Maryland GFOA Winter Conference

GASB Update

February 18, 2022

Dean Michael Mead, Assistant Director of Research and Technical Activities and Coordinator, Governmental Accounting Standards Advisory Council

The views expressed in this presentation are those of Mr. Mead.
Official positions of the GASB are reached only after extensive due process and deliberations.

Presentation Overview

- Guidance and resources related to coronavirus diseases
- Pronouncements being implemented
- Projects currently being deliberated by the Board
- Pre-agenda research activities
- Post-implementation review

GASB Project Manager Position Open

Minimum 10 years of experience, including at least 5 in government finance or auditing, public accounting, finance or accounting academia, or standards setting

Interested?

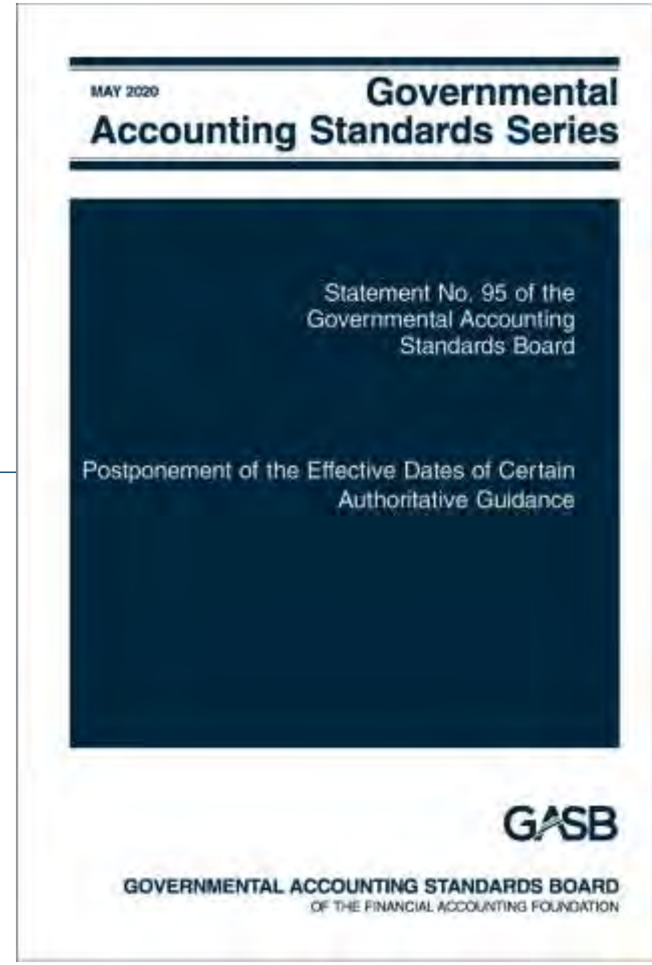
Go to www.gasb.org → Mouse over "About Us" → Click on "Careers"

Guidance and Resources Related to the Coronavirus Diseases

- Postponement of certain effective dates
- Guidance on CARES Act
- Emergency toolbox

Postponement of the Effective Dates of Certain Authoritative Guidance

Statement No. 95


MAY 2020

Governmental Accounting Standards Series

Statement No. 95 of the Governmental Accounting Standards Board

Postponement of the Effective Dates of Certain Authoritative Guidance

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Effective Date Postponement

What?

The Board has postponed the effective dates of certain Statement & Implementation Guide provisions

Why?

The Board acted in response to numerous stakeholder requests prompted by the COVID-19 pandemic

When?

Effective immediately

Provisions can be implemented early to the extent allowed by each pronouncement

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Effective Dates after Statement 95

June 30: Fiscal Year 2022

- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- Statement 98 – the annual comprehensive financial report
- IG 2019-3 – leases
- IG 2020-1 – update (except 4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.22)

June 30: Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

June 30: Fiscal Year 2024

- IG 2021-1 – update (5.1)

Effective Dates after Statement 95

December 31: Fiscal Year 2021

- Statement 89 – construction-period interest
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update

December 31: Fiscal Year 2022

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- Statement 98 – the annual comprehensive financial report
- IG 2019-3 – leases
- IG 2020-1 – update
- IG 2021-1 – update (4.22)

December 31: Fiscal Year 2023

- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

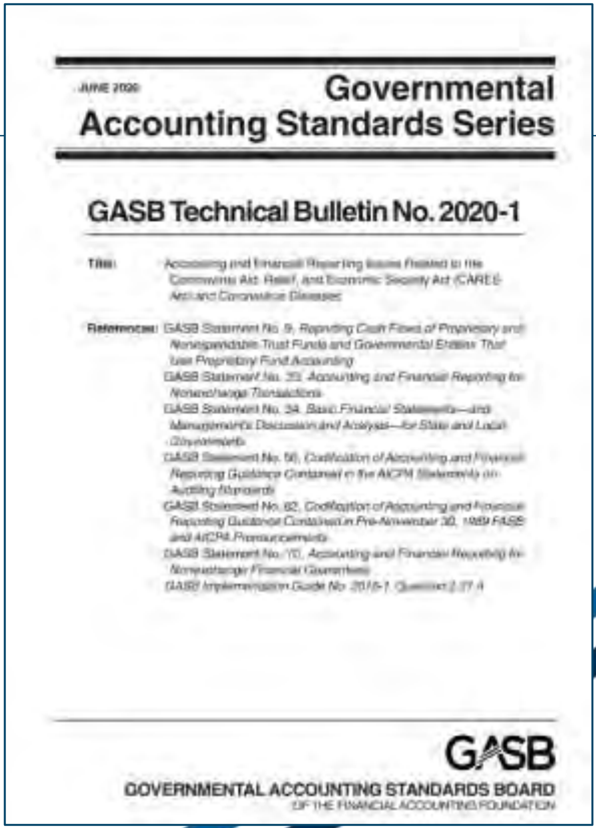
December 31: Fiscal Year 2024

- IG 2021-1 – update (5.1)

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases

Technical Bulletin 2020-1


JUNE 2020

Governmental Accounting Standards Series

GASB Technical Bulletin No. 2020-1

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Technical Bulletin 2020-1

What?

The Board has cleared guidance that addresses issues arising from the CARES Act and coronavirus diseases

Why?

The Board acted in response to numerous stakeholder requests for guidance

When?

Effective immediately

Topics Addressed

- Whether resources received from the Coronavirus Relief Fund (CRF) are subject to eligibility requirements or to purpose restrictions and how they should be accounted for
- Whether CARES Act provisions that address a government's loss of revenue should be considered an eligibility requirement, for purposes of revenue recognition
- Whether amendments to the CARES Act after the statement of net position date but prior to the issuance of financial statements are the basis for recognition in financial statements for the period reported

Topics Addressed (continued)

- How to account for forgivable loans under the Paycheck Protection Program
- Whether resources provided through certain programs to a business-type activity or enterprise fund are nonoperating revenues
- Whether outflows incurred in response to the coronavirus are extraordinary items or special items for financial reporting purposes

COVID-19 Page & Emergency Toolbox

- Guidance and resources available at www.gasb.org/COVID19
- Emergency toolbox
  - Intended to help stakeholders quickly identify the GASB's authoritative guidance that could be relevant to the current circumstances, including topics such as contingencies, going concern, prior-period adjustments, revenue and receivable recognition, and subsequent events
  - Provides links to COVID-19 resources and nonauthoritative guidance of professional organizations

Pronouncements Being Implemented

Leases

Statement No. 87


NO. 366 | JUNE 2017

Governmental Accounting Standards Series

Statement No. 87 of the Governmental Accounting Standards Board

Leases

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Leases

What?

The Board issued Statement 87 to improve lease accounting and financial reporting

Why?

Prior standards were decades old without review in light of GASB's conceptual framework; opportunity to increase comparability and usefulness of information and reduce complexity for preparers

When?

Effective for fiscal years beginning after June 15, 2021, and all periods thereafter

Earlier application is encouraged

Statement 87 Scope and Approach

- Statement 87 applies to any contract that meets the definition of a lease:

> "A lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction."

