GASB Update

October 11, 2012

2012 Texas Association of County Auditors
67th Annual Fall Conference

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Effective Dates

June 30, 2012
- Statement 57 – OPEB (Agent)
- Statement 64 – Derivatives – Hedge Accounting Terminations

December 31, 2012
- Statement 60 – Service Concession Arrangements
- Statement 62 – Pre-89 Codification
- Statement 62 – Deferrals and Net Position

June 30, 2013
- Statement 61 – Financial Reporting Entity

December 31, 2013
- Statement 63 – Deferred Inflows/Outflows
- Statement 65 – Previously Reported Assets & Liabilities
- Statement 66 – Technical Corrections of Stmt No. 10 and 62

June 30, 2014

June 30, 2015
- Statement 68 – Accounting for Pensions
GASB Statement 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

Effective date—periods beginning after June 15, 2011
Overview

- Amends Stmt No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*

- Will allow an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan participants to use the alternative measurement method, as its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates
Overview

- Amends Stmt No. 43, *Financial Reporting for Post Employment Benefit Plans Other than Pension Plans*

- Allows the requirement for an actuarial valuation to be satisfied
  - Agent multiple-employer OPEB plan
    - By reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans OR,
  - Individual-employer OPEB plans that are eligible
    - By reporting measurements resulting from use of the alternative measurement method
Overview

• As a result of the change, the cost of compliance for Stmt No. 45 for eligible agent employers may be reduced, while still achieving an appropriate balance between the required reported information and reasonable cost.
GASB Statement 60, 
Accounting and 
Financial Reporting 
for Service 
Concession 
Arrangements

Effective date—periods beginning after December 15, 2011
Scope: What is an SCA?

- A type of Public – Private or Public – Public arrangement

- Arrangement between a transferor (a government) and an operator (government or non-governmental entity)
Scope: What is an SCA?

An arrangement in which **all** of the following are met:

1. A transferor conveys to an operator the right and related obligation to provide services to the public through the operation of a capital asset, in exchange for **significant** or **material** consideration, **AND**
2. The operator collects and retains fees from third parties, **AND**
   
   (for example: tolls, rents, golf course fees, etc.)
3. The transferor is entitled to significant interest in the service utility of the capital asset at the end of the agreement (a residual interest), **AND**
4. The transferor determines or has the ability to modify or approve:
   
   - What services the operator is required to provide
   - To whom the services will be provided
   - The prices or rates that will be charged

Retain control of asset
Scope: What is an SCA?

- SCAs include, but are not limited to:
  
  - Arrangements in which the operator will design and build a facility and will obtain the right to collect fees from third parties
    - Example: construction of a municipal complex for the right to lease a portion of the facility to third parties
  
  - Arrangements in which the operator will provide significant consideration in exchange for the right to access an existing facility and collect fees from the third party for its usage
    - Example: a parking garage
  
  - Arrangements in which the operator will design and build a facility for the transferor, finance the construction costs, provide the associated services, collect the associated fees, and convey the facility to the government at the end of the arrangement
    - Example: a new toll way
Scope: Perceived Benefits

• Government has the ability to
  • Leverage existing infrastructure and other public assets to generate additional resources
  • Facilitate construction and financing of new infrastructure and other public assets and transfer the risks associated with their construction and maintenance to a private entity
  • Provide services to the general population in a more efficient and cost-effective manner
Transferor Accounting
Recognition

- Recognize the following:
  - An asset for (1) up-front payment, (2) the present value of installment payments or (3) capital assets contributed
  - Any contractual obligations as liabilities,
  - And a corresponding deferred inflow of resources equal to the difference between the asset and liabilities.

- Recognize revenue over the duration of the agreement in a rational and systematic way

- Governmental fund reporting will be addressed later by the board
Reporting Capital Assets

• What happens when there is a(n).....

• Existing Facility
  • Transferor continues to report the existing facility as a capital asset

• New Facility or Improvements to existing facility
  • Transferor reports:
    • A new facility or improvement as a capital asset at fair value when placed into operation
    • Any contractual obligations as liabilities
    • And a corresponding deferred inflow of resources equal to the difference between the assets and liabilities
Accounting Considerations

- After initial measurement, the capital assets is subject to existing requirements for
  - depreciation (GASB Stmt 34),
  - impairment (GASB Stmt 42) and,
  - disclosures (GASB Stmt 34)

- Does NOT depreciate if arrangement requires operator to return facility to transferor in its original or enhanced condition.
Accounting Considerations

- A liability is recorded at present value if a contractual obligation exists AND it meets either of the following criteria:

  - The contractual obligation directly relates to the facility (e.g., capital improvements, insurance or maintenance)

  OR

  - The contractual obligation relates to a commitment by the transferor to maintain a minimum or specific level of service in connection with the operation of the facility (e.g., police or emergency services, maintenance around facility)
Accounting Considerations

- **Revenue** is recognized in a systematic and rational manner over the term of arrangement as the deferred inflow is reduced.

