



2023 CSFMO Annual Conference

Alan Skelton, Director RTA

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

GASB Update—Implementation Continues

- **This session will consider:**

- Challenges associated with the implementation of GASB Statements 87, 94, and 96 continue to be front and center issues for governments.
 - This session will focus on these challenges, including recent guidance that governments should apply in the implementation of these standards.
- New Statements 99, 100, and 101 were issued in 2022 that should be on everyone's radar.

Right-to-Use Statements

Statement 87

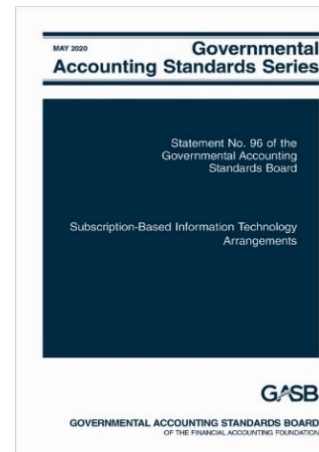
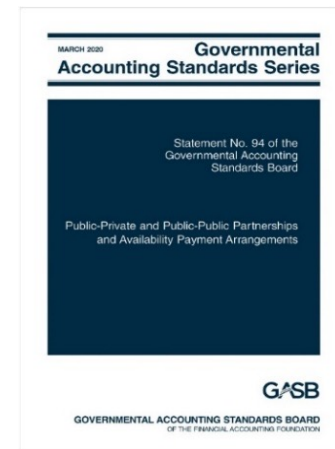
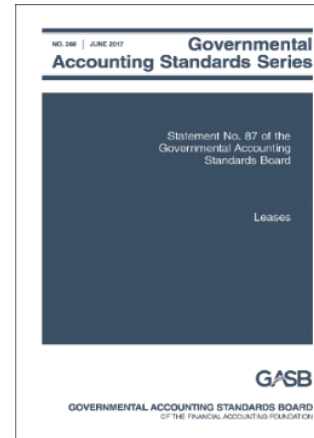
Leases

