2024 Annual GASB Update

With you today

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Objectives

By the end of this course, you will be able to:

- Recognize key provisions of issued and pending accounting standards
- Identify pending pronouncements that may have a significant impact on your organization
- Develop an implementation plan for the pending accounting standards

Agenda

Topic	Minutes
GASB Statement No. 99; Omnibus 2022	15
GASB Statement No. 100; Accounting Changes and Error Corrections, an amendment of GASB Statement No. 62	15
GASB Statement No. 101; Compensated Absences	30
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Update on issued and pending GASB Statements

GASB Statement No. 99; Omnibus 2022

GASB Statement No. 99 – Omnibus 2022

- Issued: April 2022

- Effective
  - The requirements in paragraphs 26–32 related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
  - The requirements in paragraphs 11–25 related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
  - The requirements in paragraphs 4–10 related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
  - Earlier application is encouraged and is permitted by topic

GASB Statement No. 99 – Omnibus 2022- Financial guarantees

- Definition
  - A guarantee of an obligation of a legally separate entity or individual that requires the guarantor to indemnify a third-party obligation holder under specified conditions

- Existing guidance
  - Exchange or exchange-like financial guarantees- Statement 62
  - Nonexchange financial guarantees- Statement 70
  - Conduit debt- Statement 91

GASB Statement No. 99 – Omnibus 2022- Financial guarantees

Statement 99 does:

Apply the liability recognition, liability measurement and disclosure requirements in Statement 70 to governments that extend exchange or exchange-like financial guarantees

Statement 99 does not:

- Prescribe expense classification
- Prescribe recognition guidance for the consideration received in an exchange or exchange-like financial guarantee transaction

GASB Statement No. 99 – Omnibus 2022- Financial guarantees

	Current guidance	New guidance
Liability recognition	Probable	More likely than not
Liability measurement	Estimate of future outflow expected	Discounted present value of the best estimate of the future outflows expected
Disclosure requirements	• Description of the financial guarantee • Total amount of all the outstanding guarantees extended • Amounts expected to be recovered	• 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

GASB Statement No. 99 – Omnibus 2022- Other derivative instruments

- Other derivative instruments: Derivative instruments that are neither investment derivative instruments or hedging derivative instruments
- Reporting requirements for other derivative instruments are as follows:
  - Changes in fair value should be reported on the resource flows statement separately from the investment revenue classification
  - Information disclosed in the notes should be distinguished from information about hedging derivative instruments and investment derivative instruments
  - Disclose the fair values that were reclassified from hedging derivative instruments to other derivative instruments
- Termination of hedge accounting
  - If a termination event occurs the balance of the deferrals should be reported on the resource flows statement separately from investment revenues

GASB Statement No. 99 – Omnibus 2022- Other derivative instruments

If one of the following termination events occurs,

- The hedging derivative instrument is no longer effective as determined by applying the criteria in paragraphs 26–62
- The likelihood that a hedged expected transaction will occur is no longer probable.
- The hedged asset or liability, such as a hedged bond, is sold or retired but not reported as a current refunding or advanced refunding resulting in a defeasance of debt
- The hedging derivative instrument is terminated

[…] then the balance of deferred outflows of resources or deferred inflows of resources should be reported on the resource flows statement separately from the investment revenue classification and should be captioned increase (decrease) upon hedge termination.

GASB Statement No. 99 – Omnibus 2022- Other derivative instruments

If the termination event is the occurrence of a hedged expected transaction (such as the purchase of an energy commodity or the sale of bonds) that results in a financial instrument and the government is re-exposed to the hedged risk,

[…] then the balance of deferred outflows of resources or deferred inflows of resources should be reported on the resource flows statement separately from the investment revenue classification

GASB Statement No.100; Accounting Changes and Error Corrections, an amendment of GASB Statement No. 62

GASB Statement No. 100 – Accounting changes and error corrections

- Issued: June 2022
- Effective: For fiscal years beginning after June 15, 2023 (June 30, 2024, Dec. 31, 2024), and all reporting periods thereafter
  - Earlier application is encouraged
- Supersedes Statement No. 62 paragraphs 58-89 and footnotes 29-36
- Supersedes various implementation guide questions

GASB Statement No. 100 – Accounting changes and error corrections

Change in accounting principle

- Should be applied consistently
- Results from either:
  - Change from one GAAP to another because the newly adopted principle is preferable
    - The qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability—should be the basis for determining whether a new accounting principle would be preferable
  - Implementation of new pronouncement