- **Liability** is reduced as transferor’s obligations are satisfied.
  - When obligation is satisfied, a deferred inflow is reported and related revenue is recognized in a systematic and rational manner over the term of the arrangement.
Operator Accounting
Accounting Considerations

• Report an intangible asset for the right to access the facility and collect third-party fees from its operations at cost
  • Should be amortized over the term of the arrangement in a systematic and rational manner
• Cost of improvements to the facility made by the operator during the term of the SCA should increase the operator’s intangible asset IF the improvements increase the capacity or efficiency of the facility
Disclosures
Disclosures

- A general description of the arrangement in effect during the reporting period including any status of construction
- The nature and amounts of assets, liabilities, and deferred inflows of resources
- The nature and extent of rights retained by the transferor or granted to the operator

Effective date—periods beginning after June 15, 2012
Overview

- Modifies criteria for inclusion as a component unit ("CU") and criteria for blending
- Clarifies
  - “Misleading to exclude” component units
  - Treatment of blended component units
  - Major discretely presented component units
  - Disclosures
Inclusion Criteria

- **Statement 14** requires inclusion if Potential Component Unit is fiscally dependent. That is, the Primary Government has authority over:
  - Budget, or
  - Setting taxes and charges, or
  - Issuing debt

- **Statement 61** adds a requirement for a financial benefit or burden before inclusion is required
Inclusion Criteria

- **Statement 14** requires inclusion of a Potential Component Unit if exclusion would make a reporting entity's statements 'misleading or incomplete'

- **Statement 61** eliminates ‘incomplete,’ and emphasizes that the determination would normally be based on financial relationships
  - Such as a significant financial benefit to/burden on the Primary Government that is other than temporary before inclusion would be required
Blending Requirements

- **Statement 14** requires blending if the Primary Government and Component Unit have 'substantially the same' governing body
  - For example, County Board also serves as the Board of the Forest Preserve District

- **Statement 61** expands that requirement to also include:
  - A financial benefit/burden relationship, or
  - Primary Government has ‘operational responsibility’ for the Component Unit
    - Primary Government’s personnel manage activities of the Component Unit like a fund, program, or department of the primary government

- There is judgment involved in this determination
Blending Requirements

• The blending criteria is expanded

• Now includes a component unit whose total debt outstanding is expected to be repaid entirely or almost entirely by revenues of the primary government
  • Even if the component unit provides services to constituents or other governments, rather than exclusively or almost exclusively to the primary government
GASB Statement 62,
Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

Effective date—periods beginning after December 15, 2011
Overview

- Objective to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements:
  - Financial Accounting Standards Board (FASB) Statements and Interpretations
  - Accounting Principles Board Opinions
  - Accounting Research Bulletins of the American Institute of Certified Public Accountants’ Committee on Accounting Procedure
- Improve financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source
Categorized Pre-1989 FASBs

1. Conflict with or contradict GASB standards
   - FAS 4  Gain or loss on debt extinguishments
   - FAS 43 Compensated absences

2. Are not applicable to governments
   - FAS 84 Convertible debt
   - FAS 89 Changing prices

3. Rarely applicable (excluded)
   - FAS 19 Oil and Gas

4. Are applicable to governments
   - FAS 5 Contingencies
   - FAS 34 Capitalization of interest

5. Will be addressed in GASB projects (applicable, but excluded)
   - APB 16 Business combinations
Covered Topics

- Interest capitalization
- Revenue recognition including recognition when the right of return exists
- Statement of net assets classification – when a classified balance sheet is presented
- Special items
- Comparative financial statements (ARB 43)
- Related parties (FAS 57)
- Prior period adjustments (FAS 16 & APB 9)
- Accounting changes and error correction (APB 20 & FIN 20)
- Contingencies (FAS 5 & FIN 14)
- Construction-type contracts - for governments engaged in contracting operations
Covered Topics

