

GASB Update

NORTH CAROLINA TREASURER'S CONFERENCE

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GOVERNMENTAL ACCOUNTING RESEARCH, LLC

SPECIAL THANK YOU TO THE GASB FOR CERTAIN SLIDES THAT ARE BASED ON COPYRIGHTED SLIDES

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Effective Dates—June 30 Fiscal Year End

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- **2023**
 - Statement 91—Conduit Debt
 - Statement 94—Public-Private Partnerships
 - Statement 96—Subscription-Based IT Arrangements
 - Statement 99—Omnibus 2022
 - Implementation Guide 2021-1—Update (multiple effective dates)
- **2024**
 - Statement 100—Accounting Changes and Error Corrections
 - Implementation Guide 2023-1—Update (multiple effective dates)
- **2025**
 - Statement 101—Compensated Absences

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Leases

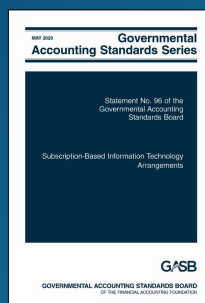
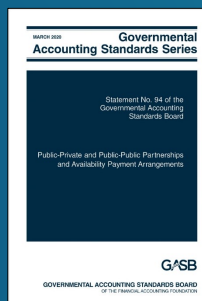
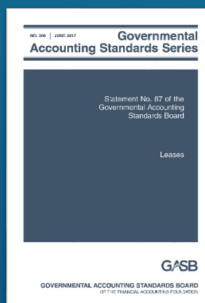
Statement 87

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

Statement 94

Subscription-Based Information Technology Arrangements

Statement 96



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Leases—Day/Year 2 Issues

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Amendments—Modifications Versus Terminations

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Modifications

- Change in contract price
- Lengthening a lease term
- Adding an underlying asset

Termination—right to use underlying asset decreases

- Shortening a lease term
- Removing an underlying asset

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Lease Modifications

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Separate lease when both conditions are present

- Additional underlying asset
- Increase in payment does not appear to be unreasonable based on term and professional judgment (maximizing use of observable information)

Other lease modifications (changes in payment terms/lengthening or shortening of term)

- Remeasure the lease liability
- Adjust asset—but not below zero (change in payment terms)

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Lease Terminations

Partial or full termination

- Reduce liability and right to use asset
- Any difference would be recognized as a gain or loss

If the termination of the lease is the result of exercising a purchase option

- Reclassify the asset (with potential adjustments)

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Remeasurements—Triggering Circumstances

Change in lease term—not related to amendments

- For example, changes related to options included in original lease

Likelihood of a residual value guarantee being paid has changed from reasonably certain to not reasonably certain, or vice versa.

Likelihood of a purchase option being exercised has changed from reasonably certain to not reasonably certain, or vice versa.

There is a change in the estimated amounts for payments already included in the measurement of the lease liability

There is a change in the interest rate the lessor charges the lessee, if used as the initial discount rate

A contingency, upon which some or all of the variable payments that will be made over the remainder of the lease term are based, is resolved such that those payments now meet the criteria for measuring the lease liability

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Implementation Guide 2021-1, 4.20

Q—In Question 4.67 in Implementation Guide 2019-3, the school district remeasures the lease liability. Does that remeasurement require reassessment of the discount rate?

A—Yes. In accordance with paragraph 73 of Statement 87, a lease modification requires remeasurement of the lease liability. A remeasurement because of a lease modification is the same as reperforming an initial measurement. Therefore, reassessment of the discount rate is required.

Comprehensive Implementation Guide 12.109.3

Q—Three years into a 4-year lease, a school district modifies its lease from 200 computers to 230 computers due to an increase in enrollment, changing the remaining lease liability from \$200,000 to \$202,500. The school district has determined that the increase in the lease payments appears to be unreasonable because it is very low when compared to the value of the additional underlying assets. How should the school district account for the amendment to the lease?

A—Because the school district has determined that the increase in the lease payments appears to be unreasonable, the school district should account for this as a lease modification, but not as a separate lease because the condition in paragraph 72b of Statement 87 is not present. Paragraph 73 of Statement 87 states that unless a modification is reported as a separate lease as provided by paragraph 72, a lessee should account for a lease modification by remeasuring the lease liability. The lease asset should be adjusted by the difference between the remeasured liability and the liability immediately before the lease modification. Thus, the lease asset should be increased by \$2,500, which represents the difference between the remeasured liability and the liability immediately before the lease modification.