Statement 94

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

Statement 96

*Subscription-Based Information Technology
Arrangements*



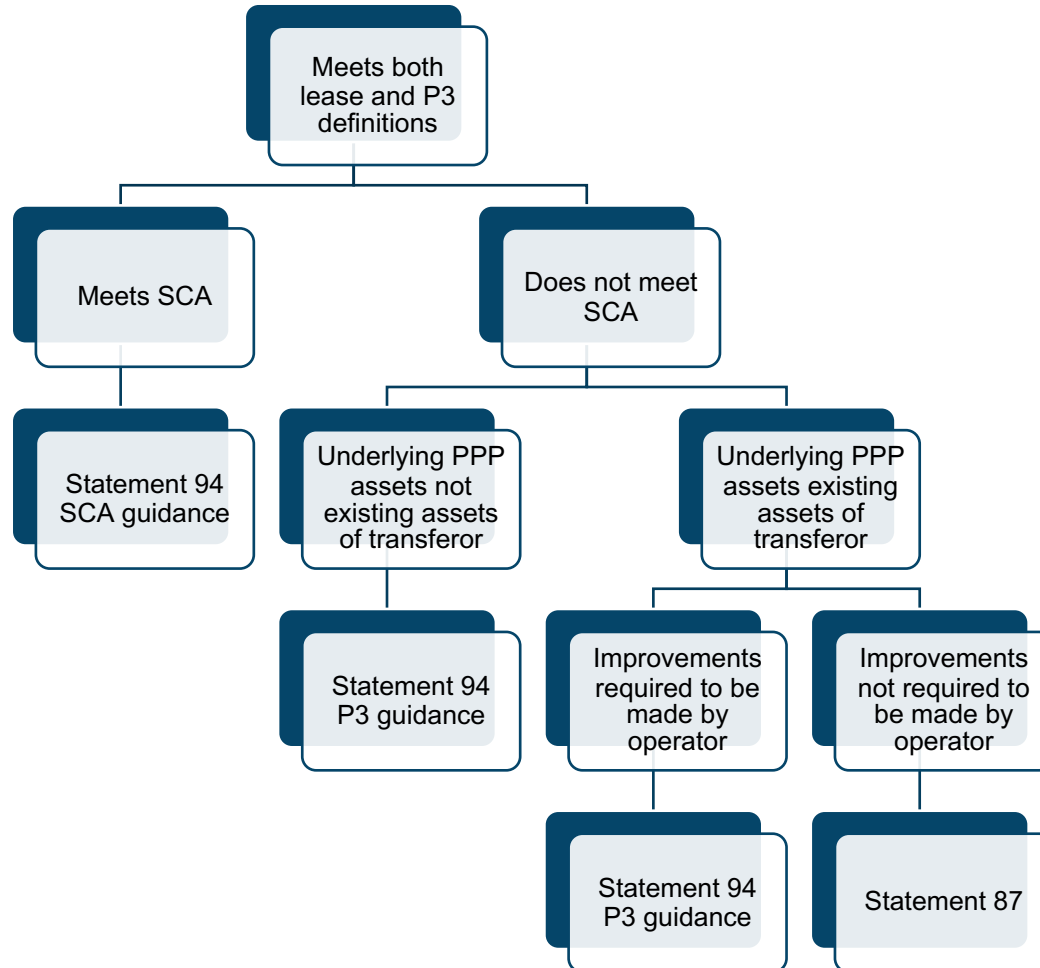
Definitions – Leases, PPP, and SBITA

Lease - a **contract** that **conveys control of the right** to use another entity's nonfinancial asset (the **underlying asset**) as specified in the contract for a **period of time** in an **exchange or exchange-like transaction**.

P3 - arrangement 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 asset, such as infrastructure or other capital asset (the **underlying PPP asset**), for a **period of time** in an **exchange or exchange-like transaction**.

SBITA - 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**.

Relationship between Leases and P3



Relationship between Leases and SBITAs

- **All SBITAs meet definition of lease**
- **Depends on what the underlying asset is:**
 - Tangible capital assets alone – Statement 87
 - IT software alone – Statement 96
 - IT software in combination with tangible capital assets:
 - Software component is insignificant compared to cost of tangible capital asset – Statement 87
 - Otherwise – Statement 96
- **Also excluded from Statement 96:**
 - Governments acting as SBITA vendors
 - Contracts that meet the definition of a P3 in Statement 94
 - Perpetual software licenses

Topics That Are The Same

▪ **Lease/PPP/Subscription Term**

- Noncancellable period plus certain optional periods
 - One party has option - reasonably certain will extend or not cancel
- Excludes cancellable periods – both parties can cancel

▪ **Short-Term Lease/SBITA**

- Maximum possible term of 12 months or less
 - Includes all one-party options to extend
 - Excludes cancellable periods
- Recognize expense/expenditure or revenue (applies to lessors too) based on contract

Topics That Are The Same

- **General recognition and measurement**

- Intangible right-to-use asset and liability (lessee/operator/SBITA)
- Receivable and deferred inflow of resources (lessor/transferor)

- **Contracts with multiple components**

- Generally, account for lease and non-lease components as separate contracts and multiple underlying assets as separate lease components
- Allocate contract price to different components

- **Modifications and terminations**

Key Implementation Issues – GASB 87

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 – GASB 87

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 January 1, 2022 for FYE December 31, 2022
 - As of July 1, 2021 for FYE June 30, 2022
- Not allowed to go back to the actual beginning of the lease

Materiality

- Materiality is always a consideration

Topics Unique to Statement 94

▪ **Service Concession Arrangements**

- Retained definition from Statement 60
 - Except for public services do not have to relate to primary function of underlying asset
- Retained general approach from Statement 60

▪ **New or Improved Underlying PPP Assets**

- Transferor:
 - SCA – recognize at acquisition value when placed in service
 - Not SCA – recognize receivable at operator's estimated carrying value at date of future transfer and additional deferred inflow
- Operator:
 - SCA – recognize intangible right-to-use asset
 - Not SCA – recognize deferred outflow and liability for future transfer

Topics Unique to Statement 94

▪ **Availability Payment Arrangements**

- 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
 - Design, construction, financing components and ownership transfers – financed purchase
 - Service components – outflows of the period

What is the difference between a P3 and APA...it is really about who maintains the right to determine rates? Did it remain with the government (transferor) or was it provide to the other entity?

Topics Unique to Statement 96

▪ **Implementation Costs**

- Preliminary project stage
 - Expense
- Initial implementation stage
 - Generally capitalize
 - Expense if short-term SBITA
- Operation and additional implementation stage
 - Generally expense
 - Capitalize if specific criteria met
- Training costs always expensed

Topics Unique to Statement 96

▪ **Subscription Term**

- Commences when initial implementation stage is completed
- No subscription liability or subscription asset until then
- Payments made before are prepayment until commencement

▪ **Multiple Modules**

- Subscription term begins when first module (or set of interdependent modules) is implemented

Implementation Guidance

- **Implementation Guide No. 2019-3, *Leases***

- 77 questions and answers (authoritative)
- 3 illustrations (nonauthoritative)