- Extinguishment of debt (APB 26 & FAS 76)
- Troubled debt restructuring (FAS 15)
- Foreign currency transactions
- Interest costs – imputation
- Inventory (ARB 43)
- Investment in common stock
- Leases (FAS 13, 22 and 98 & FIN 23, 26 and 27)
- Nonmonetary transactions
- Sales of real estate (FAS 66)
- Costs and Initial Rental Operations of Real Estate Projects
- Research and development arrangements (non-governmental funding)
- Lending activities (FAS 91)
- Right of offset
- Regulated operations
GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Effective date—periods beginning after December 15, 2011
Net Position

- Changes the concept of “net assets” with “net position”
- The new “statement of net position” should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.
- GASB encourages the presentation of net position in a format that displays:
  
  Assets
  PLUS: deferred outflows of resources
  LESS: liabilities
  LESS: deferred inflows of resources
  Net position

A balance sheet format may also be used.
Net Position

• Net position is reported in the following categories:
  • Net investment in capital assets
  • Restricted
  • Unrestricted

• Net investment in capital assets takes the current definition of investment in capital assets net of related debt and includes deferred inflows/outflows related to acquisition, construction of capital assets.
Net Position

• The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

• Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
Requirements

- Deferred outflows should be reported in a separate section following assets.
- Similarly, deferred inflows should be reported in a separate section following liabilities.
- Net Position components resemble net asset components under Statement 34, but include the effects of deferred outflows and deferred inflows:
  - Net investment in capital assets
  - Restricted
  - Unrestricted
- Governmental funds continue to report fund balance.
Statement of Net Position

<table>
<thead>
<tr>
<th>Primary Government</th>
<th>Governmental Activities</th>
<th>Business-type Activities</th>
<th>Total</th>
<th>Component Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$11,712,829</td>
<td>$10,516,820</td>
<td>$22,229,649</td>
<td>$303,935</td>
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<tr>
<td>Investments</td>
<td>29,250,291</td>
<td>64,575</td>
<td>29,314,866</td>
<td>7,428,952</td>
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<tr>
<td>Derivative instrument–rate swap</td>
<td>1,040,482</td>
<td>—</td>
<td>1,040,482</td>
<td></td>
</tr>
<tr>
<td>Receivables (net)</td>
<td>11,792,650</td>
<td>3,609,615</td>
<td>15,402,265</td>
<td>4,042,920</td>
</tr>
<tr>
<td>Internal balances</td>
<td>313,768</td>
<td>313,768</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>322,149</td>
<td>126,674</td>
<td>448,823</td>
<td>83,697</td>
</tr>
<tr>
<td>Equity interest in MSA joint venture</td>
<td>2,303,256</td>
<td>—</td>
<td>2,303,256</td>
<td></td>
</tr>
<tr>
<td>Capital assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land, improvements, and construction in progress</td>
<td>28,435,025</td>
<td>6,408,150</td>
<td>34,843,175</td>
<td>751,239</td>
</tr>
<tr>
<td>Other capital assets, net of depreciation</td>
<td>141,587,735</td>
<td>150,980,601</td>
<td>292,568,336</td>
<td>36,993,547</td>
</tr>
<tr>
<td><strong>Total capital assets</strong></td>
<td>170,022,760</td>
<td>157,388,751</td>
<td>327,411,511</td>
<td>37,744,786</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>226,758,185</td>
<td>171,392,667</td>
<td>398,150,852</td>
<td>49,603,660</td>
</tr>
<tr>
<td><strong>DEFERRED OUTFLOWS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated decrease in fair value of hedging derivatives</td>
<td>—</td>
<td>127,520</td>
<td>127,520</td>
<td>—</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>7,538,543</td>
<td>659,592</td>
<td>8,198,135</td>
<td>1,803,332</td>
</tr>
<tr>
<td>Advances from grantees</td>
<td>1,435,599</td>
<td>—</td>
<td>1,435,599</td>
<td>38,911</td>
</tr>
<tr>
<td>Forward contract</td>
<td>127,520</td>
<td>127,520</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Long-term liabilities:</td>
<td></td>
<td></td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Due within one year</td>
<td>9,236,000</td>
<td>4,426,286</td>
<td>13,662,286</td>
<td>1,426,639</td>
</tr>
<tr>
<td>Due in more than one year</td>
<td>83,302,378</td>
<td>74,482,273</td>
<td>157,784,651</td>
<td>27,106,151</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>101,512,520</td>
<td>79,695,671</td>
<td>181,208,191</td>
<td>30,375,033</td>
</tr>
<tr>
<td><strong>DEFERRED INFLOWS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated increase in fair value of hedging derivatives</td>
<td>1,040,482</td>
<td>—</td>
<td>1,040,482</td>
<td>—</td>
</tr>
<tr>
<td>Unauthorized service concession arrangement payments</td>
<td>—</td>
<td>4,467,536</td>
<td>4,467,536</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total deferred inflows</strong></td>
<td>1,040,482</td>
<td>4,467,536</td>
<td>5,508,018</td>
<td>—</td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>103,711,386</td>
<td>79,088,574</td>
<td>182,799,960</td>
<td>15,906,392</td>
</tr>
<tr>
<td>Restricted for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation and public works</td>
<td>10,655,737</td>
<td>—</td>
<td>10,655,737</td>
<td>—</td>
</tr>
<tr>
<td>Debt service</td>
<td>3,076,829</td>
<td>1,451,996</td>
<td>4,528,825</td>
<td>—</td>
</tr>
<tr>
<td>Housing and community redevelopment</td>
<td>6,845,629</td>
<td>—</td>
<td>6,845,629</td>
<td>—</td>
</tr>
<tr>
<td>Other purposes</td>
<td>1,483,387</td>
<td>—</td>
<td>1,483,387</td>
<td>492,445</td>
</tr>
<tr>
<td>Unrestricted (deficit)</td>
<td>(1,567,785)</td>
<td>6,816,410</td>
<td>5,248,625</td>
<td>2,829,790</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>$124,205,183</td>
<td>$87,356,980</td>
<td>$211,562,163</td>
<td>$19,228,627</td>
</tr>
</tbody>
</table>
Deferred Outflows/Inflows - Examples