Change in accounting estimate

- Results from changes to the inputs of an estimate (change in circumstance, new information, or more experience)
  - Changes in inputs result from a change in circumstance, new information or more experience
  - The qualitative characteristics of financial reporting should be the basis for determining whether a new measurement methodology would be preferable

Change to or within the financial reporting entity

- Result from:
  - Addition/removal of a fund due to the movement of resources withing the primary government
  - Change in the fund presentation as major/nonmajor
  - Addition/removal of a CU to the financial reporting entity (excluding those related to acquisitions/mergers/transfers of operations of GASB 90)
  - Change in the presentation of a CU (blended vs discrete)

GASB Statement No. 100 – Accounting changes and error corrections

Change in Accounting Principle

- Reported retroactively by restating FS for all periods presented
  - Restatement of beginning net position, fund balance, or fund net position, as applicable
- Disclose the following in the notes for <u>each change</u>:
  - Nature of the change, including identification of FS line items affected
  - Reason for the change, including why its preferable
  - If prior periods presented are not restated because it wasn't practicable, reason why its not practicable
  - Effects on beginning net position/fund balance/fund net position

Change in Accounting Estimate

- Reported prospectively by recognizing the change in the reporting period it occurs
- Disclose the following in the notes for <u>each change</u>:
  - Nature of the change, including identification of FS line items affected
  - If due to a change in measurement methodology, the reason for the change in measurement methodology and why its preferable

GASB Statement No. 100 – Accounting changes and error corrections

Change to or Within the Financial Reporting Entity

- Reported by adjusting beginning net position, fund balance, or fund net position, as applicable, for the effect of the change as if the change occurred as of the beginning of the reporting period
- Disclosure in the notes for <u>each change</u>:
  - Nature and reason for each change to or within the financial reporting entity
  - Effects on beginning net position/fund balance/fund net position

Correction of an Error in Previously Issued FS

- Reported retroactively by restating FS for all prior periods presented
  - Restatement of beginning net position, fund balance, or fund net position, as applicable
- Disclose the following in the notes for <u>each error correction</u>:
  - Nature of the error and its correction, including the periods affected and identification of FS line items affected
  - Effect of the error correction on the change in net position/fund balance/fund net position of the prior period

GASB Statement No. 100 – Accounting changes and error corrections

- Presentation in financial statements
  - Aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, should be displayed for each opinion unit.

- Required supplementary information (RSI) and supplementary information (SI)
  - Prior reporting period(s) presented in the financial statements that are included in RSI and SI should be presented consistently with the manner in which the information is presented in the financial statements.

GASB Statement No. 100 – Accounting changes and error corrections

Required supplementary information (RSI) and supplementary information (SI) (cont.)

- Prior periods included in RSI and supplementary information that are not presented in the financial statements should not be restated for changes in accounting principles but should be restated for error corrections, if practicable
  - Error
    - Identify information as restated/not-restated and include an explanation of the nature of the error
    - If not practicable to restate, include an explanation of why its not practicable
  - Change in accounting principle or financial reporting entity
    - Inconsistencies in RSI/SI, include explanations of why inconsistencies exist
      - MD&A – include a reference to the related note disclosure in the FS

GASB Statement No. 101; Compensated Absences

GASB Statement No. 101 – Compensated absences

- Issued: June 2022
- Effective: For fiscal years beginning after Dec. 15, 2023 (Dec. 31, 2024, June 30, 2025), and all reporting periods thereafter
  - Earlier application is encouraged
- Establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB)
- Supersedes Statement No. 16 and various implementation guide questions and amends certain paragraphs in NCGA Statement 1; GASB Statements 34, 68, and 73-75; and Interpretation No. 6

GASB Statement No. 101 – Compensated absences

- A compensated absence is leave for which employees may receive one or more (a) cash payments when the leave is used for time off; (b) other cash payments, such as payment for unused leave upon termination of employment; or (c) noncash settlements, such as conversion to defined benefit postemployment benefits
  - The payment or settlement could occur during employment or upon termination of employment
  - Compensated absences generally do not have a set payment schedule
  - Examples of compensated absences include vacation leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, and certain types of sabbatical leave

