

GASB Update

National Association of State Comptrollers

Annual Conference

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

Effective Dates—June 30

2021

- Statement 84—Fiduciary Activities
- Statement 90—Majority Equity Interests
- Statement 93—Replacement of Interbank Offered Rate
- Implementation Guide 2019-1—Update
- Implementation Guide 2019-2—Fiduciary Activities

2022

- Statement 87—Leases
- Statement 89—Interest Cost Incurred before the End of a Construction Period
- Statement 92—Omnibus 2020 (multiple effective dates)
- Statement 97—CCUC and Section 457 Plans
- Implementation Guide 2019-3—Leases
- Implementation Guide 2020-1—Update

2023

- Statement 91—Conduit Debt
- Statement 94—Public Private Partnerships
- Statement 96—Subscription-Based IT Arrangements

Fiduciary Activities

Implementation Issues

Fiduciary Implementation Issues

- Collections by local governments based on State statutes where a portion of the collections are distributed to the state
 - What is an “own-source revenue”
 - When is a local government an agent for a State
- Revenue-sharing Q 4.35
- Section 529 College Savings plans and Section 529 A Achieving a Better Life Experience (ABLE) plans Q 4.31, Q 4.33, and Q 4.34
- Seized assets Q 4.4
- Payroll clearing accounts Q 4.15
- Contractor deposits (Q 4.11) and performance bonds (Q 4.12)
- Escheat property

Leases

Implementation Issues

Leases Implementation Issues

- Definition
 - Q 4.2-4.9 (IG 2019-3)
 - Q 4.6-4.7 (IG 2020-1)
- Lease term (Q 4.13-4.16—IG 2019-3 and Q 4.9—IG 2021-1 ED)
 - One-sided cancellation
 - Two-sided cancellation
- Short-term lease
- Discount rate—estimate
 - Lessee
 - Lessor (Q 4.15)
- Transition (Q 4.76-4.77—IG 2019-3 and Q 4.27—IG 2021-1 ED)

Financial Reporting Model

Stakeholder Feedback

Recognition in Governmental Funds

- Short-term financial resources measurement focus and accrual basis of accounting
- Elements from *short-term* transactions or other events recognized as the underlying transaction or other event *occurs*
- Elements from *long-term* transactions and other events recognized when *payments are due*
- Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash



Recognition in Governmental Funds

Short-Term Transactions

- Period from inception to conclusion is one year or less

Long-Term Transactions

- Period from inception to conclusion is more than one year

Inception generally is when a party to the transaction takes an action that results in the initial recognition of an asset or liability

Conclusion generally is when the final payment of cash or other financial assets is due according to the terms of the binding arrangement (or estimated payments)

Tentative decisions: 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)

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

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

Governmental Funds—Presentation

- Current and noncurrent format of resource flows statement
- Current includes all flows other than those that are noncurrent
- Noncurrent resource flows: those related to purchase and disposal of capital assets and issuance and repayment of long-term debt



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

Budgetary Comparisons and Other Issues

■ Budgetary Comparisons

- Presented in required supplementary information
 - Consistent with conceptual framework on methods of communication
- Required variance presentations
 - Final budget and actual amounts
 - Original and final budget

■ Other issues

- Major component unit presentation
- Unusual or infrequent items



Revenue and Expense Recognition

Stakeholder Feedback

What is a Revenue and Expense Recognition Model?