- Statement 53—Accounting and Financial Reporting for Derivative Instruments
- Statement 60—Service Concession Arrangements
Proposed Deferred Outflows/Inflows

- **Inflows**
  - Grants received in advance of meeting timing requirement
  - Deferred amounts from refunding of debt (credits)
  - Proceeds from sales of future revenues
  - Deferred gain from sale-leaseback
  - “Regulatory” credits

- **Outflows**
  - Grant paid in advance of meeting timing requirement
  - Deferred amounts from refunding of debt (debits)
  - Cost to acquire rights to future revenues (intra-entity)
  - Deferred loss from sale-leaseback
GASB Statement 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53

Effective date—periods beginning after June 15, 2011
Effective Hedges

- The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider.
Effective Hedges

An effective hedging relationship continues when ALL of the following criteria are met:

(1) Collectability of swap payments is considered to be probable.

(2) The swap counterparty of the interest rate swap or commodity swap, or the swap counterparty’s credit support provider, is replaced with an assignment or in-substance assignment.

(3) The government enters into the assignment or in-substance assignment in response to the swap counterparty, or the swap counterparty’s credit support provider, either committing or experiencing an act of default or a termination event as both are described in the swap agreement.
GASB Statement 65, *Items Previously Reported as Assets and Liabilities*

Effective date—periods beginning after December 15, 2012
Statement Basics

• Establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities
Summary of Changes

• Refunding of debt (gain/loss on refunding) → report as deferred outflow or inflow

• Property taxes and other non-exchange transactions received but not able to recognize revenue under GASB 33 → deferred inflows

• Sales of future revenues under GASB 48 → deferred inflow

• Sale-Leasebacks – gain or loss on sale of property → deferred inflow

• Debt issuance costs (except prepaid insurance) → expensed in current period
Summary of Changes

- Major fund calculation – combine assets with deferred outflows and liabilities with deferred inflows to determine major funds as set forth in GASB 34
GASB Statement 66, Technical Corrections, An Amendment of GASB Statements 10 and 62

Effective date—periods beginning after December 15, 2012
Summary of Changes

• Amends Stmt 10 to allow for use of special revenue fund to report an entity’s risk financing activities

• Paragraphs 222 and 227b of Stmt 62 include guidance on accounting for operating lease payments that vary from a straight-line basis.
  • Those provisions are deleted to remove the perceived potential prohibition against use of the fair value method that is permitted in paragraph 6b of Statement 13.

• Loans purchased should be recorded at price paid.