- **Implementation Guide No. 2020-1, *Implementation Guidance Update—2020***

- 12 questions and answers about Statement 87 (authoritative)

- **Implementation Guide No. 2021-1, *Implementation Guidance Update—2021***

- 19 questions and answers about Statement 87 (authoritative)

Effective Dates

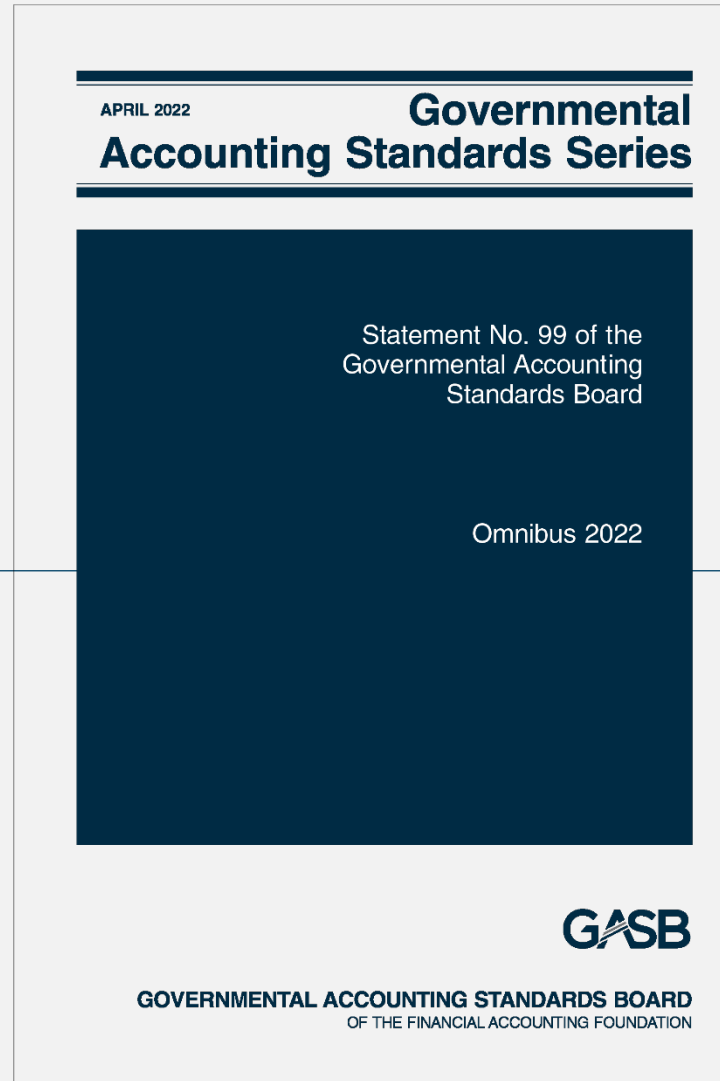
Pronouncement	Beginning After
Statement 87	June 15, 2021*
Statement 94	June 15, 2022**
Statement 96	June 15, 2022*
Implementation Guide 2019-3	June 15, 2021*
Implementation Guide 2020-1 (Statement 87 questions)	December 15, 2021*

* Fiscal years beginning after this date, and all reporting periods thereafter

** Reporting periods beginning after this date

Omnibus 2022

Statement No. 99



Omnibus 2022

What?

Practice issues identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees

Why?

Omnibus Statements are issued to address issues in multiple pronouncements that, individually, would not justify a separate pronouncement

When?

Various effective dates:

- 1) Upon issuance
- 2) Fiscal years beginning after June 15, 2022
- 3) Fiscal years beginning after June 15, 2023

General Omnibus Topics

Financial Guarantees

Other Derivative Instruments

Leases, PPPs, and SBITAs

Extended Use of LIBOR

Technical Updates/Corrections

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.

Other Derivative Instruments

Other 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

Replacement of Interbank Offered Rates

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.

Technical Updates/Corrections

SNAP/ Food Stamps

- States no longer use paper food stamp coupons. Specialized guidance in Statement 24 is no longer relevant. Should apply Statement 33 instead.

Nonmonetary Transactions

- Should disclose measurement attribute(s), rather than basis of accounting for assets transferred.

Pledges of Future Revenue

- Blending guidance provided

Technical Updates/Corrections (cont.)

