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GASB Update

NORTH CAROLINA STATE TREASURER'S CONFERENCE

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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

- 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—Certain Component Units Criteria and Section 457 Plans
 - Statement 98—The Annual Comprehensive Financial Report
 - 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
 - Statement 99—Omnibus 2022
 - Implementation Guide 2021-1—Update (multiple effective dates)
- 2024
 - Statement 100—Accounting Changes and Error Corrections
- 2025
 - Statement 101—Compensated Absences

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The Blue Covers

Will The GASB Ever Stop?

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Will There Ever Come A Time When GASB Puts Its Pencil/Hammer Down?

- ▶ Answer is simple—No
- ▶ When all assets and all liabilities have been recognized
- ▶ When all relevant details and explanations are provided
- ▶ When all standards meet user needs and are cost-beneficial
- ▶ When governments stop creating or participating in new transactions
- ▶ In other words, not in my lifetime


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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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Effective Dates

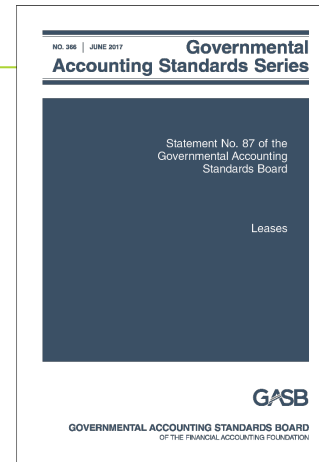
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Pronouncement	Beginning After
Statement 87—L20	June 15, 2021
Statement 94—P90	June 15, 2022
Statement 96—S80	June 15, 2022
Statement 99—L20, P90, S80	June 15, 2022
Implementation Guide 2019-3—L20	June 15, 2021
Implementation Guide 2020-1 (Statement 87 questions 4.6-4.17)	December 15, 2021
Implementation Guide 2021-1 (Statement 87 questions 4.4-4.21)	June 15, 2022

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Statement 87

Leases



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Implementation Suggestions

- Complete review of existing leases as soon as possible
 - Hopefully, the process has started
 - Implement internal controls to identify leases and lease modifications
- Review state and local laws and agreements to determine the impact of new lease guidance on compliance with debt limitations, bond covenants, and grant agreements
- Update accounting systems for new information needs
- Consider impact on capitalization policy
 - Also consider liabilities

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What Can and May Go Wrong

- Not identifying all leases
 - Pull contracts that refer to land, buildings, equipment, IT software that is not perpetual (lessee and lessor)
 - Not properly applying the definition of a lease—over and under state
- Knowing what Statement to apply
 - Statements 94 and 96
- Miscalculating the lease term
 - Identifying all options
 - Assessing those options based on currently know facts and circumstances
- Miscalculating the lease liability
 - Asset drives the liability, but the liability calculation normally drives the value of asset

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Identifying Leases and What Standards to Apply

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Definition of a Lease

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

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Definition of a Lease—Control

- Control requires both of the following:
 - Right to obtain the present service capacity from use of the underlying asset, and
 - Right to determine the nature and manner of use of the underlying asset
- Control applied to the right-to-use lease asset (a capital asset) "specified in the contract"
 - Control criteria NOT limited to contracts that convey substantially all of the present service capacity from use of the underlying asset
 - Right-to-use lease assets include rights to use underlying assets for portions of time, such as certain days each week or certain hours each day

