taxes will be recorded as expenditures/expenses on the local unit's books. For further guidance, please see memorandum number 2013-18.

Units and their auditors will have to review what we currently call deferred and unearned revenues to determine if they will remain a liability or move to the new deferred inflows section of the net position statement.

GASB Statement No. 65 also discusses the accounting treatment of regulated operations, sales-leaseback, and mortgage banking transactions. These transactions have not been discussed in this memo as they did not appear relevant to most local governments. Also, when calculating the major fund criteria originally found in GASB Statement No. 34 paragraph 76, assets are combined with deferred outflows of resources and liabilities are combined with deferred inflows of resources. **Additionally, the term “deferred” should only be used for deferred outflows and inflows of resources.** Units and auditors should perform a word search on their statements to ensure their 2013 reports comply with this requirement. Finally, deferred inflows and outflows of resources are not classified as current or noncurrent and subtotals for Assets and Deferred Outflows and Liabilities and Deferred inflows are not required.

Most units of government will be implementing GASB Statement No. 63 and 65 June 30, 2013. The SLGFD is requiring they be implemented together, meaning you will early implement GASB 65. If you have any questions please call Melinda Canady or Preeta Nayak at 919-807-2384 and 919-807-2393, respectively, or you may reach them via email at melinda.canady@nctreasurer.com or preeta.nayak@nctreasurer.com.

City of Long-Needle Pine, North Carolina				Exhibit 1
Statement of Net Position				
June 30, 2013				
	Primary Government			City Of Long-Needle Pine ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 499,100	\$ 236,959	\$ 736,059	\$ 80,838
Taxes receivables (net)	63,235	-	63,235	-
Accrued interest receivable on taxes	12,949	-	12,949	-
Accounts receivable (net)	5,664	314,979	320,643	-
Due from other governments	97,300	-	97,300	-
Due from component units	3,700	-	3,700	-
Internal balances	100	(100)	-	-
Inventories	3,945	179,536	183,481	89,692
Prepaid Items	-	7,195	7,195	-
Restricted cash and cash equivalents	57,996	1,731,160	1,789,156	-
Total current assets	743,989	2,469,729	3,213,718	170,530
Non-current assets:				
Capital assets (Note 4):				
Land, non-depreciable improvements, and construction in progress	869,770	3,067,949	3,937,719	-
Other capital assets, net of depreciation	3,507,088	10,489,728	13,996,816	87,375
Total capital assets	4,376,858	13,557,677	17,934,535	87,375
Total assets	\$ 5,120,847	\$ 16,027,406	\$ 21,148,253	\$ 257,905
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized bond refunding charges	-	26,123	26,123	-
Total deferred outflows of resources	-	26,123	26,123	-
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 128,774	\$ 264,967	\$ 393,741	\$ 42,720
Accrued interest payable	2,133	-	2,133	-
Due to primary government	-	-	-	3,700
Due to other governments	6,055	-	6,055	18,251
Current portion of long-term liabilities	66,184	1,131,339	1,197,523	4,560
Payable from restricted assets	-	188,592	188,592	-
Total current liabilities	203,146	1,584,898	1,788,044	69,231
Long-term liabilities:				
Due in more than one year	508,574	3,388,622	3,897,196	-
Total liabilities	711,720	4,973,520	5,685,240	69,231
DEFERRED INFLOWS OF RESOURCES				
Prepaid Taxes	15,502	-	15,502	-
Total deferred inflows of resources	15,502	-	15,502	-
Net Position				
Net investment in capital assets	4,092,481	10,832,879	14,925,360	87,375
Restricted for:				
Human Services	23,459	-	23,459	-
Cemetery Perpetual Care	25,056	-	25,056	-
Stabilization by State Statute	103,379	-	103,379	-
Economic Development	30,453	-	30,453	-
Other functions	9,499	-	9,499	104,660
Unrestricted	109,298	247,130	356,428	-
Total net position	\$ 4,393,625	\$ 11,080,009	\$ 15,473,634	\$ 192,035