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Remeasurement—Liability Adjustment

Lease liability is remeasured for any of the changes individually or in the aggregate that are expected to significantly affect the amount of the lease liability since the previous measurement changes

In addition, the lease liability is adjusted for:

- Any change in an index or rate used to determine variable payments
- Changes the discount rate, if one or both of the following changes have occurred:
 - There is a change in the lease term
 - Likelihood of a purchase option being exercised has changed from reasonably certain to not reasonably certain, or vice versa.

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Remeasurement—Asset Adjustment

The lease asset generally should be adjusted by the same amount as the corresponding lease liability

- If that change reduces the carrying value of the lease asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain)

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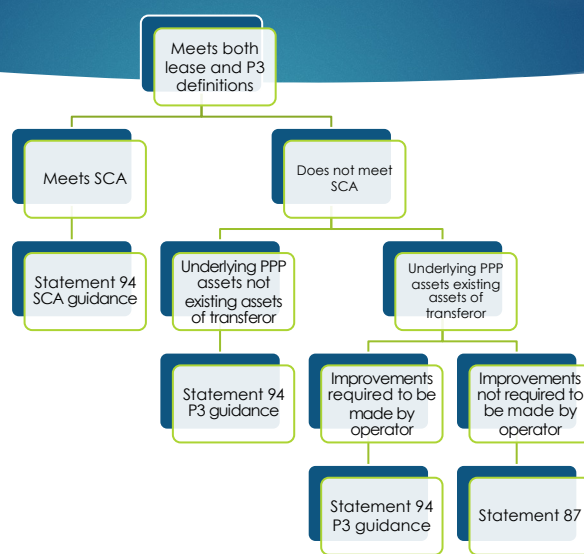
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Identifying Leases, P3s, and SBTIAs—What Standards to Apply

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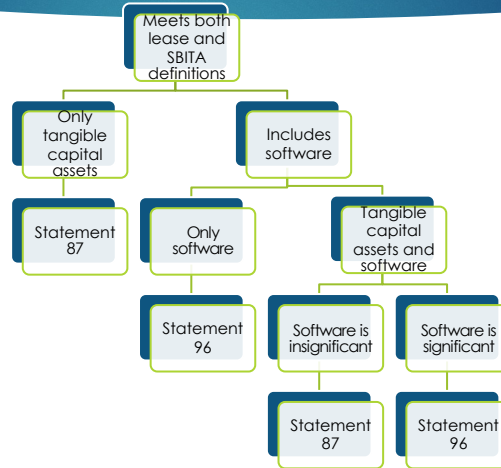
Relationship between Leases and P3s



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Relationship between Leases and SBITAs

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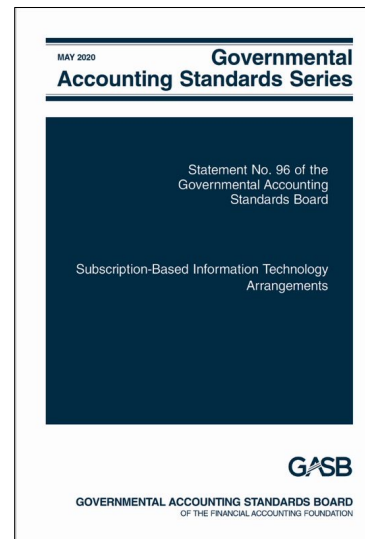


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Statement 96

Subscription-based IT Arrangements (SBITA)


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Scope—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 when compared to the cost of the underlying tangible capital asset (for example, a computer with operating software or a smart copier that is connected to an IT system)
- 

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 public-private and public-public partnership Statement 94
- 

Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement 51.

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SBITA Specific Guidance—Stages

Preliminary Project Stage

- Conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives.

Initial Implementation Stage

- Ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT assets.