- Leases are financings of the right to use an underlying asset

Single approach applied to accounting for leases with some exceptions, such as short-term leases

- Capital/operating distinction is eliminated

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible lease asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	• Lease receivable (generally includes same items as lessee's liability) • Continue to report the leased asset	NA	Equal to lease receivable plus any cash received up front that relates to a future period

Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less amount needed to cover accrued interest)	NA	Recognize revenue over the lease term in a systematic and rational manner

Short-Term Leases

Definition	At beginning of lease, *maximum possible term* under the contract is 12 months or less
Lessee accounting	• Recognize expenses/expenditures based on the terms of the contract • Do not recognize assets or liabilities associated with the right to use the underlying asset
Lessor accounting	• Recognize lease payments as revenue based on the payment provisions of the contract • Do not recognize receivables or deferred inflows

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Key Implementation Issues

Much of GASB 87 is driven by the legal form of the contract

- If contract gives either party the option to cancel, even if it is highly unlikely that they won't, it is a cancellable period (Q4.15 in IG 2019-3)
- If renewal is an option within the contract versus there being a new contract:
  - Could change the short-term lease evaluation (Q4.10 in IG 2020-1)
  - It determines whether renewal history matters—it matters if there is a renewal option and it does not matter if it is a new contract (Q4.11 in IG 2020-1)

Need to exercise professional judgment

- Is it an exchange or an exchange-like transaction?—definition of a lease
- Estimating the incremental borrowing rate (discount rate) if no similar debt has been issued
- Whether payments are fixed in substance

Key Implementation Issues (continued)

Transition provisions

- Statement 87 requires that leases be recognized and measured using the facts and circumstances as of the beginning of the period of implementation
- For example:
  - As of July 1, 2021 for FYE June 30, 2022
  - As of January 1, 2022 for FYE December 31, 2022
- Not allowed to go back to the actual beginning of the lease

Materiality

- Materiality always is a consideration

Contracts with Multiple Components

Statement 87

- Generally, account for lease and non-lease components as separate contracts and multiple underlying assets as separate lease components in certain circumstances (paragraphs 64 and 65)
- Allocate contract price to different components (paragraph 66)

Implementation Guide 2019-3

- One component meets scope exclusions and one does not?
  - Separate and account for them individually (Q4.59)
- Separate utilities and janitorial costs of building lease?
  - Yes, if practicable to do so (Q4.60)

Statement 87 Implementation Guide

Implementation Guide 2019-3: 77 questions and answers, including:	Scope and applicability issues
	Determining the term of the lease
	Eligibility for exception for short-term leases
	Recognition, measurement, and disclosure for lessees and lessors
Additional questions and answers included in the 2020 and 2021 Implementation Guide Updates	Lease incentives
	Contracts with multiple components and contract combinations
	Terminations and modifications
	Sale-leasebacks, lease-leasebacks, and intra-entity leases

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conduit Debt Obligations

Statement No. 91

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conduit Debt

What?

The Board improved the standards related to conduit debt obligations by providing a single reporting method for government issuers

Why?

Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, improvements were needed to eliminate diversity in practice

When?

Effective for periods beginning after December 15, 2021

Earlier application is encouraged

Definition of Conduit Debt

1. There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or trustee.
2. The issuer and the third-party obligor are *not* within the same financial reporting entity.
3. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
4. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
5. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Limited, Additional & Voluntary Commitments Extended by Issuers

Generally, issuers' commitments are **limited** to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** to support debt service in the event of the third-party obligor's default.

For example:
- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Recognition by the Issuer

- Do *not* recognize a conduit debt obligation as a liability
- May have a related liability arising out of an additional or voluntary commitment
- **Additional commitment**: report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- **Voluntary commitment**: if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments
- Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

Arrangements and Capital Assets

Some conduit debt obligations include arrangements* that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Capital asset is built or acquired with proceeds of the conduit debt obligation.
- Issuer retains title to the capital asset from the beginning of the arrangement.
- Payments from the third-party obligor are to cover debt service payments.
- Payment schedule of the arrangement coincides with the debt service repayment schedule.

*Often characterized as "leases"

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Arrangements and Capital Assets (continued)

Accounting by the issuer:

- Do *not* report those arrangements as leases
- Do *not* recognize a liability for the related conduit debt obligations
- Do *not* recognize a receivable for the payments related to those arrangements
- If the arrangement meets the definition of a service concession arrangement, follow Statement 60

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Arrangements and Capital Assets (continued)

Does title pass to third-party obligor at end of arrangement?	Does the issuer recognize a capital asset?	Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of *entire* capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only *portions* of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

If the issuer recognizes a related liability

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Statement No. 94


MARCH 2020

Governmental Accounting Standards Series

Statement No. 94 of the Governmental Accounting Standards Board

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

OF THE FINANCIAL ACCOUNTING FOUNDATION

P3s, APAs, and SCAs

What?

The Board issued guidance for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87, and improvements to Statement 60

Why?

GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60's guidance for service concession arrangements (SCAs)

When?

Effective for reporting periods beginning after June 15, 2022

Definitions: PPPs and APAs

Public-private partnerships and **public-public partnerships (P3s)** are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

Other Provisions

A P3 that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (SCA) – would be reported under Statement 87 unless (a) the underlying PPP assets are not existing assets of the transferor or (b) improvements are required to be made to those existing underlying P3 assets by the operator.

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

Transferor Reporting

For all P3s, recognize:

- Receivable for installment payments to be received, if any
- Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term

If underlying P3 asset is a new asset or an existing asset that has been improved…

- …and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation
- …and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

Operator Reporting

For all P3s, recognize:	If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA…	If underlying P3 asset is a new asset and the P3 is not an SCA…
• Liability for installment payments to be made, if any	• …also recognize an intangible right-to-use asset	• Also recognize the underlying P3 asset until ownership is transferred • And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Subscription-Based Information Technology Arrangements

Statement No. 96

MAY 2020

Governmental Accounting Standards Series

Statement No. 96 of the Governmental Accounting Standards Board

Subscription-Based Information Technology Arrangements

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD

OF THE FINANCIAL ACCOUNTING FOUNDATION

Statement 96 on SBITAs

What?

The Board issued standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts

Why?

Stakeholders were concerned that those transactions were not covered by the guidance in Statements 51 or 87; diversity existed in practice

When?

Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter

Earlier application is encouraged

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Scope and Applicability

A subscription-based information technology arrangement (SBITA) "is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction."

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

Scope and Applicability (continued)

- Statement 96 does not apply to:
  - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset
  - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
  - Contracts that meet the definition of a P3 in Statement 94
  - Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement 51

Recognition and Measurement

A SBITA should be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

Measurement of the subscription asset should include certain capitalizable implementation costs based on stages similar to those for internally developed software in Statement 51:

- Preliminary project stage
- Initial implementation stage
- Operation and additional implementation stage

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

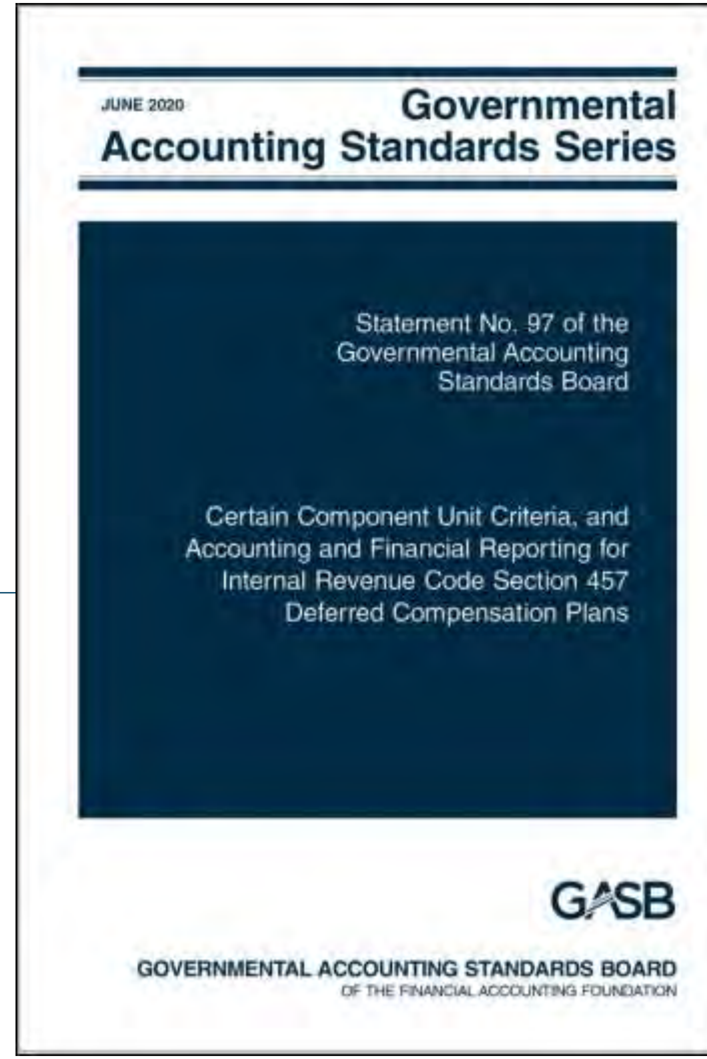
Accounting for Activities Associated with a SBITA

Preliminary project stage	Initial implementation stage	Operation & additional implementation stage
• Outlays should be expensed as incurred	• In general, outlays should be capitalized • However, if no subscription asset is recognized (such as for a short-term SBITA), outlays should be expensed as incurred	• Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

Statement No. 97


JUNE 2020

Governmental Accounting Standards Series

Statement No. 97 of the Governmental Accounting Standards Board

Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Fiduciary Component Units and Deferred Compensation Plans

What?

The GASB has changed the criteria for including certain employee benefit plans as component units and improvements to Statement 32 on IRC Section 457 plans

Why?

Some 457 plan characteristics have changed due, in part, to changes in the IRC; questions have been raised about whether certain employee benefit plans should be included as component units

When?

