

GASB Update

2024 Local Government Independent Auditor's Conference

Presented by

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Topics

- GASB Statement No. 100 – *Accounting Changes and Error Corrections*
- GASB Statement No. 101 – *Compensated Absences*
- GASB Statement No. 102 – *Certain Risk Disclosures*



GASB Statement No. 100

*Accounting Changes and Error Corrections –
an amendment of GASB Statement No. 62*



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Accounting Changes

- Changes in accounting principles
 - e.g., change from one generally accepted accounting principle to another that is justifiably preferable or implementation of new authoritative guidance
- Changes in accounting estimates
 - e.g., change to input data used to calculate the estimate
- Changes to or within the financial reporting entity
 - e.g., change in fund presentation, major vs. nonmajor, addition or removal of component unit, or component unit classification (blended vs. discrete)

Change in Accounting Principle

- Report retroactively by restating all prior periods presented (if practicable)
- Cumulative effect of the changes should be reported as a restatement of beginning net position or fund balance (of earliest year presented, if practical)
- Note disclosures should include
 - Nature of the change
 - Reason for the change (except for new pronouncements)
 - Reason why prior periods reported were not restated (if applicable)

Change in Accounting Estimate

- Effects of the change in an accounting estimate should be recognized prospectively
- Note disclosures should include
 - Nature of the change in estimate and what items were affected in the financial statements
 - If the change in estimate comes from a change in methodology, disclose reason why there is a change and why it is preferable

Change to or within the Financial Reporting Entity

- Beginning net position or fund balance should be adjusted as if the change occurred at the beginning of the **current** reporting period (don't restate prior periods)
- Note disclosures should include
 - The nature and reason for the change (exception for major vs. nonmajor change)
 - The effects of the change on applicable fund balance and net position accounts

Correction of an Error in Previously Issued Financial Statements

- Corrections should be reported retroactively for all prior periods presented
- Cumulative effect of the correction should be a restatement of beginning net position or fund balance as of the earliest period presented
- Note disclosures should include
 - Nature of the error and correction, as well as periods affected
 - Effect of the error correction on applicable fund balance & net position accounts for all years affected

Implementation

- Reclassifications in the financial statements when net position or fund balance is not affected – note disclosures explaining the changes are required
- Any RSI (e.g., MD&A) and supplementary information should be consistent with the changes reported in the basic financial statements
- Any RSI, including the MD&A, would not be restated for periods earlier than the basic financial statements (except for error corrections which should be restated)
- RSI and MD&A should be identified as restated or not restated
- Tabular format note disclosures with changes in different categories are required
- Effective for reporting periods that begin after June 15, 2023 - in NC
- **FYE 6/30/24**

GASB Statement No. 101

Compensated Absences



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Current GAAP Reporting

- Compensated absences:
 - Based on past service
 - Probable that employer will compensate employees through paid time off or cash payments
- Sick leave based on a contingent future event – no liability for most governments in NC
- Liabilities based on current pay rates
- Salary-related payments included as part of liability

Compensated Absences and GASB Interpretation No. 6

- Compensated absences in Governmental Funds
 - Expected to be liquidated with expendable available financial resources
 - Expenditure and liability upon termination or retirement
 - Amount must be due and payable
 - Governmental fund liability rare

GASB 101 Definitions/Parameters

- Compensated absences
 - Associated salary-related payments including defined contribution pension and OPEB payments
- Leave for which employees receive:
 - Cash payments when leave is used for time off
 - Other cash payments such as payments for leave upon termination of employment
 - Settlement through other noncash means (e.g., conversion to other post employment benefits)
- Most common examples with the new standard – vacation leave, sick leave, comp time, and paid time off (PTO)

Valuing Compensated Absences Liabilities

- Criteria for a liability
 - Leave is based on services already rendered
 - Leave accumulates
 - Leave is *more likely than not* (more than 50%) to either be used for time off, paid in cash or settled by other non-cash means
- Based on an employee's pay rate at the reporting date (there are certain exceptions)
 - Future pay changes recognized prospectively
 - Includes both directly and incrementally-associated salary-related payments (e.g., employer's share of SS and Medicare taxes, defined contribution plan payments) – similar to GASB 16 requirements

Valuing Compensated Absences Liabilities (cont.)

- What are not liabilities?
 - Leave settled through conversion to defined benefit postemployment benefits – service credit for pensions or OPEB
 - Amounts for which leave is forfeited
 - Any payments covered by GASB 47
 - Holiday leave
 - Parental leave, military leave, jury leave have special rules – liability when leave commences or is used
 - Immaterial items

Valuing Compensated Absences Liabilities (cont.)

- What is “more likely than not”?
 - Government’s employment policies
 - Whether leave that has been earned is or will become eligible for use or payment
 - Government’s history for comp absences about use, payment, forfeiture, amounts used as service credits, etc. – this varies between governments
 - Are historical patterns representative of the future?

Financial Reporting Impacts

- Governmental Funds (current financial resources measurement focus)
 - Expenditure and liability recognized when payments are due and payable
 - GASB Interpretation #6 still relevant
 - GASB 101 impact relatively rare
- Proprietary Funds and Government-wide Statements (economic resources measurement focus)
 - Current and long-term portions of compensated absences liabilities recognized
 - Include salary-related payments

Note Disclosures

- Net change in compensated absences liability acceptable in the note disclosures
- Amount due within one year must still be reported (flow assumption needed)
- Beginning and ending balances of compensated absences reported
- *Note: No requirement now to disclose governmental fund liquidating compensated absences liability*

Implementation

- Required for fiscal years beginning after December 15, 2023
- FYE 6/30/25 in NC

GASB Statement No. 102

Certain Risk Disclosures



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Overview

- Disclosure requirements related to a government's vulnerabilities due to certain concentrations and/or constraints. As of the reporting date:
 - Impact could have already occurred
 - Impact could have begun to occur
 - Impact is more likely than not to occur within 12 months of financial statement *issuance*

Concentration Defined

- Lack of diversity of an aspect of significant inflow or outflow of resources
 - Employers
 - Industries
 - Inflow of resources
 - Providers of financial resources
 - Suppliers

Constraints Defined

- Limitation imposed by a third party or the highest decision-making level (e.g., governing board)
 - Spending
 - Raising revenue
 - Incurrence of debt
 - Mandated spending

Implementation

- Required for fiscal years that begin after June 15, 2024
- In NC, FYE 6/30/25