Government-Wide Statements

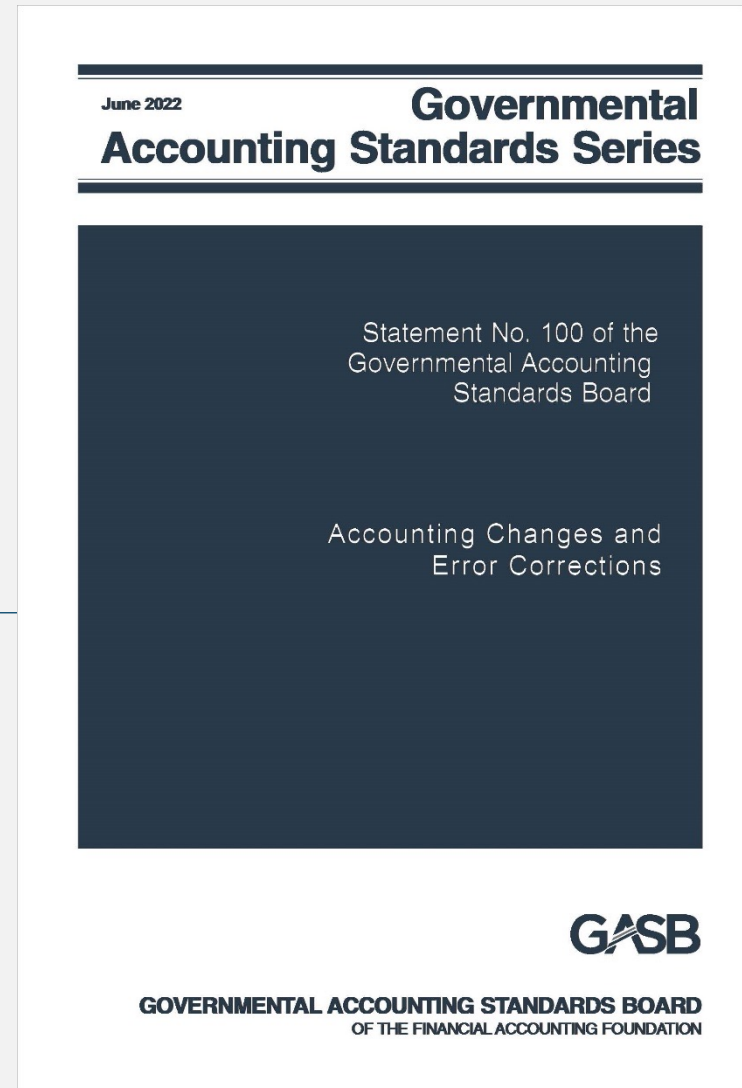
- Clarifies that no total column is required for the financial reporting entity as a whole.

Terminology Updates

- Balance sheet – Statement of net position
- Balance sheet date – Date of financial statements or Statement of net position date
- Equity Funds – Other assets used
- Fund Equity – Equity interest
- Flow of resources statement – Resource flows statement

Accounting Changes and Error Corrections

Statement No. 100



Reexamination of Statement 62

What?

GASB's review of the effectiveness of existing standards identified substantial need for improvement and clarification

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?

Exposure Draft approved May 2021

More about Why...

- **Research showed issues related to:**

- Changes in accounting principle vs. correction of an error
- How to classify changes in measurement methodology of estimates versus changes in inputs to estimates versus changes in accounting policy
- Certain currently required disclosures were often missing

- **Common questions regarding:**

- How to account for changes in reporting entity
- Impact of changes of prior balances on RSI and SI

Type of Accounting Changes / Corrections

Change in Accounting Principle

Change in Accounting Estimate

Change to or Within the Financial Reporting Entity

Corrections of an Error (not an Accounting Change)

Statement Proposals

- **For each type of Accounting Change and Error Correction**

- Definitions

- What is included in each type

- Accounting & Reporting

- Restatement (and if so which period) or accounted for in current period
 - Includes discussion of impact on RSI and SI

- Disclosures

Change in Accounting Principle

▪ Definition

- 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 implementation of a new authoritative accounting and financial reporting pronouncement.

▪ Accounting

- **Retroactive** to all prior periods presented (unless another standard directs otherwise)
- If practicable

Change in Accounting Estimate

■ Definition

- A *change* in accounting estimate results from **changes to the inputs of that estimate**. Changes to inputs result from 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 measurement uncertainty.

■ Accounting

- **Prospective** by recognizing the change in the reporting period the change occurs

Change to or Within the Financial Reporting Entity

▪ Definition

- A change to or within the financial reporting entity results from:
 - The **addition or removal** of a fund that results from movement of resources within the primary government, including its blended component units
 - Change in fund presentation as major or nonmajor
 - Generally, 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.

▪ Accounting

- **Adjust beginning balances** for the effect of the change as if the change occurred as of the beginning of the reporting period (not all periods presented).

Correction of Error

▪ Definition

- 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 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.