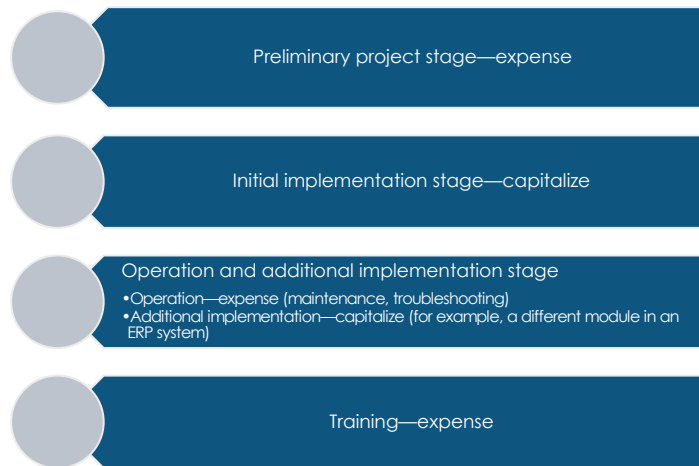
Operation and Additional Implementation Stage

- Maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets.
- Additional implementation activities that occur after the subscription asset is placed into service (for example, additional modules)

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SBITA—Outlays Other Than Subscription Payments

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Implementation Guide 2023-1, 4.9

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Q—A government enters into a six-year SBITA contract with no options to extend or terminate the contract and begins making semiannual subscription payments to the SBITA vendor immediately after the contract takes effect. The initial implementation stage is not completed until the end of the second year after the contract takes effect. What is the subscription term?

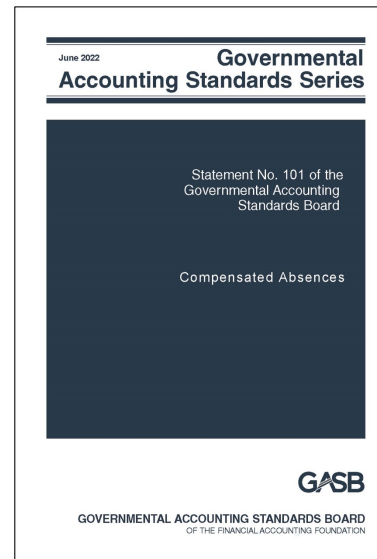
A—Although the length of the contract is six years, the subscription term is four years. The initial implementation stage is completed at the end of the second year of the contract. Therefore, in accordance with paragraphs 9 and 15 of Statement 96, the subscription term commences at the beginning of the third year and ends at the conclusion of the sixth year when the SBITA contract ends.

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Statement 101

Compensated Absences



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Compensated Absences Description

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

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Common Examples—Focus

Vacation and sick leave

Paid time off (PTO)

Certain types of sabbatical leave

Types where recognition should not occur until leave commences

- Parental leave
- Military leave
- Jury duty

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Compensated Absences—Recognition

The leave:

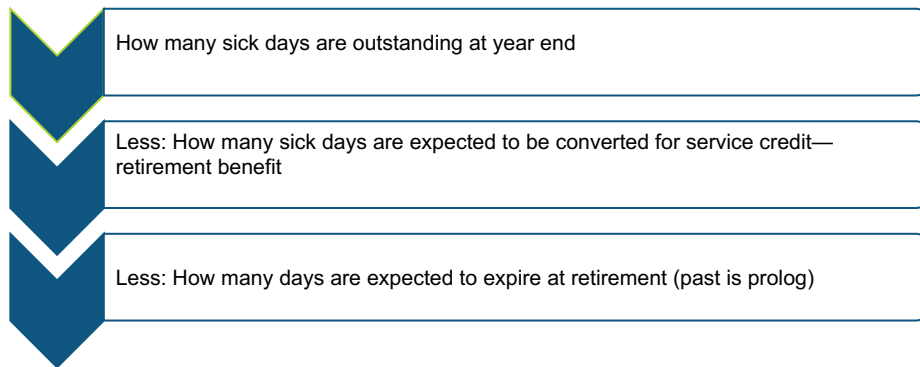
- Is attributable to services already rendered
- Accumulates
- Is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means

Start preparing—how much of sick leave is used?