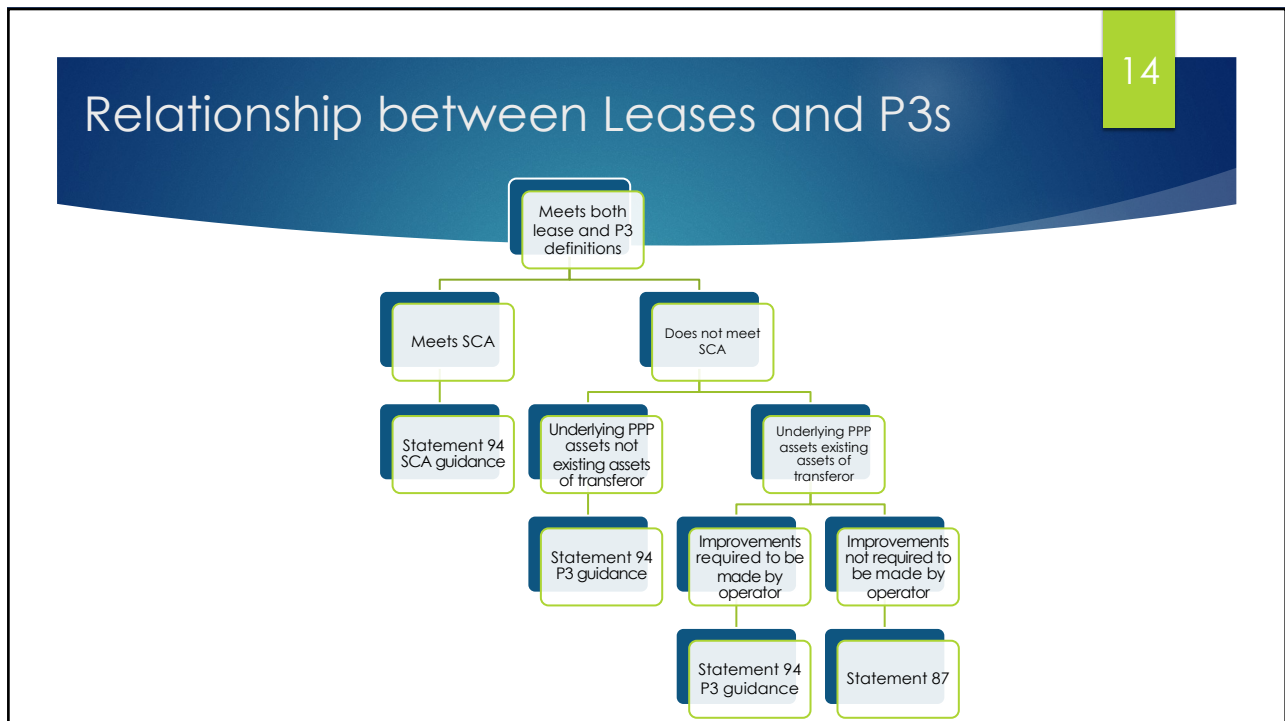
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Scope Exclusions

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Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset—Statement 96 (certain software)
- 
Biological assets (including timber, living plants, and living animals)
- 
Inventory
- 
Most P3s and SBITAs (Statement 94)
- 
Assets financed with outstanding conduit debt (Statement 91)
- 
Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

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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 underlying tangible capital asset – Statement 87
 - Otherwise – Statement 96

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Leases Term—The Basics

- Starting point—*noncancellable period*
- Considerations from the lessee viewpoint
 - Option to extend—reasonably certain will be exercised
 - Option to terminate—reasonably certain will not be exercised
- Considerations from lessor viewpoint
 - Option to extend—reasonably certain will be exercised
 - Option to terminate—reasonably certain will not be exercised
- When both parties either have either the right extend or terminate—those periods are excluded
- Fiscal funding clause (subject to appropriation)—only considered when reasonably certain that it will be exercised

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Lease Term—Considerations

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- Significant economic incentive
- Significant economic disincentive
- History of exercising options
- Essentiality of the leased assets

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Short-term Lease Exception

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- A *short-term* lease is one that, at the beginning of the lease, has a “maximum possible term” under the contract, including any options to extend, of 12 months or less
- Practicality exception for short-term leases
 - For a lease that is cancelable either by the lessee or lessor, such as month-to-month or year-to-year leases, the maximum possible term is the noncancelable period including any notice period

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Short-term Leases—Accounting and Disclosure

- Accounting
 - Lessee: lease payments recognized as expenses/expenditures based on the payment provisions of the contract
 - Lessor: lease payments recognized as revenue based on the payment provisions of the contract
- Disclosures
 - None

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Leases Overview—Initial Reporting

	Assets	Liability	Deferred Inflow
LESSEE	Intangible 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 (including fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	N/A
LESSOR	<ul style="list-style-type: none"> • Lease receivable (generally including same items as lessee liability) • Continue to report leased asset 	N/A	Equal to lease receivable plus any cash received up front that relates to a future period

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Leases Overview—Subsequent Reporting

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	Assets	Liability	Deferred Inflow
LESSEE	Amortize the intangible asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	N/A
LESSOR	<ul style="list-style-type: none"> • Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less payment needed to cover accrued interest) 	N/A	Recognize revenue over the lease term in a systematic and rational manner

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Contracts with Multiple Components

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- Separate lease and non-lease components
 - Prices in leases
 - Terms of contract and professional judgment (maximizing observable information)
 - All else fails—practical expedient
 - Single contract

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Transition Reminders

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June 30 year-end (comparative financial statements)

Beginning of the earliest period presented

July 1, 2020

Effective Date (adoption)

July 1, 2021

June 30, 2022



Implementation—based on facts and circumstances that existed at the beginning of the earliest period presented

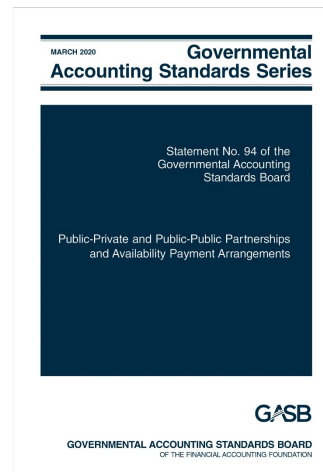
No hindsight—do not have to use the commencement date of the lease.

