Demystifying Deferrals:

Discussion Questions and Exercises

Discussion Questions

1. Your colleague says they want the GASB to "put the deferrals back where they belong, with the assets and liabilities." How would you explain (succinctly and in plain language) why that would not be practicable to do?
2. In what ways are deferred inflows of resources similar to unearned income? How do they differ?
3. In what ways are deferred outflows of resources similar to prepaid assets? How do they differ?
4. Describe a reason that deferrals should not be a separate financial statement element. Then, describe the best counterargument to that reason.
5. Of the reasons why information about deferrals is important to financial statement users, which reason is the best argument for reporting deferrals separately from assets and liabilities? Why?
6. How would you describe the concept of interperiod equity to someone who has an interest in government but is not knowledgeable about accounting (such as a city council member, a member of a taxpayer association, or a student in a public administration program)? Be certain to include examples or analogies that are relevant to them.
7. Ten of the 21 types of deferrals identified in *Demystifying Deferrals: What They Are, What They Mean, and Why They Are Important*, are not discussed further. Review the slides about one of those 10 types of deferrals in *Demystifying Deferrals: Technical Requirements & Resources*. Describe the purpose of that deferral and how it functions, balancing technical accuracy with brevity and plain language.

Exercises

A. Prepaid Property Taxes. Each year, no later than August 31, a city with a fiscal year beginning October 1 adopts its annual budget and property tax levy for the following fiscal year. On August 31, 2023, the city levies $10 million in property taxes for the fiscal year beginning October 1, 2023. The property tax levy takes into account a historical collection rate of 99%. The city has an enforceable legal claim to the property taxes starting September 1, 2023, at which time it sends out property tax bills. During the month of September, the city receives payments on those bills of $500,000.

   a. On what date should the city report property taxes receivable? In what amount?
   b. What financial statement item should be reported at the same time as the property taxes receivable? In what amount?
   c. What financial statement item amount(s) change as a result of the receipt of the $500,000 of tax payments? Do they increase or decrease?
   d. On what date should the city report property tax revenue? In what amount?
   e. What other financial statement item amount(s) change when the property tax revenue is reported? Do they increase or decrease? By how much?

B. Unavailable Revenue. A school district adopts an availability period of 120 days for federal grants. During the fiscal year ending June 30, 2023, the school district incurs $5,250,000 in reimbursable costs under U.S. Department of Education (USDOE) grant programs, as shown in the timeline below, and submits the required grant requests. On average, it takes the USDOE six months to approve and make payment on the school district's grant requests.

Reimbursable Costs Incurred ($ in thousands)											
July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
$100	$125	$350	$530	$525	$450	$510	$490	$500	$550	$520	$600

As of June 30, 2023, how much should the school district report for each of the following items in the governmental fund financial statements?

a. FY 2023 grants receivable
b. FY 2023 grant revenue
c. Deferred inflows of resources–unavailable grant revenue

C. Debt Refunding. A county had a general obligation (GO) bond issue with $12 million outstanding as of December 31, 2023, its fiscal year-end. Those bonds will be fully repaid by December 31, 2038. On January 2, 2024, the county uses the proceeds of $10 million of refunding bonds with a final maturity of December 31, 2035, to fully pay off the $12 million GO bond issue.

a. Should the county report an economic gain or an economic loss? In what amount?
b. Over how many years should the county divide the deferral related to the economic gain/loss?
c. In each of those years, would interest expense increase or decrease as a result of the refunding?
d. Presuming the deferral is divided evenly over the number of years identified in b, what would be the amount of the annual increase/decrease in interest expense?

D. Pension-Related Deferrals. A city with a single-employer defined benefit pension plan for its firefighters disclosed the following in its related note to financial statements:

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at June 30, 2022	$ 878,328	$ 558,868	$ 319,460
Service cost	26,921	-	26,921
Interest	46,105	-	46,105
Difference between expected and actual experience	16,673	-	16,673
Changes in assumptions	315,693	-	315,693
Contributions - employer	-	11,450	(11,450)
Contributions - employee	-	10,770	(10,770)
Net investment income	-	17,216	(17,216)
Benefit payments, including refunds	(39,529)	(39,529)	-
Administrative expense	-	(735)	735
Balances at June 30, 2023	$ 1,244,191	$ 558,040	$ 686,151

Other pertinent facts:

- The average remaining service period of all members of the firefighters' plan is eight years.
- Based on the plan's long-term expected rate of return, investment income for the fiscal year ending June 30, 2023, should have been $39,121.
- City contributions to the plan after the measurement date were $12,768.

Required: Fill in the missing information from the following required disclosures of pension-related deferrals and their subsequent reporting in pension expense:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Changes in assumptions		
Net difference between projected and actual earnings on pension plan investments		
City contributions after the measurement date		
Total		

$ _________reported as deferred _________of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	
2024	
2025	
2026	
2027	
2028	
Thereafter	

E. Financial Analysis. Illustrated below is a general fund from a parks and recreation district's governmental funds balance sheet. The left-hand column presents the balance sheet information as it would have appeared prior to GASB Statements 63 and 65. The right-hand column presents the same balance sheet information in conformity with Statements 63 and 65.

	General Fund	
	Without Deferrals	With Deferrals
Assets:		
Cash and cash equivalents	$34,234	$34,234
Investments	152,054	152,054
Receivables, net:		
Property taxes	8,449	8,449
Accounts	4,388	4,388
Due from other governments	51,004	51,004
Due from other funds	1,586	1,586
Prepaid assets	13	13
Total assets	$251,728	$251,728
Liabilities, deferred inflows of resources, and fund balances		
Liabilities:		
Accounts payable	$31,252	$31,252
Deferred revenue	12,474	
Deposits and retainage payable	10,638	10,638
Due to other funds	350	350
Total liabilities	54,714	42,240
Deferred inflows of resources:		
Prepaid property taxes		91
Unavailable tax revenues		1,125
Unavailable grant revenues		11,258
Total deferred inflows of resources		12,474
Fund balances:		
Nonspendable	13	13
Restricted	68,577	68,577
Committed	8,309	8,309
Unassigned	120,115	120,115
Total fund balances	197,014	197,014
Total liabilities, deferred inflows of resources, and fund balances	$251,728	$251,728

Calculate the following three ratios for each column:

1. Liquidity: (cash & cash equivalents + investments + receivables) ÷ (accounts payable + deferred revenue) — Generally, the higher a liquidity ratio, the more assets a government has that can be readily converted to cash to pay for short-term liabilities.
2. Leverage: (total assets ÷ total liabilities) × 100 — Generally, the lower this ratio, the less leveraged a government is; in other words, the smaller the percentage of its assets that are financed through borrowing.
3. Leverage: (total liabilities ÷ unassigned fund balance) × 100 — Generally, the lower this ratio, the less leveraged a government is; in other words, the smaller the percentage of its unassigned fund balance that would be needed to repay its short-term liabilities.

In comparison with the ratios calculated without deferrals, do the ratios calculated *with* deferrals make the government's general fund appear more or less financially healthy? Explain your conclusion.