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Sick Leave Liability Calculation



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Compensated Absences—Measurement

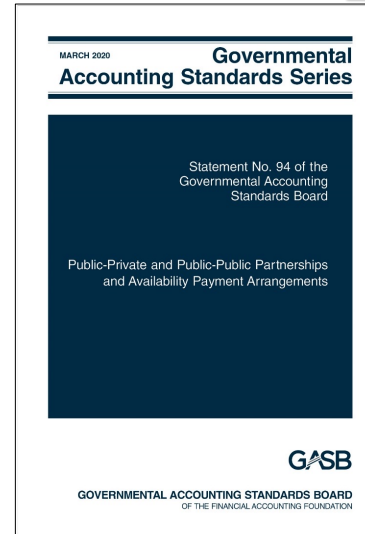
Pay rate	Salary-related payments
<ul style="list-style-type: none"> • Generally at the end of the reporting period • Exception—more likely than not to be paid at a different rate (for example, 50 percent of rate) 	<ul style="list-style-type: none"> • Directly and incrementally related (for example, social security, Medicare) • Defined contribution plan (based on current rate) • Defined benefit plans—no

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Statement 94

Public-Private and Public-Public Partnerships (P3s) and Availability Payment Arrangements

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P3s—Key Provisions

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Service concession arrangements (Statement 60—starting point)

Underlying assets acquired or constructed by operator (not owned by the transferor at the outset of the agreement)

Underlying assets improved by operator

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Non SCA—Underlying Assets Constructed or Acquired by Operator

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Initial recognition

- Receivable for
 - Underlying assets constructed or acquired
 - Based on value when placed into service—need to obtain verifiable information from the operator
 - Installment payments (lessor standards)
 - Discounted
- Deferred inflow of resources

Subsequent reporting

- Revenue recognized, reducing the deferred inflow of resources, on a systemic and rational basis over the duration of the contract
- Capital asset reported by the transferor (reducing receivable) at the end of the contract

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Non SCA—Underlying Assets Improved by Operator

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Improvements at acquisition value when the improvements are placed into service

- Need to obtain verifiable information from the operator

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Availability Payment Arrangement

Government compensates an operator for activities that may include:

- Designing, constructing, financing, maintaining, operating a nonfinancial asset

For a period of time in an exchange or exchange-like transaction

Compensation based entirely on the asset's availability for use

Government procures a capital asset or service

- Design, construction, finance—financed purchase
- Maintenance and operations—period costs
- Arrangements may include both

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Implementation Guides

2021-1

2023-1

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Implementation Guide 2021-1

Adds new questions on standards regarding	<ul style="list-style-type: none"> Derivative instruments (1) Fiduciary activities (2) Leases (19) Nonexchange transactions (1)—big (2023)
Updates existing Q&A guidance related to	<ul style="list-style-type: none"> Financial reporting model (3) Capitalization threshold—big (2024) Sales and pledges and intra-entity transfers (1)

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Implementation Guide 2023-1

Adds new questions on standards regarding	<ul style="list-style-type: none"> Leases (6)—114 total Implementation Guide Q&As SBITA (3) Accounting Changes and Corrections (1)
Updates existing Q&A guidance related to	<ul style="list-style-type: none"> Leases (1)

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Projects

Current
Technical
Agenda

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Concepts/Comprehensive Projects

Conceptual Framework: Recognition (2024)????

Financial Reporting Model (2024)????

Revenue and Expense Recognition (2027)

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Major/Practice Issue Projects and Research Activities

Major projects

- Going concern—severe financial stress (2027)
- Infrastructure assets (2027)

Practice issues

- Risks and uncertainties disclosures (2023)???
- Exposure Draft—June 2022
- Comment deadline was—September 30, 2022
- Classification of nonfinancial assets (2024)

Research activities

- Subsequent events

Monitoring

- Electronic financial reporting—Financial Data Transparency Act

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Post-Implementation Review

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Statements Under Review

Pensions—Statements 67 and 68

Fair Value Measurement and Reporting—Statement 72

Employer Reporting for Other Postemployment Benefits—Statement 75

Fiduciary Activities—Statement 84

Leases—Statement 87

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PIR Process

Stage 1

- Monitor practice issues
- Issue implementation and educational guidance
- Seek volunteers for Stage 2 activities

Stage 2

- Examines a random sample of financial reports for the year prior to, year of, and year after implementation
- Collects information from their preparers regarding staff hours and non-staff costs for those three years (volunteers)
- 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