GASB Statement No. 101 – Compensated absences

- Sabbatical leave during which an employee is not required to perform any significant duties for the government (unrestricted sabbatical leave) is a compensated absence
  - Sabbatical leave during which an employee is required to perform duties of a different nature for the government (for example, research instead of teaching) is not a compensated absence
- Termination of employment refers to the end of an employee's active service, which can occur for a variety of reasons, including voluntary resignation or retirement
- Does not apply to benefits that are within the scope of Statement No. 47, Accounting for Termination Benefits, as amended

Recognition and Measurement

GASB Statement No. 101 – Compensated absences

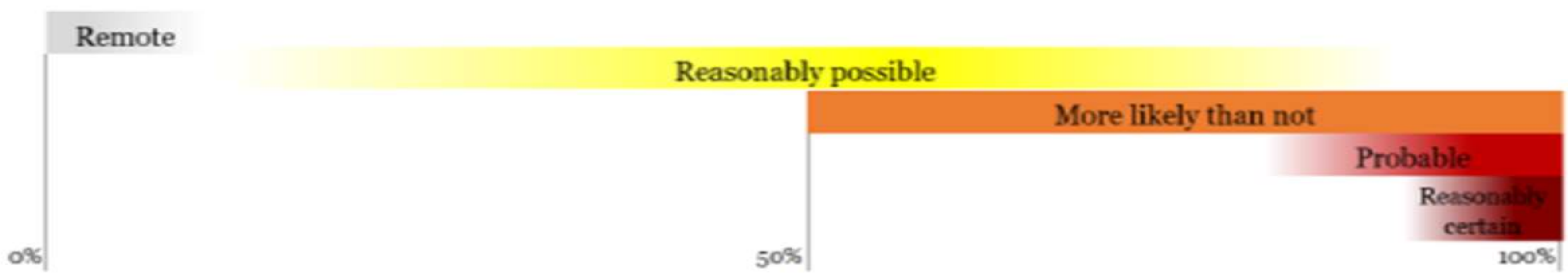
Recognize liability for
(a) leave that hasn't been used and
(b) leave that has been used but not yet paid or settled

- Leave that has not been used
  - Recognize a liability if all of the following are true:
    - Attributable to services rendered,
    - Accumulates, and
    - Is more likely than not (likelihood of more than 50 percent) to be used for time off or otherwise paid in cash or settled through noncash means

GASB Statement No. 101 – Compensated absences

Criteria a government should consider when evaluating if the leave is more likely than not to be used for time off or otherwise paid in cash:

- The government's employment policies related to compensated absences
- Whether leave that has been earned is, or will become, eligible for use or payment in the future
- Historical information about the use, payment, or forfeiture of compensated absences
- Information known to the government that would indicate that historical information may not be representative of future trends or patterns



GASB Statement No. 101 – Compensated absences

Leave that has not been used (cont.)

- Exceptions:
  - Compensated absences dependent upon the occurrence of a sporadic event that affects a relatively small portion of employees (parental leave, military leave, and jury duty)
    - Leave should not be recognized as liabilities until the leave commences
  - Unlimited leave and holiday leave (not at employee discretion)
    - Recognize liability when the leave is used.

GASB Statement No. 101 – Compensated absences

Leave that has not been used (cont.)

- Liability = Accumulated Leave x Employee's pay rate as of the date of the financial statements unless:
  - Some or all of the leave is more likely than not to be paid at a rate different from the employee's pay rate at the time the payment is made
  - The leave is not attributable to a specific employee (e.g., has been donated to a shared employee leave pool)
    - Leave should be measured an estimated pay rate that is representative of the eligible employee population
  - Some or all of leave is more likely than not to be settled through noncash means other than conversion to defined benefit postemployment benefits
- Changes to the measurement of the liability in future periods due to a change in pay rate should be recognized in the period of the change.

GASB Statement No. 101 – Compensated Absences

Leave that has been used

- Liability reported when leave is used for time off but hasn’t been paid in cash or settled through noncash means
- Liability, including any applicable salary related payments, should be measured at the amount of the cash payment or noncash settlement to be made for the use of the leave

Salary Related Payments

GASB Statement No. 101 – Compensated absences

Salary-related payments

- Obligations that a government incurs related to providing leave in exchange for services rendered
  - Example: Employer-share of Social Security and Medicare taxes
- Payments are directly or incrementally associated with the leave
  - Directly Associated – payment is a function of salary to be paid
  - Incrementally Associated – payment will be made in addition to the payment for salary
- Related to ’defined contribution’ pension/OPEB
  - Leave that hasn’t been used: Recognize as pension/OPEB expense when the compensated absence liability is recognized (not pensions/OPEB liability)
  - Leave that has been used: Recognize in pension/OPEB liability in accordance with Statement 68, 73, or 75, as amended
- Payments related to ’defined benefit’ pension/OPEB – should not be included in the compensated absence liability

