



North Carolina Office of the State Controller

Financial Reporting Update

GASB 70 Effective for FY 2014

January 2, 2014 – Contact: Terri Noblin, Manager, Accounting & Financial Reporting (919) 707-0526

Update: February 26, 2014 – Appendix A added

In April 2013, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70). This Statement provides new recognition, measurement, and disclosure guidance for state and local governments that extend or receive nonexchange financial guarantees.

GASB 70 is effective for the fiscal year ending June 30, 2014. A nonexchange financial guarantee occurs when a government guarantees a financial obligation but generally receives little or no compensation in return. The government guaranteeing the debt (guarantor) agrees to make payments to the holder of the debt if the entity that issued the debt (issuer) is unable to fulfill its obligations. To the guarantor, the guarantee represents the possibility of claims on the government's resources. To the issuer, this represents potential resources that can be drawn upon to make the required payment.

GASB 70 requires a guarantor government to recognize a liability and an expenditure/expense when qualitative factors indicate that it is "more likely than not" (i.e., a likelihood of more than 50 percent) that it will actually be required to make a payment as a result of the guarantee agreement (Note: the GASB decided not to use the recognition point of "probable," which is required for other exchange and nonexchange transactions under GASB 62). The amount recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Classification of expenses related to nonexchange financial guarantees should be determined in the same manner as grants or financial assistance payments to other entities or individuals.

If a government is required to repay a guarantor for nonexchange financial guarantee payments made on the government's obligations, the government should reclassify that portion of its previously recognized liability for the guaranteed obligation as a liability to the guarantor. This Statement requires an issuer government to continue to report a liability until it is legally released as an obligor from the obligation and from any liability to the guarantor. When the issuer is released from those liabilities, it recognizes revenue as a result. Certain disclosures are also required for both the guarantor government and issuer government.

To gain additional understanding of GASB 70, please refer to the following resources:

- a. GASB Press Release – [GASB Improves Reporting For Nonexchange Financial Guarantees](#)
- b. GASB Plain Language Article – [GASB Statement Provides Accounting and Financial Reporting Guidance for Nonexchange Financial Guarantees](#)
- c. The GASB webpage from which you may access a PDF file of GASB 70 as well as other GASB pronouncements – [GASB Pronouncements](#)
- d. Journal of Accountancy – [GASB Provides Guidance for Nonexchange Guarantees](#)
- e. NACUBO Website Article – [GASB Issues Statement on Nonexchange Financial Guarantees](#)
- f. PWC Newsletter Article – [GASB Issues Final Guidance on Accounting on Nonexchange Financial Guarantees](#)
- g. Appendix A: Additional GASB 70 Information – See Attachment below.

Thank you for your time and attention to this important change. OSC will continue to provide updates as the standard is implemented. Questions regarding this specific update should be directed to Joy Darden at 919-707-0520 or joy.darden@osc.nc.gov.

Appendix A

Additional GASB 70 Information

Scope:

A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. Nonexchange financial guarantees can include guarantees by a state for bonds issued by local governments within that state or guarantees of mortgage loans to individuals, if equal or approximately equal value is not received in exchange. For example, a public institution may receive a financial guarantee from a state government for the public institution's debt service payments on construction bonds it has issued without providing consideration to the government. Additionally, guarantees extended for a group of obligations with similar characteristics, such as student loans or mortgage obligations when equal or approximately equal value is not received in exchange is also included in the scope of GASB 70.

The scope of this Statement excludes both exchange and exchange-like transactions. GASB 70 does not apply to guarantees related to special assessment debt within the scope of Statement 6, *Accounting and Financial Reporting for Special Assessments*. For example, if the government is obligated in some manner to assume payments on special assessment debt in the event of default by property owners. Additionally, a pledge of future revenues would not be considered a nonexchange financial guarantee under the provisions of this Statement. Liability recognition of pledged revenues occurs only when the pledged revenue meets the criteria for revenue recognition as required by Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. For example, a university foundation issues student housing debt, and the university housing revenues are pledged for repayment. In this case, GASB Statement 48 (not GASB 70) would apply.