Stage 3

- Reports the findings publicly

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PIR Status

Pensions—June 2014

- Analysis of final surveys underway
- Stage 3 scheduled to be completed—1Q 2024

Fair value—June 2016

- Holding stakeholder roundtables
- Stage 3 scheduled to be completed—4Q 2024

OPEB—June 2018

- Analyzing year after implementation reports (2019-2020 reports)
- Collecting third year reports

Fiduciary activities—June 2021

- Collection of reports, implementation efforts, and related costs

Leases—June 2022

- Collection of reports, implementation efforts, and related costs

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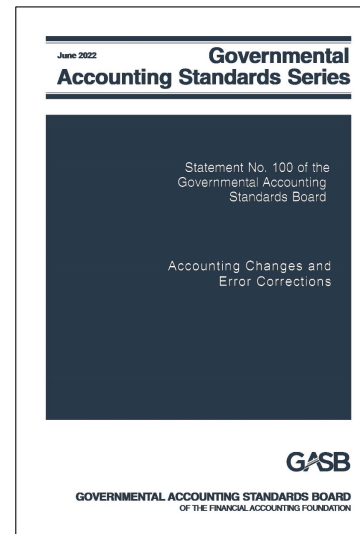
Other Statements and Proposals

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Statement 100

Accounting Changes and Error Corrections



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Statement 100—Scope

Accounting Changes

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

Error Corrections

- Mathematical mistake
- Mistake in the application of accounting principles
- Oversight or misuse of facts that existed at the time the financial statements were issued

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Change in Accounting Principle

Change from one GAAP principle to another—justified because change is preferable

- Qualitative characteristics used the basis for determination

Implementation of new authoritative pronouncement

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Change in Accounting Estimate

Accounting estimate—amount subject to measurement uncertainty that is recognized or disclosed in the basic financial statements

- Estimates are outputs—determined based on inputs of data, assumptions, and measurement methodologies
- Occurs with changes to inputs
- Results from a change in circumstances, new information, or more experience

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Change to or Within the Financial Reporting Entity

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Addition or removal of a fund that results from the movement of continuing operations

Change in fund's presentation of as major or nonmajor

Additions or removals of component units, with exceptions

- Acquisitions, mergers, transfers of operations—Statement 69
- Component unit reported pursuant to Statement 90

Change in component unit presentation—blended/discrete

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Accounting and Reporting

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Change in accounting principle

- Single period—retroactively reported by restating beginning net position/fund balance for the cumulative effect
- Comparative—restating all prior periods, if applicable and practicable

Change in estimate

- Applied prospectively

Change to or within the financial reporting entity

- Adjust current reporting period's net position/fund balance—as if the change occurred as the beginning of the reporting period

Error correction

- Same as change in accounting principle without practicality exception

Aggregate amounts presented on face with details in the notes (illustrated in Statement)

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Disclosures

Change in accounting principle

- Nature of change—including line items affected
- Reason for change

Change in accounting estimate—Each circumstance that a change to an input had a significant effect on estimate

- Nature of change—including line items affected
- Reason for change measurement methodology (unless required by GASB)

Change to or within the financial reporting entity

- Nature of change
- Reason for change—except major/nonmajor change based on GASB thresholds

Error correction

- Nature of error and its correction—including line items and years affected
- Effect on prior period "change in net position/fund balance" as if error had not occurred

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Due Process Document

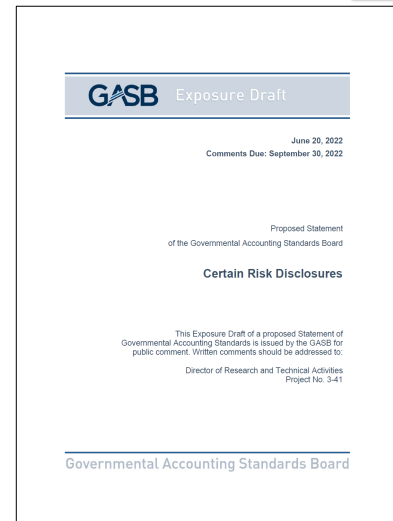
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Risks and Uncertainties Disclosures

Exposure Draft

Proposed effective date—
June 30, 2024

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Risks and Uncertainties Disclosures— Scope (Based on May 2023 Draft)