Effective dates vary by topic

Earlier application is encouraged and permitted for certain topics

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Relevant Guidance on Fiduciary Component Units

Paragraph 7 of Statement 84 amended Statement 14 to indicate that a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to a pension plan or OPEB plan

Implementation Guide 2019-2 provided guidance that in the absence of a governing board, a government performing the duties of a governing board for a defined contribution (DC) plan that is administered through a trust that meets the criteria in Statement 67 is effectively the same as appointment of a voting majority

Relevant Guidance on Fiduciary Component Units (continued)

The implication of that existing and considered guidance is that many governments would be required to report DC plans and other employee benefit plans as component units in their fiduciary fund financial statements

The Board directed the staff to conduct additional outreach on the structure of those types of arrangements and user needs for information about them

Based on the outreach, the Board decided to expand the project and issue guidance on component units

Component Unit Criteria

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the appointment of a voting majority of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a financial burden applies only to defined benefit plans

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

457 Plans

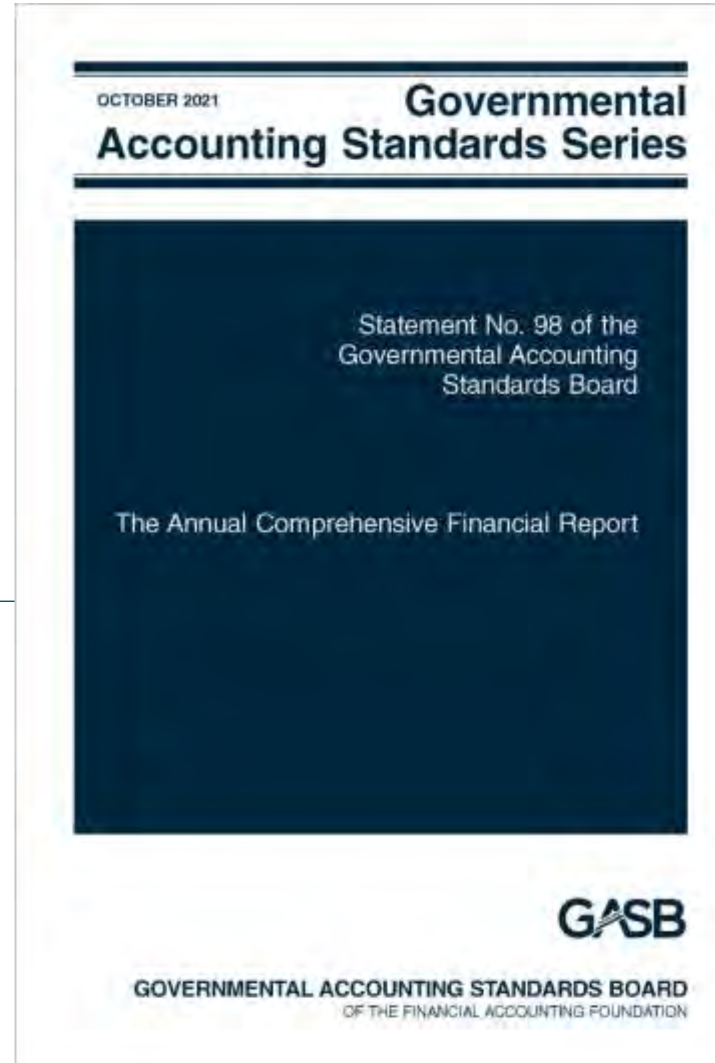
All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan

All requirements relevant to pensions should be applied by employers to benefits provided through Section 457 plans that meet the definition of a pension plan

Investments should be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator is eliminated)

The Annual Comprehensive Financial Report

Statement No. 98


OCTOBER 2021 Governmental Accounting Standards Series

Statement No. 98 of the Governmental Accounting Standards Board

The Annual Comprehensive Financial Report

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Renaming the Financial Report

What?

The Board has renamed the financial report in response to stakeholders who pointed out that its acronym, as it commonly was pronounced, sounded like a highly offensive racial slur

Why?

The GASB's commitment to diversity and inclusion dictate that its standards should be free of potentially offensive terminology

When?

Effective for fiscal years ending after December 15, 2021.

Earlier application is encouraged.

The Annual Comprehensive Financial Report

The new name of the broader report is *annual comprehensive financial report (ACFR)*

Current Activities

GASB Current Technical Agenda

- Conceptual framework projects
  - Disclosure Framework
  - Recognition
- Major project
  - Going Concern Uncertainties and Severe Financial Stress
- Practice-issue projects
  - Classification of Nonfinancial Assets
  - Compensated Absences
  - Implementation Guidance Update
  - Omnibus
  - Prior-Period Adjustment, Accounting Changes, and Error Corrections
  - Risks and Uncertainties Disclosures

GASB Technical Plan

- Pre-agenda research
  - Capital Assets
  - Subsequent Events
- Monitoring
  - AICPA Auditing Standards
  - Digital Assets
  - Electronic Financial Reporting
  - Federal Stimulus/COVID
  - Pay-for-Success Financings
- Post-implementation review
  - Statements 67/68 (pensions)
  - Statement 72 (fair value)
  - Statement 75 (OPEB)
  - Statement 84 (fiduciary activities)
  - Statement 87 (leases)

Prior-Period Adjustments, Accounting Changes, and Error Corrections

Exposure Draft, *Accounting Changes and Error Corrections*

What?

The Board proposed improvements and clarifications to the existing standards for accounting changes and error corrections

Why?

The relevant guidance is based on several sources of accounting standards, some of which have been superseded, and much of which has been in effect without review by the GASB for decades

When?

A final Statement is scheduled to be considered for issuance in Q2 2022

Proposal: Classification

Accounting changes

- Change in accounting principle
- Change in accounting estimate
- Change to or within the financial reporting entity

Correction of an error in previously issued financial statements

First-time adoption of the US GAAP established by the GASB financial reporting framework

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposal: Accounting for accounting changes and error corrections

Change in accounting principle	• Reported retroactively by restating prior periods presented, if practicable • If not practicable, restate beginning balances of current period
Change in accounting estimate	• Reported prospectively • Recognized in current-period flows
Change to/within the reporting entity	• Reported by adjusting current period beginning balances
Error correction	• Reported retroactively by restating prior periods presented

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed disclosures

Disclosures vary depending on the type of item, but common disclosures would include:

- The nature of the change or error and its correction
- Reason for the change
- The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

Proposals related to RSI and SI

For periods included in the basic financial statements, present information consistently with how information is presented in the basic financial statements

For periods earlier than those included in the basic financial statements, do not restate for accounting changes, but restate for error corrections, if applicable

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Pre-Agenda Research Started	August 2018
Added to Current Technical Agenda	December 2019
Deliberations Began	February 2020
Exposure Draft Issued	May 2021
Redeliberations Began	November 2021
Final Statement Scheduled to Be Considered for Issuance	June 2022

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Compensated Absences

Exposure Draft, *Compensated Absences*

What?

The Board is redeliberating proposed guidance for compensated absences based on stakeholder feedback on the ED

Why?

A review of Statement 16 indicated opportunities for improvement and additional guidance for certain types of leave

When?

A final Statement is scheduled to be considered for issuance in Q2 2022

Tentative Decisions: Scope and Applicability

A compensated absence is

- Leave for which employees receive:
  - Cash payment when the leave is used for time off
  - Other cash payment during employment or upon termination of employment
  - Settlement through noncash means, such as conversion to postemployment benefits

Examples:

- Vacation and sick leave
- Paid time off (PTO)
- Holidays
- Certain types of sabbatical leave

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Recognition Criteria

Absence accumulates

- Can be carried forward from reporting period when earned to a future reporting period when it will be paid or settled

Absence is attributable to services rendered

- Employee already has performed the services required to earn the absence

Absence is *more likely than not* to be either paid or settled

- Likelihood of more than 50 percent

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Exceptions to the General Recognition Guidance

- **Leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period**
  - Includes parental leave, military leave, jury duty, and other types of leave with these characteristics, but not sick leave or sabbatical leave
- **Unlimited leave**
- **Holidays**
- **Recognize instead when a qualifying event has occurred**

Tentative Decisions: Measurement

Accumulated leave × Pay rate + Salary-related payments

Accumulated leave

- Leave that meets the recognition criteria
- Exception: more likely than not to be settled through other means

Pay rate

- Generally the employee's pay rate at financial reporting date
- Exception: more likely than not to be paid at a different rate

Salary-related payments

- Directly and incrementally related
- DC pension or OPEB recognized as related leave is earned
- DB pension or OPEB excluded

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Note Disclosures and Effective Date

- Note disclosures
  - No new note disclosures
  - Exceptions to existing long-term liability disclosures for compensated absences:
    - Option to present net increase or decrease with indication that it is a net amount
    - Not required to disclose governmental fund used to liquidate
- Effective date
  - Reporting periods beginning after December 15, 2022

Project Timeline

Pre-Agenda Research Started	August 2018
Added to Current Technical Agenda	December 2019
Deliberations Began	February 2020
Exposure Draft Approved	February 2021
Redeliberations Began	June 2021
Final Statement Scheduled to Be Considered for Issuance	June 2022

Financial Reporting Model Reexamination

Financial Reporting Model Improvements

What?

The Board proposed improvements to the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6

Why?

A review of those standards found that they generally were effective, but that there were aspects that could be significantly improved

When?