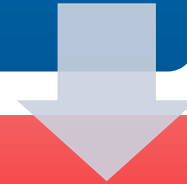
Categorization

Identify the *type* of transaction



Recognition

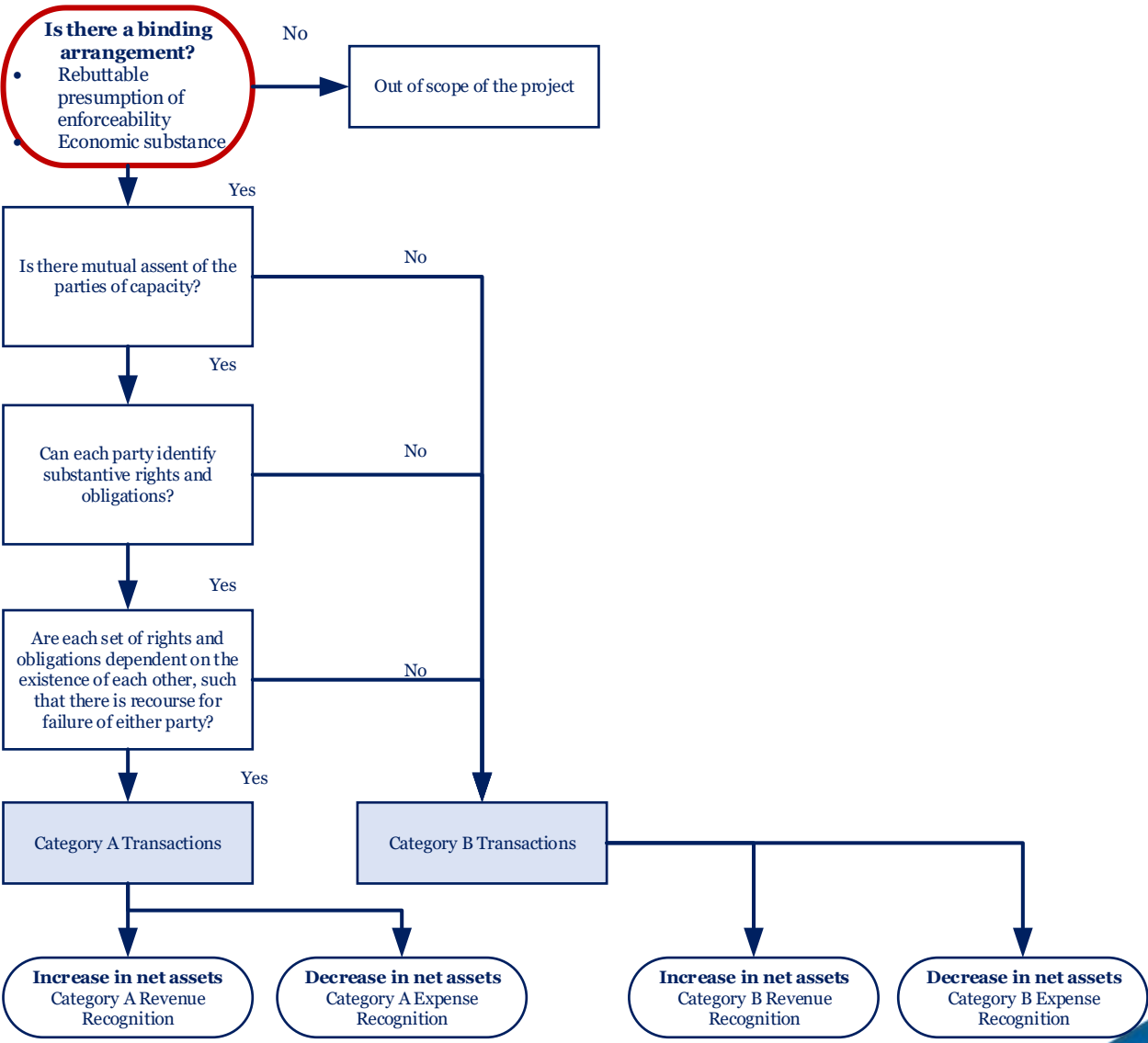
Determine *what* element should be reported and *when*