GASB Statement No. 101 – Compensated absences

Relationship to postemployment benefits

- Some governments allow or require compensated absences (often sick leave) to be paid to an employee upon termination of employment through a distribution to an individual account (instead of directly to the employee) to be used for specified purposes, such as payment of the employee's share of future healthcare premiums
  - Leave should be included in the liability for compensated absences when:
    - Leave has not been used,
    - Leave meets the recognition criteria in paragraph 9 (leave that has not been used criteria), and
    - Leave is more likely than not to be paid in this manner

GASB Statement No. 101 – Compensated absences

Current financial resources measurement focus

- Recognize compensated absences liability and expenditure as payments come due each period (i.e., the amount that would normally be liquidated with expendable available financial resources)

Notes to financial statements

- No new note disclosures
- Option to present increases/decreases separately or net
  - Indicate amount is net if reported net
- Do not need to disclose which funds typically liquidated compensated absences in prior years

GASB Statement No. 101 – Compensated absences

PTO example

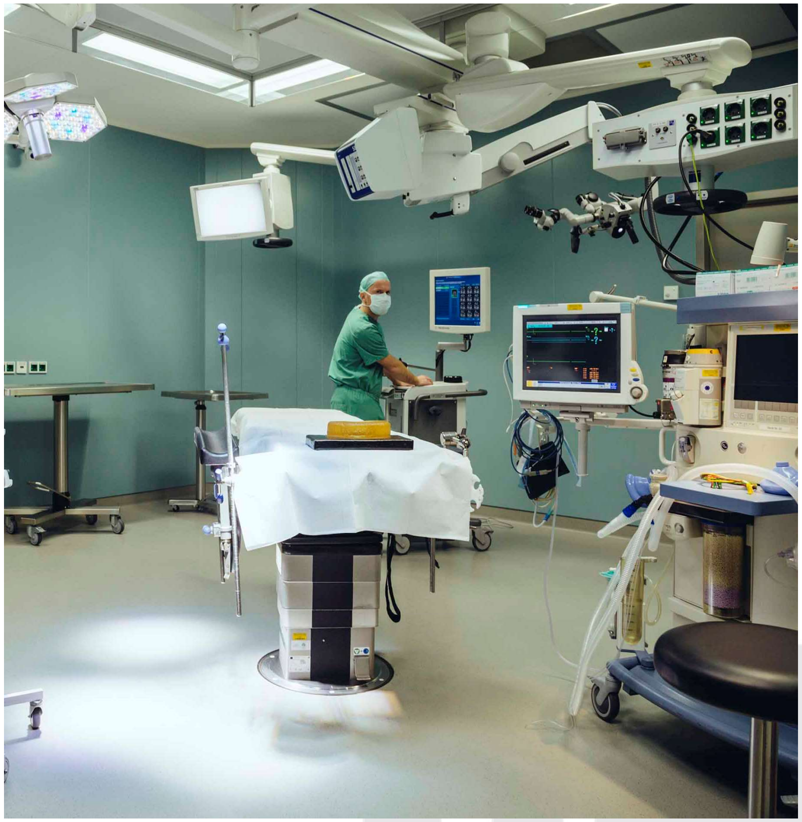
- Earned each month, carries over without limits, unused PTO is paid in full upon termination

- Liability= All accumulated PTO

GASB Statement No. 101 – Compensated absences

Sick leave example A

- Earned each month, carries over without limits, unused sick leave is NOT paid upon termination
- Liability recognized as the estimate of sick leave more likely than not (greater than 50 percent likelihood) to be used as paid leave



GASB Statement No. 101 – Compensated absences

Sick leave example B

- Earned each month, carries over without limits, paid out at 50 percent after five years of service
- Liability calculation:
  - Employes with over five years of service - 50 percent of ending sick leave balances plus
  - Employees with less than five years of services - estimate of sick leave more likely than not to be:
    (1) used as sick leave or
    (2) paid out after five years of service

GASB Statement No. 102; Certain Risk Disclosures

GASB Statement No. 102 – Certain risk disclosures

- Issued: Dec. 2023
- Effective: For fiscal years beginning after June 15, 2024 (June 30, 2025, Dec. 31, 2025), and all reporting periods thereafter
  - Earlier application is encouraged
- Updates the definitions for concentration and constraint to identify potential risks and uncertainties in the state and local government environment