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Current vulnerabilities due to

- Certain concentrations
 - Examples—employers, industries, inflows of resources, resource providers, workforce covered by collective bargaining agreements, and suppliers of material, labor, or services
- Certain constraints
 - Examples—limitations on raising revenue, limitations on spending, limitations on the incurrence of debt, and mandated spending

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Risks and Uncertainties Disclosures Required If Criteria Met

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A concentration or constraint is known to the government prior to the date the financial statements are available to be issued

The concentration or constraint makes the government vulnerable to the risk of a substantial impact

An event associated with the concentration or constraint that could cause a substantial impact either has occurred or is more likely than not to begin to occur within 12 months of the financial statements are available to be issued

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Proposed Disclosures

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Disclose should be of sufficient detail to enable users of financial statements to understand the nature of each concentration or constraint, the government's vulnerability to the risk of a substantial impact, and if the following have occurred as of the date the financial statements are available to be issued:

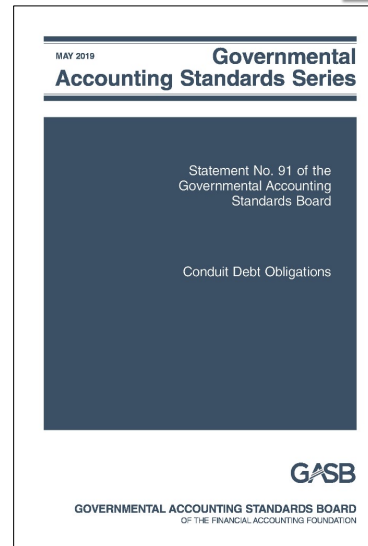
- A description of each event associated with the concentration or constraint that could cause a substantial impact
- A description of actions taken by the government to mitigate the risk

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Statement 91

Conduit Debt Obligations

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Conduit Debt—What is It?

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Three parties

- Issuer—state or local government (maybe a component unit)
- Third-party obligor (may be more than one)
- Debt holder/trustee (may be more than one)

Issuer and obligator are not in same entity

Obligation not a parity bond or cross-collateralized

Third party or its agent ultimately receives the debt proceeds

Third party is primarily obligated for the repayment of the debt

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Recognition

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No liability for the debt

Liability for additional commitment—more likely than not

- Moral obligation pledge
- Appropriation pledge
- Financial guarantee (not Statement 70 or Statement 99)
- Pledging assets as security
- Voluntary

Asset

- Capital assets that are retained by the government (public assets)
- Assets that are exclusively used by the issuer, but will transfer to the government—recognize at the end of the arrangement

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Disclosures—General

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General description of issuer's

- Conduit debt obligations
- Limited commitments
- Voluntary commitments
- Additional commitments

Aggregate amount of outstanding principal of all conduit debt

- Same type of commitment

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Disclosures—Liability Recognized

Description of timing of recognition and measurement of liability

Changes in recognized liabilities

- Beginning balances
- Increases
- Decreases
- Ending balances

Payments made

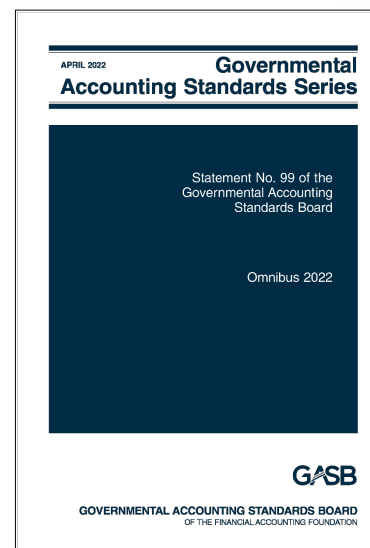
Amounts expected to be recovered (contingent gain)

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Statement 99

Omnibus 2022



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Statement 99—Guidance

Extended use of LIBOR (London Interbank Offered Rate)

- Statement 93 sunset
- Now based on Intercontinental Exchange (ICE) Benchmark Administration action

Financial guarantees—primarily extended Statement 70 guidance to exchange and exchange like financial guarantees

Further aligned Leases, P3, and SBITA terminology and provisions

Clean up of literature

- For example—Food stamps to SNAP

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Thank you!



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