Measurement

Determining the *amount* to report

Categorization Component

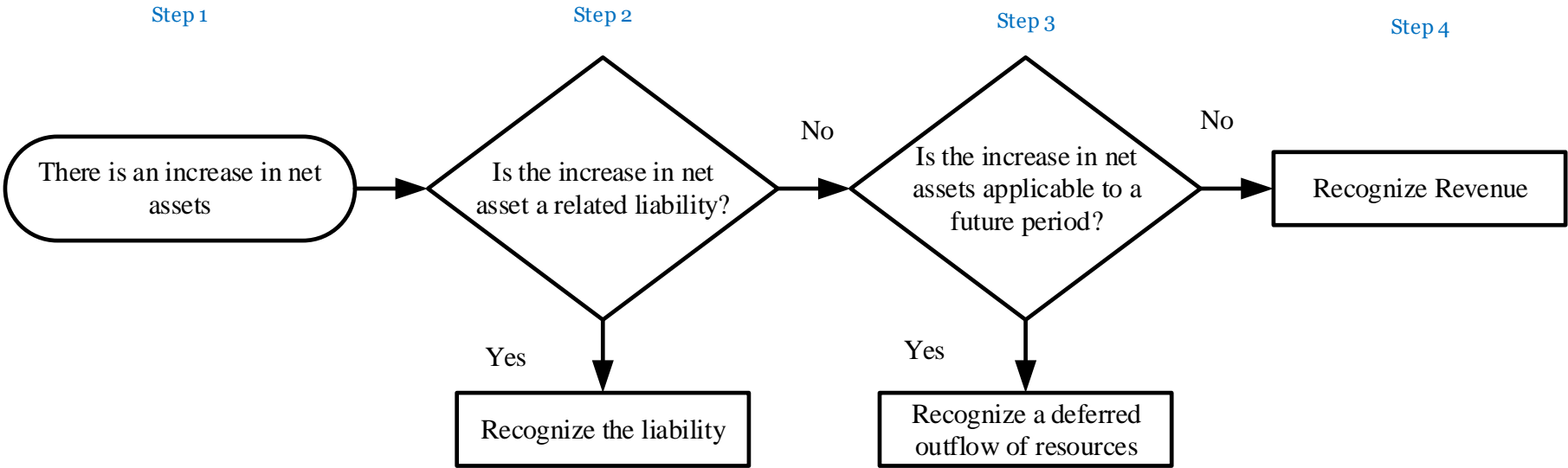


Model Outcomes*

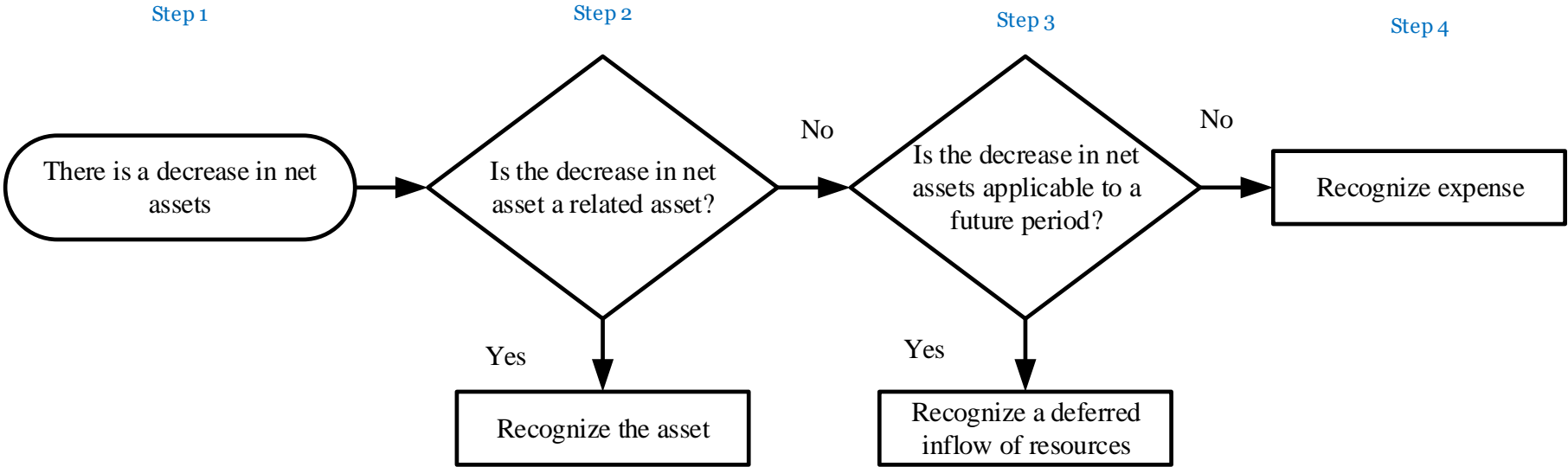
Category A	Category B
Fees for service (water, electric, garbage)	Taxes (property tax, income tax, sales tax)
Eligibility-based grants	Punitive fees
Research grants and revolving loans	Special assessments
Medicaid fees for services	Donations
Tuition fees	Regulatory fees (drivers licenses, building permits, 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

Recognition Principles—Revenue



Recognition Principles—Expense



Measurement

- Principle—Measure the liquid flow of resources
- Transaction amount—Exposure Draft
 - Allocation
 - Variable consideration
 - Financing components
 - Nonmonetary consideration

Practice Issues

Projects

- Compensated Absences
- Renaming
- Prior Period Adjustments
- Omnibus—2022
- Risks and Uncertainties

Compensated Absences

Exposure Draft—Comment Deadline June 4

Compensated Absences—Recognition

- Absences accumulate (whether vest or not)
 - Accumulate—able to be carried forward to next period
 - Vest—unused amounts paid at termination
- Absences attributable to services already rendered
- More likely than not to be paid or settled
- All leave follows same model
 - Change for sick leave and similar
 - Excludes leave more likely than not to be settled through conversion to defined benefit postemployment benefits