▪ Accounting

- **Retroactive** to all prior periods presented
- No practicality exception

Display

- **Shown separately**

- **Aggregate** amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, should be displayed for each reporting unit

Disclosure

Reclassifications and Restatements consisted of the following (amounts in thousands):

	12/31/20X1 As Previously Reported	Changes to or within the Financial Reporting Entity	Changes in Accounting Principle	Error Corrections	12/31/20X1 As Restated
Governmental Funds and Activities					
Major Funds:					
General Fund	\$ 6,806,931	\$ -	\$ -	\$ (99,403)	\$ 6,707,528
Fund A	1,087,648	-	-	(1,231)	1,086,417
Nonmajor Funds	436,328	-	-	(4,413)	436,328
Total Governmental Funds	8,330,908	-	-	(105,046)	8,225,861
Government-Wide Adjustments					
Capital Assets, net of depreciation	26,903,086	-	-	(66,723)	26,836,364
Other Noncurrent Assets and Liabilities	(709,340)	-	-	60	(709,280)
Inclusion of Internal Service Funds in Governmental Activities	559,343	-	-	6,402	565,745
Total Governmental Funds and Activities	\$ 35,083,996	\$ -	\$ -	\$ (165,306)	\$ 34,918,690
Proprietary Funds and Business-Type Activities					
Major Funds:					
Fund B	4,514,667	69,597	4,501	2,756	4,591,521
Nonmajor Funds	532,633	(165,977)	-	6,400	373,055
Removal of Internal Service Funds in Governmental Activities	(559,343)	-	-	(6,402)	(565,745)
Total Proprietary Funds and Business-Type Activities	\$ 4,487,957	\$ (96,381)	\$ 4,501	\$ 2,753	\$ 4,398,831
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds	115,095,653	-	-	5,240	115,100,893
Total Fiduciary Funds	\$ 115,095,653	\$ -	\$ -	\$ 5,240	\$ 115,100,893
Discretely Presented Component Units					
	\$ 10,967,062	\$ 147,061	\$ (1,388)	\$ 123,946	\$ 11,236,680
Total Reporting Entity	\$ 165,634,668	\$ 50,680	\$ 3,113	\$ (33,367)	\$ 165,655,094

RSI and SI

- **Change in accounting principle**

- Do not restate periods earlier than those presented in basic financial statements

- **Error correction**

- Restate periods earlier than those presented in basic financial statements (to extent affected by the error), if practicable

Compensated Absences

Statement No. 101

June 2022

Governmental Accounting Standards Series

Statement No. 101 of the
Governmental Accounting
Standards Board

Compensated Absences



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Compensated Absences

What?

The Board has amended existing guidance for compensated absences

Why?

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

When?

Effective for fiscal years beginning after December 15, 2023.

Earlier application is encouraged

Scope and Applicability

A compensated absence is

- Leave for which employees may receive one or more:
 - Cash payments when the leave is used for time off
 - Other cash payments, such as payment for unused leave upon termination of employment
 - Noncash settlement, such as conversion to postemployment benefits

Examples:

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

Recognition Criteria – Leave that has not been used

Leave is attributable to services already rendered

- Employee has performed the services required to earn the leave

Leave accumulates

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

Leave is *more likely than not* to be used for time off or otherwise paid or settled

- Likelihood of more than 50 percent

Exceptions to the General Recognition Approach

Leave more likely than not to be settled through conversion to defined benefit postemployment benefits

- Excluded from liability

Leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period

- Recognize liability when leave commences
- Parental leave, military leave, jury duty recognized when commences
- Not sick leave or sabbatical leave

Unlimited leave and holiday leave taken on specific date

- Recognize liability when used

Measurement

Pay rate

Generally the employee's pay rate at financial reporting date

Exception: more likely than not to be paid at a different rate

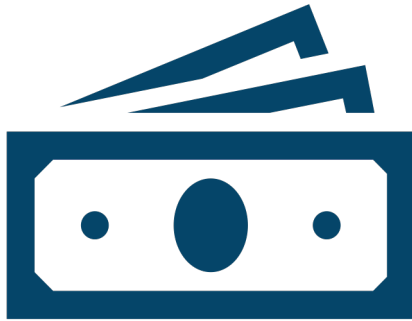
Salary-related payments

Directly and incrementally related

DC pension or OPEB recognized as related leave is earned – not pension or OPEB liability

DB pension or OPEB excluded

Leave Used But Not Paid



Liability for amount
of cash payment or
noncash settlement

Include applicable
salary-related
payments



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**

- Fiscal years beginning after December 15, 2023

Questions?

Visit www.gasb.org