					Exhibit 3
City of Long-Needle Pine					
Balance Sheet					
Governmental Funds					
June 30, 2013					
	Major Funds				
	General	Emergency Telephone System	Parking and Recreation	Total Non-Major Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	417,289	8,000	23,400	24,681	473,370
Restricted Cash	57,996	-	-	-	57,996
Receivables, net:					
Taxes	63,235	-	-	-	63,235
Accounts	874	4,415	-	375	5,664
Due from other governments	82,300	10,000	-	5,000	97,300
Due from component unit	3,700	-	-	-	3,700
Inventories	1,245	-	-	-	1,245
Total assets	\$626,639	\$22,415	\$23,400	\$30,056	\$702,510
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	103,874	17,000	\$-	5,000	125,874
Due to other funds	2,200	-	-	-	2,200
Due to other governments	6,055	-	-	-	6,055
Total liabilities	\$112,129	\$17,000	\$0	\$5,000	\$134,129
DEFERRED INFLOWS OF RESOURCES					
Property Taxes Uncollected	57,180				57,180
Prepaid taxes	15,502				15,502
Total Deferred inflows of resources	\$72,682				\$72,682
Fund balances:					
Non Spendable					
Inventories	1,245	-	-	-	1,245
Perpetual maintenance	-	-	-	25,056	25,056
Restricted					
Stabilization by State Statute	103,379	-	-	-	103,379
Streets	4,084	-	-	-	4,084
Human Services	23,459	-	-	-	23,459
Public Safety	-	5,415	-	-	5,415
Economic Development	30,453	-	-	-	30,453
Assigned					
Parking and Recreation	-	-	23,400	-	23,400
Subsequent year's expenditures	76,541	-	-	-	76,541
Unassigned	202,667	-	-	-	202,667
Total fund balances	\$441,828	\$5,415	\$23,400	\$25,056	\$495,699
Total liabilities, deferred inflows of resources and fund balances	\$626,639	\$22,415	\$23,400	\$30,056	\$702,510

City of Long-Needle Pine				Exhibit 6
Statement of Net Position				
Proprietary Funds				
June 30, 2013				
	Major Enterprise Funds			Internal Service Fund
	Electric Fund	Water and Sewer Fund	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 67,127	\$ 169,832	\$ 236,959	\$ 25,730
Accounts receivable (net) - billed	160,909	78,336	239,245	-
Accounts receivable (net) - unbilled	54,262	21,472	75,734	-
Due from other funds	-	-	-	2,600
Inventories	95,378	84,158	179,536	2,700
Prepaid items	4,630	2,565	7,195	-
Restricted cash and cash equivalents	56,105	1,675,055	1,731,160	-
Total current assets	438,411	2,031,418	2,469,829	31,030
Noncurrent assets:				
Capital assets:				
Land and construction in progress	289,400	2,778,549	3,067,949	-
Other capital assets, net of depreciation	708,272	9,781,456	10,489,728	24,670
Capital assets	997,672	12,560,005	13,557,677	24,670
Total noncurrent assets	997,672	12,560,005	13,557,677	24,670
Total assets	\$ 1,436,083	\$ 14,591,423	\$ 16,027,506	\$ 55,700
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized bond refunding charges	-	26,123	26,123	-
Total deferred outflows of resources	-	26,123	26,123	-
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	202,957	62,010	264,967	2,900
Due to other funds	160	240	400	-
Compensated absences - current	12,000	9,000	21,000	-
General obligation bonds payable-current	-	401,000	401,000	-
Revenue bond payable - current	-	34,339	34,339	-
Bond anticipation notes payable	-	675,000	675,000	-
Liabilities payable from restricted assets:				
Accounts payable	-	115,557	115,557	-
Customer deposits	56,105	16,930	73,035	-
Total current liabilities	271,222	1,314,076	1,585,298	2,900
Noncurrent liabilities:				
Other noncurrent liabilities:				
Other postemployment benefits	17,287	30,651	47,938	-
Compensated absences	26,200	41,900	68,100	2,400
General obligation bonds payable-noncurrent (net)	-	2,400,000	2,400,000	-
Revenue bond payable - noncurrent	-	872,584	872,584	-
Total noncurrent liabilities	43,487	3,345,135	3,388,622	2,400
Total liabilities	314,709	4,659,211	4,973,920	5,300
NET POSITION				
Net investment in capital assets	997,672	9,835,207	10,832,879	-
Unrestricted	123,702	123,128	246,830	50,400
Total net position	\$ 1,121,374	\$ 9,958,335	11,079,709	\$ 50,400
Adjustment to reflect the consolidation of internal service fund			300	
Net position of business-type activities			\$ 11,080,009	