Compensated Absences— Measurement

- General approach
 - Accumulated leave x pay rate
 - Pay rate—current rate as of financial statement date
- Salary-related payments
 - Directly and incrementally associated with the compensated absences payment
- Exceptions
 - More likely than not to be settled through other means
 - More likely than not to be paid at different rate
- FIFO flows assumption for amount due within one year

Renaming

New Term

- Annual comprehensive financial report (ACFR)
- Effective for fiscal years ending after December 15, 2021
 - Early application encouraged

Prior Period Adjustments

Exposure Draft—Expected in May

Categories

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

Change in Accounting Principle

- A change from one generally accepted accounting principle to another that is justified on the basis that the newly adopted accounting principle is preferable to the accounting principle used before the change.
 - The qualitative characteristics of financial reporting should be the basis for determining whether a new accounting principle would be preferable.
- The implementation of a new authoritative accounting and financial reporting pronouncement.

Change in Accounting Estimate

- A *change* in accounting estimate results from changes to the inputs of that estimate. Changes to inputs are caused by a change in circumstance, new information, or more experience.
 - Accounting estimates are outputs determined based on inputs such as data, assumptions, and measurement methodologies.
 - Outputs are amounts that are recognized or disclosed in the basic financial statements and subject to uncertainty.

Change to or Within the Financial Reporting Entity

- A change to or within the financial reporting entity results from:
 - The addition or removal of a fund or reporting unit that results from movement of resources within the primary government, including its blended component units
 - The addition or removal of a component unit to or from the financial reporting entity
 - A change in the presentation (blended or discretely presented) of a component unit.

Correction of Error

- A correction of 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 facts 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.

Omnibus—2022

Exposure Draft—Expected in June

Omnibus—Scope

Leases, PPPs, and SBITAs

Non-Effective Derivative Instruments

Exchange or Exchange-like Financial Guarantees

LIBOR Transition

Technical Corrections

Risks and Uncertainties Disclosures

Categories of Risks and Uncertainties

- Concentrations
- Government environment
- Significant estimates?

Categories Being Explored

	Current Vulnerabilities Due to Certain Concentrations	Government Environment	Significant Estimates: Risks	Significant Estimates: Uncertainties
Category Description	A risk to the government based on a current condition creates a lack of (1) diversity related to an aspect of a significant revenue or (2) flexibility in managing a significant expense	A risk to the government based on a current condition common in the government environment (though not necessarily limited to governments) that creates a limitation on acquiring resources or controlling spending	A risk to the government based on certain inputs for estimated amounts recognized in the financial statements or disclosed in the notes to financial statements	An uncertainty about certain inputs that affect estimated amounts recognized in the financial statements or disclosed in the notes to financial statements
Disclosure Objective	To provide essential information to users of government financial reports about risks and uncertainties faced by those governments that may impact the government's ability to continue to provide services and meet its obligations as they come due.			To provide essential information to users of government financial reports about an elevated level of variability in an input to a <u>particular recognized or disclosed accounting estimate</u>

RUD Categories Being Explored (continued)

	Current Vulnerabilities Due to Certain Concentrations	Government Environment	Significant Estimates: Risks	Significant Estimates: Uncertainties
Timing of the Knowledge of Information	Information about the condition is known by the management of the government before the financial statements are issued.		Information becomes known by the management of the government about inputs to the estimate (that is, an actual event or condition has occurred that will change the inputs) before the financial statements are issued.	
Likelihood of Event or Change Occurring	It is reasonably possible that an event associated with the condition will occur within twelve months of the financial statement date or shortly thereafter (for example within an additional three months.)		It is reasonably possible that the estimate will change within twelve months of the financial statement date or shortly thereafter (for example, within an additional three months.)	It is more likely than not that the estimate will change within twelve months of the financial statement date or shortly thereafter (for example, within an additional three months.)
Effect of Event or Change	It is reasonably possible that the event would have a substantial effect on the government's ability to (1) continue to provide services at the level of the current reporting period or (2) meet its obligations as they come due.		It is reasonably possible that the change would have a substantial effect on the government's ability to (1) continue to provide services at the level of the current reporting period or (2) meet its obligations as they come due.	It is more likely than not that the change in the estimate of the relevant asset or liability (and related flows) or contingent liability in the government's financial statements would be significant.

Thank you!



Website information: www.gasb.org