A final Statement is scheduled to be considered for issuance in Q2 2023

Overview of the Proposals

Measurement focus and basis of accounting for the governmental funds

Format of governmental funds financial statements

Clarification of operating and nonoperating in proprietary funds

Presentation of proprietary funds statement of revenues, expenses, and changes in net position

Management’s discussion and analysis

Budgetary comparisons

Major component unit presentations

Unusual or infrequent items

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Tentative Decisions: Recognition in Governmental Funds

Short-term financial resources measurement focus and accrual basis of accounting

Short-term transactions or other events – one year or less from inception to conclusion

- Recognize *as the underlying transaction or other event occurs*

Long-term transactions and other events – more than one year from inception to conclusion

- Recognize *when payments are due*

Exception: recognize liabilities related to *long-term borrowing for short-term purposes*

Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash

GASB

Tentative Decisions: Presentation of Governmental Funds

Financial statements presented in ***current and noncurrent activity*** format

Current activity—
all other

Noncurrent activity—
related to purchase and disposition of capital assets and issuance and repayment of long-term debt

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed Statement of Short-Term Financial Resource Flows

Current and Noncurrent Activity Format

	General Fund		Special Tax Fund		Other Governmental Funds		Total Governmental Funds
INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES							
Taxes:							
Property tax	$	20,322,167	$	5,311,156	$	2,015,047	$ 27,648,370
Sales tax		45,034,789		-		4,430,774	49,465,563
Use tax		3,586,753		-		-	3,586,753
Motor fuel tax		-		-		2,889,647	2,889,647
Other taxes		3,975,895		-		2,698,909	6,674,804
Payments in lieu of taxes		2,721,420		-		-	2,721,420
Special assessments		-		-		41,500	41,500
Licenses and permits		1,303,889		-		-	1,303,889
Fees for services		7,052,692		-		202,273	7,254,965
Franchise fees		1,968,522		-		-	1,968,522
Fines and citations		1,476,364		-		-	1,476,364
Intergovernmental		14,595,019		-		6,192,493	20,787,512
Investment earnings		5,829		11,384		119,043	136,256
Transfers in		500,000		-		155,204	655,204
Miscellaneous		4,216,940		654,482		771,287	5,642,709
Total inflows of short-term financial resources for current activities		106,760,279		5,977,022		19,516,177	132,253,478
OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES							
General government		14,053,444		6,961,201		2,213,691	23,228,336
Public health and safety		70,880,913		-		590,383	71,471,296
Highway and streets		12,137,714		-		4,715,808	16,853,522
Culture and recreation		3,581,583		335,659		1,808,065	5,725,307
Economic development		496,141		-		3,374,045	3,870,186
Transfers out		155,204		-		500,000	655,204
Total outflows of short-term financial resources for current activities		101,304,999		7,296,860		13,201,992	121,803,851
Net flows of short-term financial resources for current activities		5,455,280		(1,319,838)		6,314,185	10,449,627
NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES							
Transfers in		-		-		10,651,605	10,651,605
Debt service		(2,434,544)		(366,412)		(9,198,505)	(11,999,461)
Capital outlay		(111,987)		(1,515)		(1,346,497)	(1,459,999)
Transfers out		(7,680,875)		(6,445)		(2,420,900)	(10,108,220)
Net flows of short-term financial resources for noncurrent activities		(10,227,406)		(374,372)		(2,314,297)	(12,916,075)
Net change in short-term financial resources fund balances		(4,772,126)		(1,694,210)		3,999,888	(2,466,448)
Short-term financial resources fund balances at beginning of year		9,319,621		9,776,474		27,892,592	46,988,687
Short-term financial resources fund balances at end of year	$	4,547,495	$	8,082,264	$	31,892,480	$ 44,522,239

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Issued	September 2018
Exposure Draft Approved	June 2020
Redeliberations Began	May 2021
Final Statement Scheduled to Be Considered for Issuance	April 2023

Omnibus

Exposure Draft, *Omnibus 20XX*

What?

The Board is redeliberating proposals to address exchange and nonexchange financial guarantees and various practice issues based on stakeholder feedback

Why?

Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

When?

A final Statement is scheduled for consideration in Q2 2022

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Topic Overview

- Exchange and Exchange-like Financial Guarantees
- Derivative Instruments
- Leases, PPPs, and SBITAs
- Replacement of Interbank Offered Rates
- Technical Updates

Exchange and Exchange-Like Financial Guarantees

Recognition and Measurement

- Governments that extend exchange financial guarantees would recognize a liability when it is *more likely than not* that indemnification payments will be required
- The liability to recognize would be the discounted present value of the best estimate of the future outflows expected

Disclosures

- Description of the financial guarantee
- Total amount of all outstanding guarantees extended
- Description of the timing of recognition and measurement of liabilities
- Cumulative amount of indemnification payments
- Amounts expected to be recovered

Project Timeline

Added to Current Technical Agenda	August 2020
Deliberations Began	September 2020
Exposure Draft Approved	July 2021
Redeliberations Began	November 2021
Final Statement Scheduled to Be Considered for Issuance	April 2022

Revenue and Expense Recognition

Revenue and Expense Recognition

What?

The Board proposed a comprehensive model for recognition of revenues and expenses

Why?

Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When?

The Board is scheduled to consider the issuance of an Exposure Draft in Q1 2025

Broad Project Objective

Develop a comprehensive, principles-based model that establishes guidance applicable to a wide range of revenue and expense transactions to:

- Expand on areas where there is no guidance—expenses
- Expand on areas where there is limited guidance—certain revenues
- Consider practice issues and challenges identified in current guidance—Statement 33
- Consider the conceptual framework—issued after Statement 33
- Consider performance obligation recognition

Proposed Recognition Model Components

Categorization

Identify the *type* of transaction

Recognition

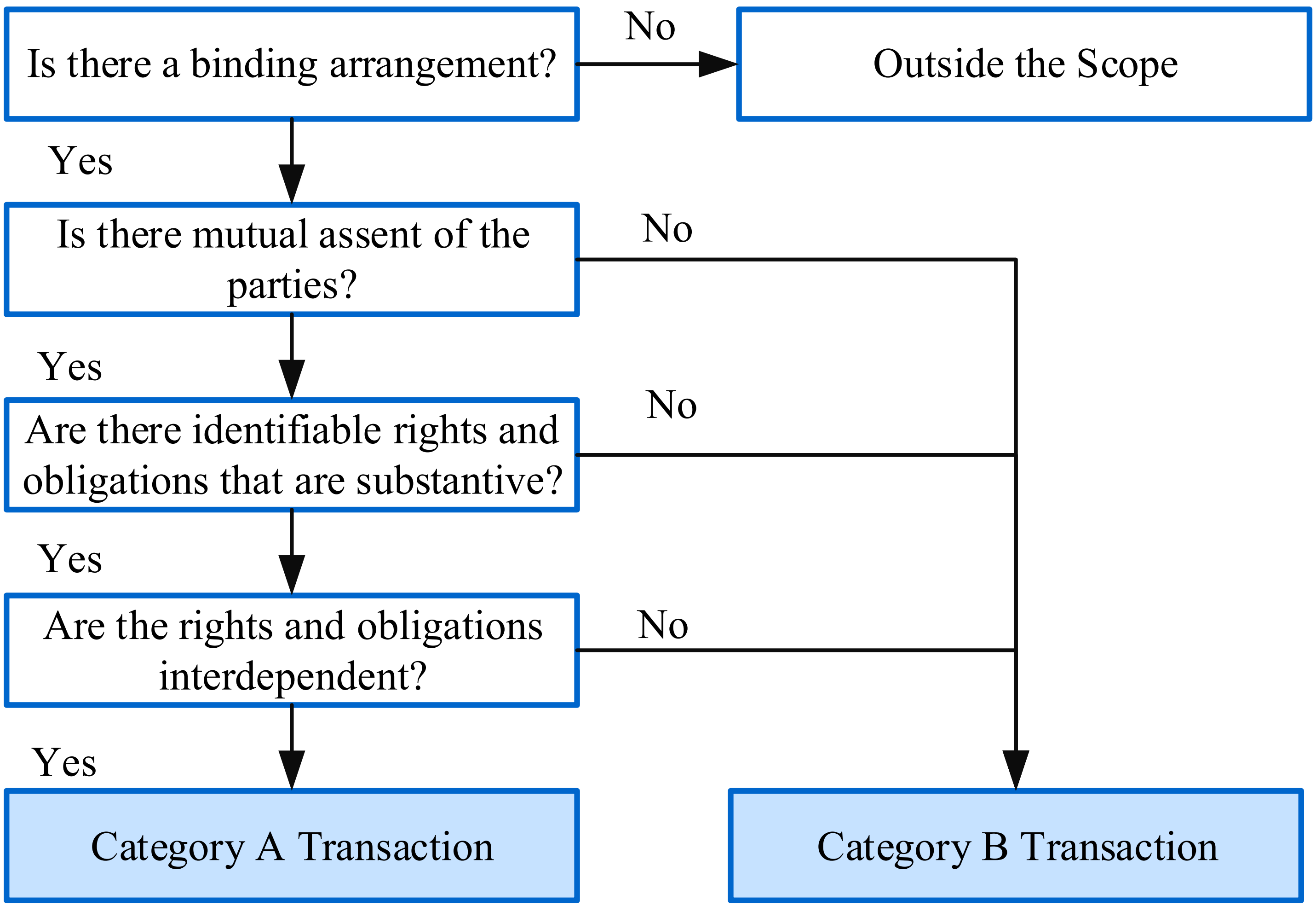
Determine *what* element should be reported and *when*

Measurement

Determine the *amount* to report

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed Categorization Methodology



Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Preliminary Views Approved	June 2020
Redeliberations Began	May 2021
Exposure Draft Scheduled to Be Considered for Issuance	March 2025

Risks and Uncertainties Disclosures

Risks and Uncertainties Disclosures

What?

The Board is developing proposed standards to identify and disclose risks and uncertainties faced by governments

Why?

Stakeholders asked the GASB to address this issue

When?