• Servicing fees should not result in adjustment to the purchase price of mortgage loans.
GASB Statement 67, Financial Reporting for Pension Plans

Effective date—periods beginning after June 15, 2013
Summary of Changes

• Statement No. 67 replaces requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*
GASB Statement 68, Accounting and Financial Reporting for Pensions

Effective date—periods beginning after June 15, 2014
Summary of Changes

• Statement No. 68 replaces requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*
Background

- New statements relate to *accounting* and *financial reporting* issues only – how pension costs and obligations are measured and reported in audited external financial reports.
- The statements **do not address** how governments approach pension plan funding – a government’s policy regarding how much money it will contribute to its pension plan each year.
Recognizing a Liability

• A government has a present obligation to pay deferred benefits in the future – a *total pension liability* – once they have been earned.

• When total pension liability exceeds the pension plan’s net assets (“net position”) available for paying benefits, there is a *net pension liability*.

• Governments will **now be required** to report the net pension liability as a liability in their accrual-based financial statements.
Recognizing a Liability

• Some might say that this information will, in some cases, give the appearance that a government is financially weaker than it was previously. However, the financial reality of the government’s situation will not have changed.

• Reporting the net pension liability on the face of the financials will more clearly portray the government’s financial status because the pension liability will be placed on an equal footing with other long-term liabilities.
Measuring the Pension Liability

- The new standards involve 3 steps in the measurement process:
  1. Projecting future benefit payments
  2. Discounting those payments to their present value ("PV")
  3. Allocating the PV over past, present and future periods of employee service
Measuring the Pension Liability

• Standards continue the general existing practice

  1. Incorporating projected salary increases
  2. Incorporating projected years of service
  3. Incorporating projected cost of living adjustments ("COLA")

• However, ad hoc COLAs will only be included IF they occur with such regularity that they are effectively automatic
Measuring the Pension Liability

- Governments will need to assume a discount rate.

- Currently, standards require governments to use a discount rate equal to the long-term expected rate of return on investments.

- The long-term expected rate of return will continue to be the starting point for the discount rate.
  - However, this rate should be applied *only* to available pension plan assets that are expected to be invested.
Calculating Pension Expense

• New standards will better align the recognition of expense with the period in which the related benefits is earned

• Considered in total, the changes will have the overall effect of expense recognition being accelerated

• Under the new standards, the following will be factored into the calculation of pension expense immediately in the period in which they occur
  • Benefits earned each year
  • Interest on the total pension liability
  • Changes in benefit terms
  • Project earnings on plan investments
  • Changes in plan net position from other than investments
Calculating Pension Expense

1. Changes in assumptions, and
2. Differences between assumptions and actual experience
   Are to be recognized initially as deferred outflows of resources or deferred inflows of resources

• Then, they are to be introduced into the expense calculation systematically and rationally over the average remaining years of employment of employees
  • The period is likely to be shorter under the new standard than the period of up to 30 years under the current standard
Calculating Pension Expense

- The difference between the expected earnings on plan investments and actual investments is to be
  1. recognized as deferred outflows of resources or deferred inflows of resources, and
  2. included in expense in a systematic and rational manner over a five-year closed period versus the longer periods that are allowed under the current standard.
Disclosures

- Participants in a defined benefit pension plan will now have the following required disclosures:
  - Description of plan and benefits provided
  - Significant assumptions in the measurement of the net pension liability
  - Descriptions of benefit changes and changes in assumptions
  - Assumptions related to the discount rate and the impact on the total pension liability of a 1% increase and decrease in the discount rate
  - Net pension liability, deferred outflows of resources and deferred inflows of resources
Disclosures – Single & Agent Gov’t

• Net pension liability for the beginning, current and ending periods and the effects of changes during the period
  • Examples: the effects on service cost, benefits changes and actual investment earnings

• RSI Schedules include the following for each of the past 10 years
  • Beginning and ending balances of total pension liability, the plan trust’s net position and the net pension liability and their components
  • Total pension liability, the plan’s net position, the net pension liability, a ratio of the plan’s net position to the total pension liability, the covered-employee payroll, and a ratio of the net pension liability as a percentage of the covered-employee payroll
Disclosures

- If single, agent or cost-sharing governments have annual pension contribution
  - It is required to present in RSI the following for each of the past 10 years
    1. Actuarially determined annual pension contribution (or statutorily determined contribution),
    2. Amount of the employer contribution actually made,
    3. The difference between the 1 and 2 above,
    4. The payroll of employees covered by the plan, and
    5. A ratio of 2 divided by 4