Proprietary Funds Liability Recognition:

When a government, that extended a nonexchange financial guarantee, determines that a payment is more likely than not, financial statements prepared using the economic resources measurement focus (proprietary funds) should recognize a liability and expense. Classification of expenses should be determined in the same manner as grants or financial assistance payments. Liabilities should be recorded as Nonexchange Financial Guarantee payable—Current and/or Nonexchange Financial Guarantee payable—Noncurrent. Specific new accounts for these liabilities have not yet been established on the NCAS chart of accounts but would fall in the 2161XX and 2261XX account ranges for Bonds and similar debt payable, current and noncurrent, respectively. Expenses should be recorded to account 536999 Other Aids and Grants to Government Organizations—Nonoperating, 536J99 Other Aids and Grants to NGO's—Nonoperating, or 536Q99 Other Aids and Grants to Individuals—Nonoperating, as appropriate.

Governmental Funds Liability Recognition:

When a government, that extended a nonexchange financial guarantee, determines that a payment is more likely than not, financial statements prepared using the current financial resources measurement focus (Governmental funds) should recognize a fund liability and an expenditure to the extent the liability is normally expected to be liquidated with expendable available financial resources. An amount normally expected to be liquidated with expendable available financial resources refers to a guarantee payment that is due and payable as of the end of the reporting period. Classification of expenditures should be determined in the same manner as grants or financial assistance payments. Liabilities should be reported to the same accounts as listed above for proprietary funds. Expenditures should be recorded to account 5369AA Other Aids and Grants to Government Organizations, 536JAA Other Aids and Grants to NGO's, or 536QAA Other Aids and Grants to Individuals, as appropriate.

Appendix A (cont.)

Issuer Government:

GASB 70 requires a government that issued an obligation in a nonexchange transaction to report the obligation until legally released as an obligor. This obligation should be recorded using existing liability accounts based on the type of obligation (e.g., Revenue Bonds Payable).

If a government is required to repay a guarantor for nonexchange financial guarantee payments made on the government's obligations, the government should reclassify that portion of its previously recognized liability for the guaranteed obligation as a liability to the guarantor. This liability should be recorded to existing liability accounts based on whom the liability is owed (e.g., Due to Primary Government).

When the issuer government is released as an obligor from the obligation and from any liability to the guarantor, the government should recognize revenue as a result of being relieved of the obligation to the extent of the reduction of its guaranteed liabilities. Component units should report this revenue as State Aid or one of the other existing nonoperating revenues, as appropriate.

Note Disclosures:

GASB 70 specifies information required to be disclosed by governments that extend nonexchange financial guarantees. These governments have to make disclosures by type of guarantee, for all nonexchange financial guarantees, regardless of the likelihood of a payment being required. The selection of types of guarantees should be left to professional judgment in relation to the facts and specific circumstances. For example, guarantees of student loans and guarantees of mortgage loans should not be aggregated. A government that recognizes a nonexchange financial guarantee liability or has made payments during the reporting period on nonexchange financial guarantees extended should disclose additional information. (See GASB Statement 70, paragraphs 14 and 15).

GASB 70 also requires new information to be disclosed by governments that receive nonexchange financial guarantees. A government that has one or more outstanding obligations at the reporting date that have been guaranteed by another entity as part of a nonexchange transaction should make certain disclosures by type of guarantee. (See the above paragraph for more information on the selection of types of guarantees). If a government issued a guaranteed obligation for which payments have been made during the reporting period by the entity extending the guarantee and the guaranteed obligation is no longer outstanding at the end of reporting period, regardless of whether the government has any other outstanding guaranteed obligations at the end of the reporting period, it should make certain disclosures. (See GASB Statement 70, paragraphs 16 and 17).

Application:

Except for note disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee, the provisions of this Statement are required to be applied retroactively. In the period the statement is first applied, changes made to comply with this statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated.

If restatement of the financial statements for all prior periods presented is not practical, the cumulative effect of applying this Statement should be reported as a restatement of beginning net position for the earliest period restated. The reason for not restating prior periods presented should be explained. In the period this statement is first applied, financial statements should disclose the nature of any restatement and its effect.

Disclosures related to cumulative amounts paid or received in relation to a nonexchange financial guarantee may be applied prospectively. If applied prospectively, the disclosure should state the date through which the cumulative amounts are determined.