The Board is scheduled to consider the issuance of an Exposure Draft in Q2 2022

Tentative Decisions: Scope and Purpose

Current vulnerabilities due to certain concentrations

- For example, (1) principal employers, (2) principal industries, (3) principal resource providers, (4) composition of principal inflows of resources, (5) labor, and (6) external suppliers of material, labor, or services

Government environment

- For example, (1) restrictions on raising revenue, (2) expense restrictions (such as debt covenants), (3) inflexibility in reducing expenses (such as unfunded mandates), and (4) limits on incurrence of debt that are externally imposed

Objective: To provide essential information to users about risks and uncertainties faced by governments that may impact their ability to continue to provide services and meet their obligations as they come due

Tentative Decisions: Disclosure Criteria

Disclosures should be required when the government determines that:

- It is at least reasonably possible that an event associated with the risk or uncertainty will occur within 12 months of the financial statement date or shortly thereafter (3 months)
- It is at least reasonably possible that the event will have a substantial impact within 2–3 years of the date of the financial statement

Substantial impact is one that affects the government's ability (1) to continue to provide services at the level of the current reporting period or (2) to meet its obligations as they come due

Tentative Decisions: Disclosures

Brief description of the condition

Brief description of the event, including:

- It is at least reasonably possible the event will occur within 12 months of the financial statement date or shortly thereafter
- It is at least reasonably possible the event will have a substantial impact within 2–3 years of the date of the financial statements

Actual efforts to mitigate the risk

Project Timeline

Added to Current Technical Agenda	July 2020
Deliberations Began	September 2020
Additional Outreach Conducted	February–April 2021
Exposure Draft Scheduled to Be Considered for Issuance	June 2022

Pre-Agenda Research Activities

Capital Assets

Capital Assets

What?

The GASB is evaluating existing guidance related to capital assets and the usefulness of information reported by governments

Why?

Stakeholders have asked the GASB to review various aspects of capital asset reporting; the most relevant standards have been in effect 15-20 years

When?

The Board added the pre-agenda research in August 2019

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Topics to Be Considered

What choices do governments make with respect to their capital asset-related accounting policies? Why do they select those policies?

How do governments determine when outflows enhance the service capacity or extend the useful life of an asset?

How do governments report exchanges of capital assets?

How do depreciation and estimated useful lives compare with the actual diminution of service capacity?

What has been the experience with the modified approach to reporting infrastructure? How has it affected comparability of statement information?

Should changes in the condition of capital assets be reflected as flows of resources in the financial statements? How would it be measured?

What information do governments collect and report about deferred maintenance? How is it estimated?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Subsequent Events

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Topics to Be Considered

- How prevalent are recognized and unrecognized subsequent events?
- How prevalent are subsequent event disclosures?
- What types of subsequent events are disclosed in practice?
- What difficulties do governments have, if any, distinguishing between subsequent events that require adjustments to the financial statements and those that are limited to disclosure?
- What difficulties do governments have, if any, determining whether information that became available prior to the issuance of the financial statements reflects conditions that existed as of the date of the financial statements?

Topics to Be Considered (continued)

- How are the standards applied to events occurring after the issuance of the financial statement when a government reissues the financial statements?
- What impact might the proposed changes to MD&A in the Financial Reporting Model project have on subsequent events reporting?
- What information are governments disclosing about subsequent events? Is that information essential to users for making decisions and assessing government accountability?
- What disclosures do users need, if any, about subsequent events that they are not currently receiving? How would they use that information?
- What essential information, if any, do users need regarding recognized subsequent events?

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Post-Implementation Review (PIR)

What is PIR?

The GASB monitors and supports implementation of all of its pronouncements

For Statements resulting from comprehensive projects and major projects that address a fundamental aspect of the standards, the GASB also:

- Examines a random some of financial reports for the year prior to, year of, and year after implementation
- Collects information from their preparers regarding staff hours and nonstaff costs for those three years
- Examine financial reports for the same random sample in the fifth year of implementation
- Conduct stakeholder roundtables and surveys regarding their experience with the standards
- Reports the findings publicly

Why does the GASB conduct PIRs?

To provide general support to stakeholders when implementing significant new pronouncements

To identify and address practice issues that arise

To answer technical inquiries from stakeholders and develop and publish Q&A implementation guidance

To collect timely information that the Board can use to evaluate cost-benefit considerations as it develops other pronouncements and when it reexamines the standards in the future

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

How does the GASB involve stakeholders in PIR?

Stakeholders bring potential implementation issues to the GASB's attention

→

Governments are recruited to keep track of their staff hours and nonstaff costs related to the pronouncement and provide that information for the year prior to implementation and the first and second years of implementation

→

Stakeholders of all types are invited to participate in roundtable discussions and to respond to surveys regarding their experience with the standards in practice

Which Statements are under review?

Statement 67—Pension plan reporting

Statement 68—Employer reporting for pensions

Statement 72—Fair Value measurement & reporting

Statement 75—Employer reporting for other postemployment benefits (OPEB)

Statement 84—Fiduciary activities

Statement 87—Leases

What is the status of the PIRs?

Pensions	Comparison of the data between the 1st and 4th year implementation continues; completed 11 planned stakeholder roundtables
Fair value	Beginning collection and analysis of fifth-year reports
OPEB	Analysis of prior year and implementation year reports completed, second year analysis nearly completed; collection of implementation effort and cost information completed and being analyzed
Fiduciary activities	Recruitment of governments completed; collection of implementation effort and cost information has begun
Leases	Recruitment of governments continues; collection of implementation effort and cost information has begun

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

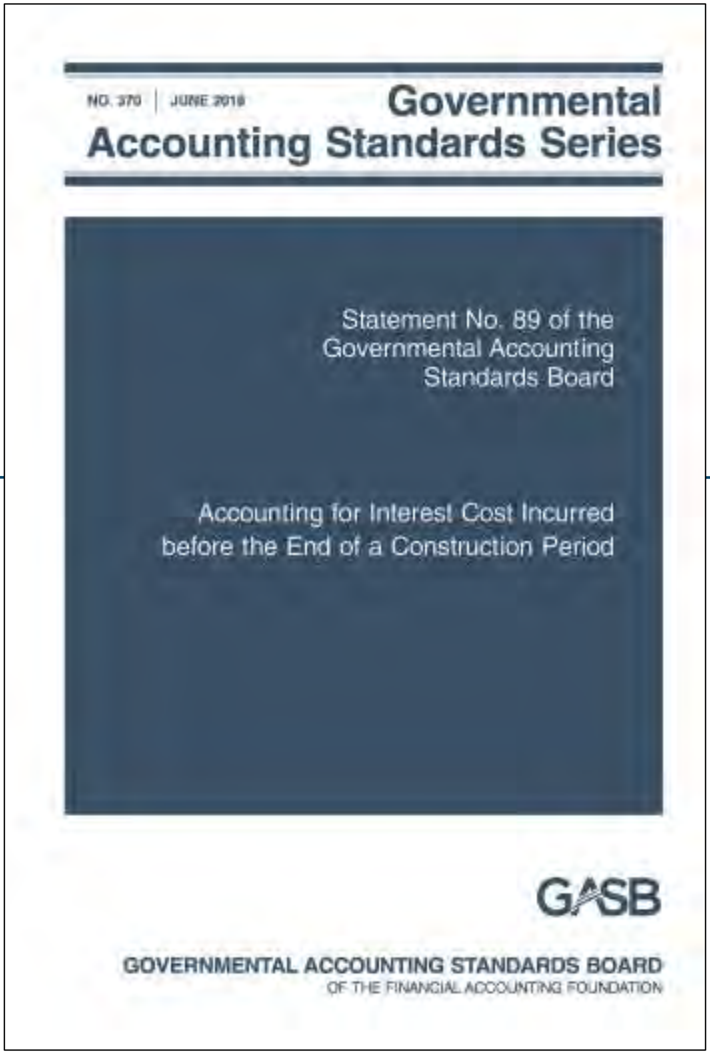
Questions?

Visit www.gasb.org

Additional Information

Accounting for Interest Cost Incurred before the End of a Construction Period

Statement No. 89


NO. 370 | JUNE 2018

Governmental Accounting Standards Series

Statement No. 89 of the Governmental Accounting Standards Board

Accounting for Interest Cost Incurred before the End of a Construction Period

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Interest Cost

What?

The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting

Why?

Accounting guidance was based on FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of GASB's Concepts Statements

When?

Effective for periods beginning after December 15, 2020

Earlier application is encouraged

Recognizing Interest Cost

Financial statements prepared using the economic resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.

Financial statements prepared using the current financial resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.

Prospective application at transition

Omnibus 2020

Statement No. 92

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Omnibus 2020

What?

The Board has amended existing standards covering multiple topics

Why?

Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

When?