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Statement 94

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Public-Public and Public-Private Partnerships (P3s)



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P3s—Key Provisions

- 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

- Receivable for
 - Underlying assets constructed or acquired
 - Based on value when placed into service
 - Installment payments (lessor standards)
 - Discounted
- Deferred inflow of resources

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Non SCA—Underlying Assets Improved by Operator

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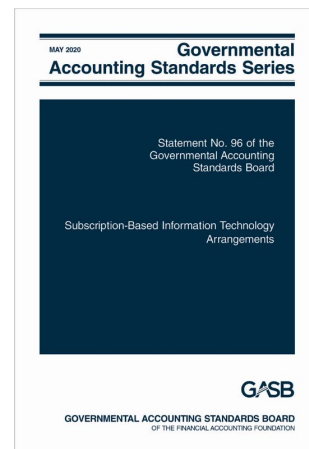
- Improvements at acquisition value when the improvements are placed into service

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Statement 96

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Subscription-based IT Arrangements (SBITA)



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SBITA—Unique Guidance

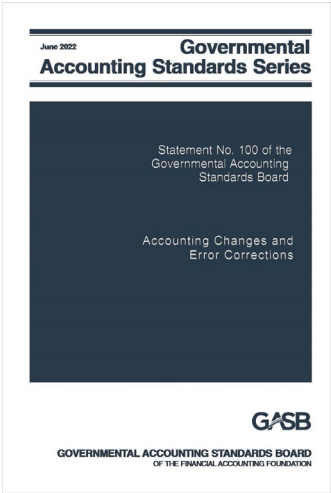
- Outlays other than subscription payments
 - Three stages of projects (from Statement 51—Codification Section 1400—Capital Assets)
 - Preliminary project stage—expense
 - Initial implementation stage—capitalize
 - Operation and additional implementation
 - Operation—expense
 - Additional implementation—capitalize
 - Training—expense

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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

- 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

- 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

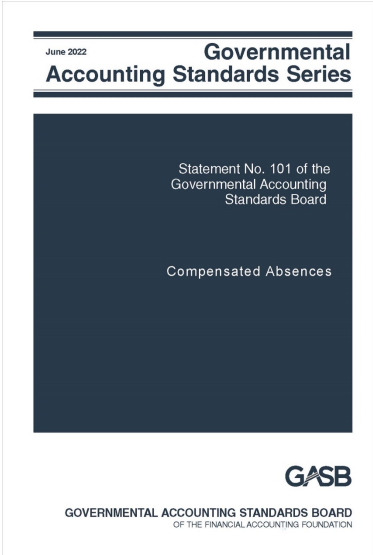
- ▶ Change in accounting principle
 - ▶ Nature of change—including line items affected
 - ▶ Reason for change
- ▶ Change in accounting estimate—Each circumstance that a change to an input had a significant effect on estimate
 - ▶ Nature of change—including line items affected
 - ▶ Reason for change measurement 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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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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Projects

Current
Technical
Agenda

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Concepts/Comprehensive Projects

- Conceptual Framework: Recognition (2023)
- Financial Reporting Model (2023)
- Revenue and Expense Recognition (2027)

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Major/Practice Issue Projects

- Going Concern—Uncertainties and Severe Financial Stress (2026)
- Practice Issues
 - Classification of nonfinancial assets (2024)
 - Implementation guide (2022)
 - Risks and uncertainties disclosures (2023)
 - Exposure Draft—June 2022
 - Comment deadline—September 30, 2022

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Risks and Uncertainties Disclosures— Scope

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- Current vulnerabilities due to
 - Certain concentrations
 - Examples—principal employers, principal industries, principal resource providers, composition of principal inflows of resources, workforce covered by collective bargaining agreements, and suppliers of material, labor, or services
 - Certain constraints common in the government environment
 - Examples—limitations on raising revenue, limitations on spending, limitations on the incurrence of debt, and mandated spending

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Disclosure Proposed to be Required

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- An event associated with a concentration or constraint either has occurred or is more likely than not to begin to occur within 12 months of the financial statement date or shortly thereafter (3 months)
- It is at least reasonably possible that the event will cause there to be a substantial effect within 3 years of the date of the financial statement
- Disclose sufficient detail to enable users to understand the general nature of the risks and their potential effect on the government's ability to provide services or meet its obligations
 - Description of concentration or constraint
 - Description of each event associated with the concentration or constraint, including the criteria that were met
 - Description of actions taken to mitigation the substantial effect.
- Disclosure not required if mitigating actions cause any of the disclosure criteria to no longer be met

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