GASB Statement No. 102 – Certain risk disclosures

- A concentration is a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources
  - Examples include, but are not limited to, the composition of any of the following:
    - Employers
    - Industries
    - Inflows of resources
    - Workforce covered by collective bargaining agreements
    - Providers of financial resources
    - Suppliers of material, labor, or services

GASB Statement No. 102 – Certain risk disclosures

- A constraint is a limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority
  - Examples include, but are not limited to, the following:
    - Limitations on raising revenue
    - Limitations on spending
    - Limitations on the incurrence of debt
    - Mandated spending

GASB Statement No. 102 – Certain risk disclosures (cont.)

- Requires a government to assess whether an event (or events) associated with a concentration or constraint that could cause a substantial impact has occurred, has begun to occur, or is more likely than not to begin to occur within 12 months of the date the financial statements are issued

- Establishes disclosure requirements associated with those risks and uncertainties

- Presented for the primary government, including blended CU, and all other reporting units that report a liability for revenue debt

GASB Statement No. 102 – Certain risk disclosures

Disclosure criteria

- A government should disclose in notes to financial statements the information required if all the criteria below are met:
  - A concentration or constraint is known to the government prior to the issuance of the financial statements
  - The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact
  - An event or events associated with the concentration or constraint that could cause a substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued

Note: If mitigating actions taken by the government prior to the issuance of the financial statements cause any of the disclosure criteria not to be met, none of the note disclosures are required

GASB Statement No. 102 – Certain risk disclosures

Required disclosures

- Provide information in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact associated with the concentration or constraint

- The disclosures should include descriptions of the following:
  - The concentration or constraint
  - Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
  - Actions taken by the government prior to the issuance of the financial statements to mitigate the risk

Implementation Guide No. 2023-1, Implementation Guidance Update — 2023

Implementation Guide No. 2023-1

- Issued- July 10, 2023
- Effective- fiscal years beginning after June 15, 2023, earlier application encouraged if the pronouncement addressed by the question and answer has been implemented
- Contains 10 new questions and one amendment to a previously issued question-and-answers document

Implementation Guide No. 2023-1

Topics covered

- Leases
  - Questions 4.1-4.3 address short-term leases
  - Questions 4.4-4.5 address lessee recognition and measurement for leases other than short-term leases and contracts that transfer ownership
  - Question 4.6 addresses lessor recognition and measurement for leases other than short-term leases and contracts that transfer ownership
  - Question 5.1 is an amendment to a previously issued question and answer. Question 5.1 amends question 4.16 in Implementation Guide 2019-3 and states that factors to consider when determining whether it is reasonably certain that the lessee or lessor will not exercise the option to terminate a lease include significant economic disincentives, such as cancellation penalties. Periods for which it is reasonably certain that a lessee or lessor will not unilaterally terminate a lease should not be excluded from the lease term

Implementation Guide No. 2023-1

Topics covered

- Subscription-Based Information Technology Arrangements (SBITAs)
  - Question 4.7 states that a licensing arrangement that automatically renews until canceled is not a perpetual license. Rather, the provision is an option to terminate the agreement at each renewal date, as opposed to a purchase in which a government is granted a permanent right to use the vendor's computer software
  - Question 4.8 addresses whether the presence of tangible capital assets in combination with IT software impacts the applicability of GASB 96 on cloud computing arrangements. Many common deployment models of cloud computing arrangements contain IT software used in combination with tangible capital assets. Governments should evaluate the substance of the arrangement in accordance with GASB 96 paragraph 6 to determine if the arrangement meets the definition of a SBITA
  - Question 4.9 covers the determination of a subscription term, and states that the subscription term does not begin until the initial implementation stage is completed

Implementation Guide No. 2023-1

Topics covered

- Accounting changes and error corrections
  - Question 4.10 addresses whether the closing out of a major fund and movement of remaining resources to another fund constitutes a change to or within the financial reporting entity. The removal of a fund that does not result from a movement of continuing operations does not constitute a change to or within the financial reporting entity in accordance with paragraph 9a of GASB 100. Instead, that movement of remaining resources to the general fund should be reported as interfund activity in accordance with paragraph 112 of Statement 34, as amended

THANK YOU FOR YOUR TIME AND ATTENTION

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