Effective dates vary by topic

Earlier application is encouraged and permitted by topic

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Provisions of Statement 92

Leases

- Effective date of Statement 87 and Implementation Guide 2019-3 is changed from “reporting periods” to “fiscal years…and all reporting periods thereafter”

Government combinations and disposals of operations

- Provides an exception to the use of acquisition value in the measurement of an acquired asset retirement obligation

Derivative instruments

- Amends NCGA and GASB pronouncements to standardize the terminology used to refer to derivative instruments

Provisions of Statement 92 (continued)

Application of Statement 84 to Postemployment Benefit Arrangements

- Limit the requirements of paragraphs 22 and 25 to defined benefit pension and OPEB plans
- Supersedes guidance in Statements 73 and 74 regarding recognition of a liability to employers and NECEs for the excess of assets over liabilities for benefits payments and administrative expenses in custodial funds in circumstances in which assets are accumulated for the pensions and OPEB of other employers and NECEs

Applicability of Statements 73 and 74

- Amend Statements 73 and 74 to replace references to control of assets in those same circumstances, to avoid limiting the application of the associated requirements of those Statements

Fair value measurements

- Amends paragraph 81 of Statement 72 to adjust the example of nonrecurring fair value measurements

Provisions of Statement 92 (continued)

Intra-entity transfers of assets

- Amends paragraph 15 of Statement 48 to clarify that amounts associated with the transfer of capital or financial assets from an employer or NECE to a defined benefit pension or OPEB plan within the same financial reporting entity should be reported as contributions to the plan, in accordance with Statements 68 and 75
- Clarifies that the provisions of paragraph 15 apply to <u>all</u> transfers of assets within a financial reporting entity

Reinsurance recoveries

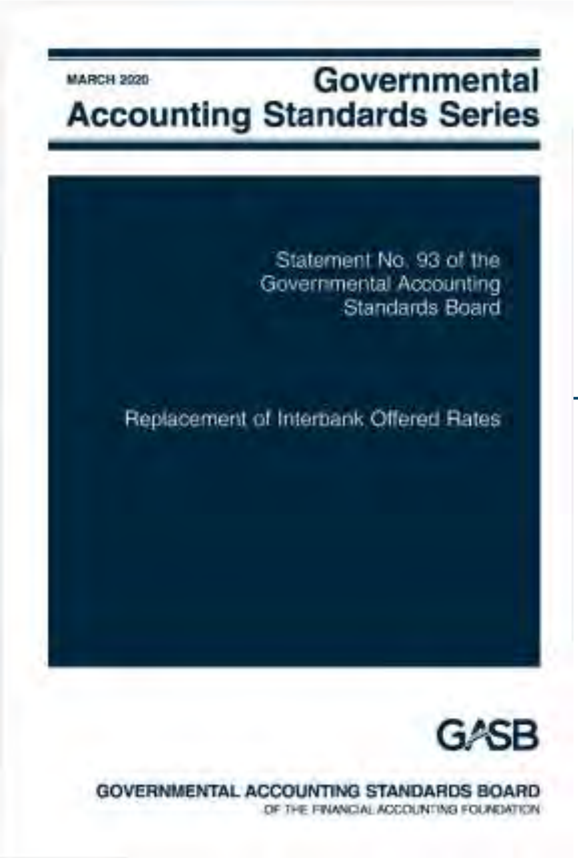
- Amends paragraph 37 of Statement 10 to clarify that amounts that are recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment expenses may be reported as reductions of expenses but are not required to be.

Effective Dates for Statement 92

Requirements related to:	Effective Date
1. Leases 2. Reinsurance recoveries 3. Derivative instruments	Upon issuance
4. Intra-entity transfers of assets 5. Applicability of Statements 73 and 74	Fiscal years beginning after June 15, 2021
6. Application of Statement 84 to postemployment benefit arrangements 7. Fair value measurements	Reporting periods beginning after June 15, 2021
8. Government combinations and disposals of operations	For government acquisitions occurring in reporting periods beginning after June 15, 2021

Replacement of Interbank Offered Rates

Statement No. 93



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Replacement of Interbank Offered Rates

What?

The Board has issued guidance to facilitate the transition from using IBORs in hedging derivative instruments and leases

Why?

LIBOR in its current form is expected to effectively sunset at the end of 2021

When?

LIBOR: periods *ending* after December 31, 2021

Leases: periods beginning after June 15, 2021

All other: periods beginning after June 15, 2020

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Exception to Termination of Hedge Accounting

Continue to apply hedge accounting to an effective hedging derivative instrument with a variable payment based on an IBOR, if all criteria are met

Two-Step Transition to a SOFR

A hedging derivative instrument may be amended or replaced in two steps: a transition from an IBOR to another rate (such as the effective federal funds rate) prior to transitioning to a secured overnight financing rate (SOFR)

Hedge accounting continues when all of the following criteria are met:

- The first step replaces an IBOR with another rate
- That interim rate is replaced by a SOFR in the second step
- All four of the criteria for a one-step transition are met

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Provisions

Effective Federal Funds Rate and SOFR are appropriate benchmark interest rates for taxable debt when applying the consistent critical terms method

LIBOR is no longer an appropriate benchmark interest rate for taxable debt when applying the consistent critical terms method

Replacing an IBOR as the reference rate of a hedged item does not terminate hedge accounting

Uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable

The lease modifications guidance in Statement 87 should not be applied to when a lease contract is amended solely to replace an IBOR

Effective Dates and Transition

The provision removing LIBOR as an appropriate benchmark rate is effective for reporting periods *ending* after December 31, 2021

All other provisions are effective for reporting periods beginning after June 15, 2020

Earlier application is encouraged

Should be applied retroactively, if practicable (hedge accounting should be reestablished for terminations prior to the effective date of this Statement)

Implementation Guidance Updates

2019-1, 2020-1, and 2021-1

Implementation Guidance Updates

What?

The GASB annually updates its Q&A implementation guidance

Why?

New guidance is added as new pronouncements are issued and new issues arise

When?

Effective dates vary by Q&A from periods beginning after June 15, 2020 through periods beginning after June 15, 2023

Implementation Guide 2019-1

Adds new questions on standards regarding

- Cash flows reporting
- Derivative instruments
- Fund balance
- Insurance recoveries
- Irrevocable split-interest agreements
- Intra-entity transfers of assets
- Nonexchange transactions
- Pensions and OPEB
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Derivative instruments
- Financial reporting entity
- Pension and OPEB plan reporting

Implementation Guide 2020-1

Adds new questions on standards regarding

- Certain asset retirement obligations
- Conduit debt obligations
- External investment pools
- Fiduciary activities
- Financial reporting entity
- Leases

Updates existing Q&A guidance related to

- External investment pools
- OPEB
- Pensions
- Deferral of certain Implementation Guide questions and answers

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Implementation Guide 2021-1

Adds new questions on standards regarding

- Derivative instruments
- Fiduciary activities
- Leases, including
  - Definition of a lease
  - Lease term: options to extend or terminate; reassessment
  - Short-term leases
  - Lessee recognition and measurement
  - Lessor recognition and measurement
  - Lease incentives
  - Modifications and terminations
- Nonexchange transactions

Updates existing Q&A guidance related to

- Financial reporting model
- Sales and pledges and intra-entity transfers (Statement 48)

Prior-Period Adjustments, Accounting Changes, and Error Corrections

Proposal: Change in Accounting Principle

A change in accounting principle results from either:

A **change** from one generally accepted accounting principle to another that is justified on the basis that *the newly adopted accounting principle is preferable,* based on the qualitative characteristics of financial reporting

Implementation of new pronouncements

Proposal: Change in Accounting Estimate

A change in accounting estimate results from changes to the inputs to the estimate, such as data, assumptions, and measurement methodologies

Changes in inputs result from a change in circumstance, new information, or more experience

A change in measurement methodology should be justified on the basis that *it is preferable* to the prior methodology, based on the qualitative characteristics of financial reporting

Proposal: Change to or within the financial reporting entity

A change to or within the financial reporting entity results from:

- Addition/removal of a fund that results from movement of resources within the primary government, including its blended component units
- A change in the fund presentation as major or nonmajor
- Addition/removal of a component unit (except for acquisitions, mergers, and transfers of operations, and Statement 90 component units)
- Change in presentation (blended or discrete) of a component unit

Proposal: Correction of an error

An error results from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date

Facts that existed at the time the financial statements were issued are those that could reasonably be expected to have been obtained and taken into account at that time about conditions that existed as of the financial statement date

A change from (a) applying an accounting principle that is **not** generally accepted to transactions or other events to (b) applying a generally accepted accounting principle is an error correction

Classification of Nonfinancial Assets

Classification of Nonfinancial Assets

What?

The Board will review the existing classification of nonfinancial assets and other related sub-classifications (for example, capital assets or intangible assets)

Why?

A review of existing standards found that they generally were effective, but that there were aspects that could be significantly improved

When?

Deliberations scheduled to begin July 2022

Topics to Be Considered

How should the existing definitions of nonfinancial assets and capital assets be modified, if at all? Should new classifications be added?

Should right-to-use intangible assets resulting from Statements 87, 94, and 96, continue to be classified as capital assets?

Should other intangible assets addressed in Statement 51 continue to be classified as capital assets?

Should other types of assets, such as capital assets held for resale, continue to be classified as capital assets?

If classifications are added, how should those classifications be defined?

If classifications are added and defined or existing definitions or classifications are modified, what should be the effect, if any, on presentation within the statement of net position or disclosure in notes to financial statements?

Project Timeline

Pre-Agenda Research Started	August 2020
Added to Current Technical Agenda	December 2021
Deliberations Begin	July 2022
Exposure Draft Scheduled to Be Considered for Issuance	May 2023

Conceptual Framework: Disclosure Framework

Revised Exposure Draft

What?

The Board requested additional input from stakeholders on concepts regarding what information should be disclosed in notes

Why?

The GASB reexamined existing note disclosure requirements and concluded that it was necessary to elaborate on the concept of "essential" as it relates to notes

When?

Redeliberations began January 2022

Final Concepts Statement scheduled to be considered for issuance Q2 2022

Concepts Related to Disclosures

Concepts Statements guide the Board's decisions when setting accounting and financial reporting standards

Concepts Statement 3 establishes criteria for what communication method should be used to report information – financial statements, notes to financial statements, required supplementary information, and supplementary information

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed Concepts

The purpose of note disclosures is to provide information that explains, describes, or supplements the financial statements and is **essential** to users in making economic, social, and political decisions and assessing accountability

Principal revisions to the previous Exposure Draft relate to the criteria that determine essentiality

Information that is essential possesses the following characteristics:

Users utilize the information in their analyses for making decisions or assessing accountability or would modify those analyses to incorporate the information if it were made available

The information has or would have a meaningful effect on users' analyses for making decisions or assessing accountability

A breadth or depth of users utilize or would utilize the information in their analyses for making decisions or assessing accountability

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	August 2018
Exposure Draft Issued	February 2020
Redeliberations Began	September 2020
Revised Exposure Draft Issued	June 2021
Redeliberations Began	January 2022
Final Concepts Statement Scheduled to Be Considered for Issuance	June 2022

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conceptual Framework: Recognition

Exposure Draft: *Recognition of Elements of Financial Statements*

What?

The Board issued an Exposure Draft of a Concepts Statement on recognition of financial statement elements

Why?

Recognition concepts are one of the components needed to complete the conceptual framework

When?

A final Concepts Statement is scheduled to be considered for issuance in Q2 2023

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Recognition Concepts

The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

The related **basis of accounting** determines *when* those items should be reported.

Tentative Decisions: Recognition Hierarchy

Follow a specific order when evaluating an item for recognition:

Does it meet the definition of an asset or liability?

- Yes: Recognize asset or liability
- No: go to next step

Does it meet the definition of a deferred outflow of resources or a deferred inflow of resources?

- Yes: Recognize deferral
- No: go to next step

Does it meet the definition of an outflow of resources or an inflow of resources?

- Yes: Recognize inflow/outflow
- No: Do not recognize the item

Tentative Decision: Recognition Framework

Two Measurement Focuses

Economic Resources	Short-Term Financial Resources
(applied in government-wide, proprietary fund, and fiduciary fund financial statements)	(would replace current financial resources in the governmental funds)

Tentative Decisions: Recognition Framework (continued)

Item meets definition of an element under the measurement focus

Measurement of item sufficiently reflects qualitative characteristics

Recognize the item in financial statement

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Preliminary Views Issued	September 2018
Redeliberations Began	June 2019
Exposure Draft Approved	June 2020
Redeliberations Began	May 2021
Final Concepts Statement Scheduled to Be Considered for Issuance	April 2023

Financial Reporting Model Reexamination

Proposals: Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses

Operating

- Activities other than nonoperating activities

Nonoperating

- Subsidies received and provided
- Revenues and expenses of financing
- Resources from the disposal of capital assets and inventory
- Investment income and expenses

Proposals: Proprietary Funds (cont.)

Subsidies

- Resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided
- Resources provided to another party or fund that results in higher rates than otherwise would be established for the level of goods and services to be provided

Add a new subtotal for operating income (loss) and noncapital subsidies

	2016	2015
Operating revenues:		
Tuition and fees (net of discounts)	$ 574,168	$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	1,146,343	1,091,377
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	1,681,544	1,596,059
Income (loss) generated by operations	(535,201)	(504,682)
Noncapital subsidies:		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	558,101	530,057
Operating income (loss) and noncapital subsidies	22,900	25,375
Financing and investing activities:		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	221,023	126,314
Income before other items	243,923	151,689
Other items:		
Capital contributions	23,231	74,830
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	$ 3,328,265	$ 3,061,111

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposals: Management's discussion and analysis

Users of MD&A "have different levels of knowledge and sophistication about governmental accounting and finance," "may not have a detailed knowledge of accounting principles" (as in Concepts Statement 1, paragraph 63)

Add clarification and structure to the requirement for brief discussion of the basic financial statements, including their relationships and significant differences

Emphasize the level of thoroughness required for the analysis of year-to-year changes and the need to avoid unnecessary duplication

Amend the requirements for currently known facts, decisions, or conditions with examples, such as economic trends; subsequent year's budget; actions government has taken on postemployment benefits, capital improvement plans, and long-term debt; actions other parties have taken that affect the government

Move budgetary analysis and discussion of infrastructure assets (if applicable) to the relevant parts of RSI

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Other Proposals

Budgetary comparisons

- Would be presented as required supplementary information (no option for basic statements)
- Required variances would be final-budget-to-actual and original-budget-to-final-budget

Major component unit presentations

- If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements

Other Proposals (continued)

Unusual or Infrequent Items

- Separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence (replacing extraordinary and special items)
- Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management

Proposed Effective Dates

Based on total annual revenues in fiscal year beginning after June 15, 2022

$75 million or more	Less than $75 million
Apply in fiscal years beginning after June 15, 2024	Apply in fiscal years beginning after June 15, 2025

Omnibus

Exposure Draft, *Omnibus 20XX*

What?

The Board is redeliberating proposals to address exchange and nonexchange financial guarantees and various practice issues based on stakeholder feedback

Why?

Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

When?

A final Statement is scheduled for consideration in Q2 2022

Topic Overview

- Exchange and Exchange-like Financial Guarantees
- Derivative Instruments
- Leases, PPPs, and SBITAs
- Replacement of Interbank Offered Rates
- Technical Updates

Other Derivative Instruments

Derivative instruments that are neither investments nor hedging derivative instruments

- Change in fair value would be reported on flow statement separately from investment revenues
- Disclosures would be distinguished from hedging derivative instruments and investment derivative instruments
- Disclose fair value of derivative instruments that were reclassified from hedging derivative instruments

Termination of hedge accounting

- If hedging derivative instruments cease to be effective, the balance of the deferrals would be reported on the flows statement separately from investment revenues.

Leases, PPPs, and SBITAs

Remeasurement of certain assets and liabilities

- Would not be remeasured solely for a change in an index or rate used to determine variable payments

Option to Terminate

- Unconditional right that exists within the contract - the right to terminate due to the action or inaction of the other party is not an option to terminate
- For leases only - the option to purchase the underlying asset would be considered an option to terminate for purposes of measuring the lease term

Short-term Leases and SBITAs

- Modified short-term leases or SBITAs would be remeasured from the inception of the lease or SBITA

Leases, PPPs, and SBITAs (cont.)

Variable Lease Payments

- Variable lease payments, other than those that depend on an index or rate or those that are fixed in substance, would not be included in the measurement of the lease liability.

Lease Incentives

- Includes the assumption of or *an agreement to pay* a lessee's preexisting lease obligation to a third party

PPP Remeasurement

- The receivable for the underlying PPP asset would be remeasured if there is a change in the PPP term
- Deferred outflow of resources would be adjusted by the same amount as any remeasurement change to the liability for the underlying PPP asset

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Replacement of Interbank Offered Rates and Technical Updates

London Interbank Offered Rate (LIBOR)

- Date at which it is not an appropriate benchmark interest rate would change to when it is no longer determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021.

Supplemental Nutrition Assistance Program (SNAP)

- Apply the provisions of Statement 33

Disclosure of Nonmonetary Transactions

- Disclose measurement attributes rather than basis of accounting

Project Timeline

Added to Current Technical Agenda	August 2020
Deliberations Began	September 2020
Exposure Draft Approved	July 2021
Redeliberations Began	November 2021
Final Statement Scheduled to Be Considered for Issuance	April 2022

Revenue and Expense Recognition

Scope of the Project

- The scope is defined broadly to include revenues and expenses except for those ***explicitly excluded:***

- Financial instruments
  - Investments
  - Derivative instruments
  - Long-term debt
- Capital assets and inventory
  - Purchase, sale, or impairment
  - Capitalization and depreciation
  - Inventory valuation
- Post-employment
  - Pensions
  - OPEB
  - Other: compensated absences

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Outcomes of the Proposed Model *

Category A	Category B
Fees for service (water, electric, garbage)	Taxes (property tax, income tax, sales tax)
Eligibility-based grants	Punitive fees
Research grants and revolving loans	Special assessments
Medicaid fees for services	Donations
Tuition fees	Regulatory fees (drivers licenses, building permits, marriage licenses, professional licenses)
Most expenses	Purpose-restricted grants
	Capital fees (developer fees, PFCs)
	Medicaid supplementary payments

* Transactions highlighted in blue would have different outcomes than under current literature

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed Revenue Recognition Principles

CATEGORY A

CATEGORY B

Legally Enforceable Claim

Step 1: Is there an increase in net assets?

Fiscal Period

Timeline

Asset Dr
Liability Cr

Step 2: Does the increase in net assets result in a related liability?

Asset Dr
Deferred Inflow Cr

Step 3: Does the increase in NA result in inflow applicable to a future period?

Asset Dr
Revenue Cr

Step 4: Recognize revenue

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Category A Revenue Recognition Example

College Tuition
Category A

Legally Enforceable Claim

Government provides resources (education)

Timeline

Asset	Dr
Liability	Cr

Asset	Dr
Revenue	Cr

Prepayment of tuition

Inflow of resources as the College performs its obligation

Category B Revenue Recognition Example

Property Taxes Category B

Legally Enforceable Claim

Government imposes property tax

Fiscal Period

Timeline

Asset Dr Liability Cr	Asset Dr Deferred Inflow Cr	Asset Dr Revenue Cr
Prepayment of property tax	Imposition before fiscal period	Inflow of resources is applicable

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Proposed Expense Recognition Principles

CATEGORY A

CATEGORY B

Legally Enforceable Claim

Step 1: Is there a decrease in net assets?

Fiscal Period

Timeline

Asset Dr Liability Cr	Deferred Outflow Dr Liability Cr	Expense Dr Liability Cr
Step 2: Does the decrease in net assets result in a related asset?	Step 3: Does the decrease in NA result in outflow applicable to a future period?	Step 4: Recognize expense

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Category A Expense Recognition Examples

A performance obligation is satisfied when there is a transfer of control of resources

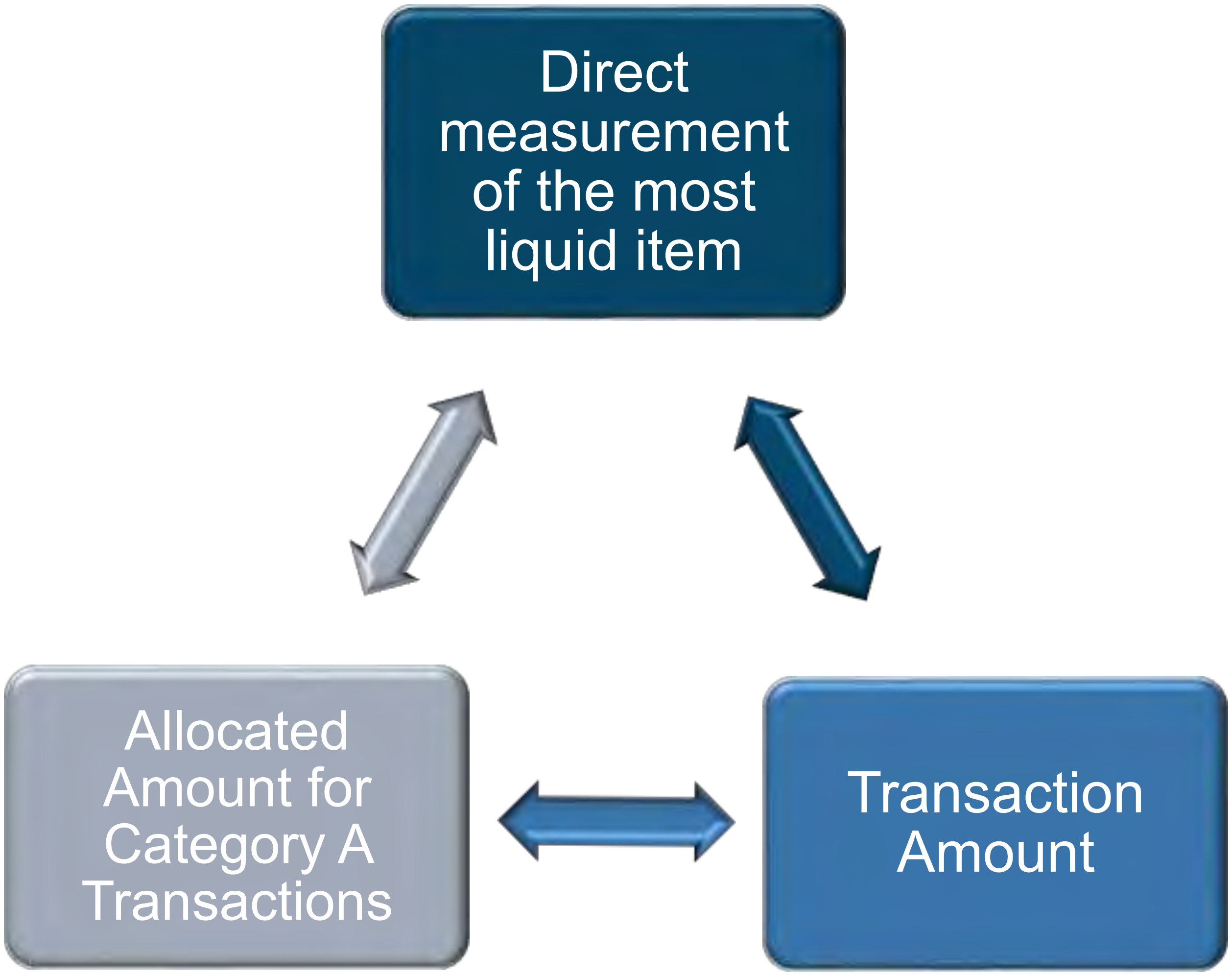
City orders supplies	Expense is recognized as the city receives the supplies
School district hires CPA	Expense is recognized as the CPA firm carries out the expected work, such as an audit
Public utility employees	Expenses for wages are recognized as the employees perform services over time

Category B Expense Recognition Examples

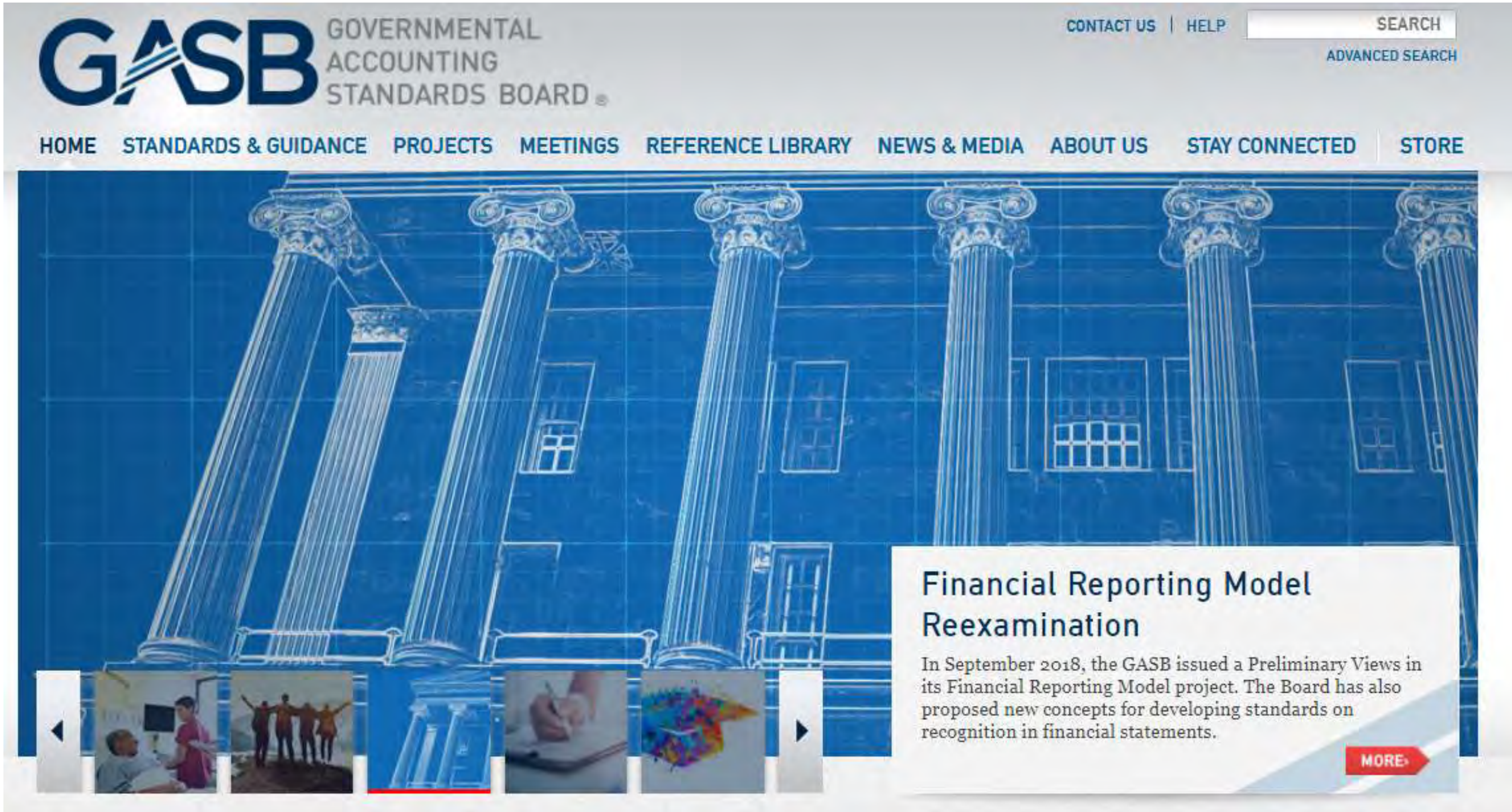
Expense is recognized at the same time as the ***payable***, unless there are time requirements

- Contractual arrangements
- Shared revenue (outflows)
- General aid (outflows)

Proposed Measurement Principles



www.gasb.org


GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD
CONTACT US | HELP
SEARCH
ADVANCED SEARCH
HOME STANDARDS & GUIDANCE PROJECTS MEETINGS REFERENCE LIBRARY NEWS & MEDIA ABOUT US STAY CONNECTED STORE
Financial Reporting Model Reexamination
In September 2018, the GASB issued a Preliminary Views in its Financial Reporting Model project. The Board has also proposed new concepts for developing standards on recognition in financial statements.
MORE

Website Resources

- Free download of Statements, Implementation Guides, Concepts Statements and other pronouncements
- Free access to the basic view of Governmental Accounting Research System (GARS)
- Free copies of proposals
- Up-to-date information on current projects
- Form for submitting technical questions
- Educational materials, including podcasts

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD