Tennessee Government Financial Officers Association
2023 Fall Conference

GASB UPDATE

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September 29, 2023

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

Presentation Overview

Pronouncements being implemented

Projects currently being deliberated by the Board

Pre-agenda research activities

Post-implementation review

Effective Dates

December 31: Fiscal Year 2023

- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- Statement 99 – omnibus 2022 (leases, PPPs, and SBITAs)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

December 31: Fiscal Year 2024

- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections
- Statement 101 – compensated absences
- IG 2021-1 – update (5.1)
- IG 2023-1 – update

Effective Dates

June 30: Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- Statement 99 – omnibus 2022 (leases, PPPs, and SBITAs)
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)
- IG 2021-1 – update (4.1–4.21, 4.23, 5.2, and 5.4)

June 30: Fiscal Year 2024

- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections
- IG 2021-1 – update (5.1)
- IG 2023-1 – update

June 30: Fiscal Year 2025

- Statement 101 – compensated absences

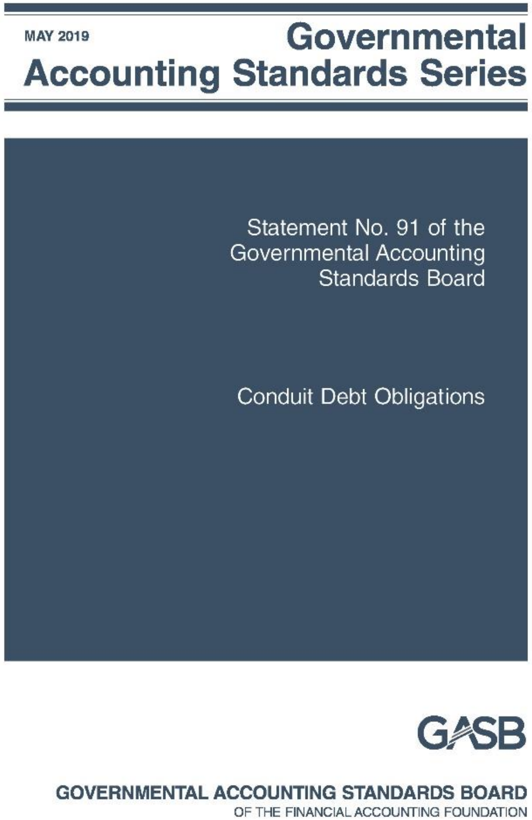
GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Pronouncements Being Implemented

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Conduit Debt Obligations

Statement No. 91


MAY 2019 Governmental Accounting Standards Series

Statement No. 91 of the Governmental Accounting Standards Board

Conduit Debt Obligations

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Conduit Debt

What?

The Board improved the standards related to conduit debt obligations by providing a single reporting method for government issuers

Why?

Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, improvements were needed to eliminate diversity in practice

When?

Effective for periods beginning after December 15, 2021

Earlier application is encouraged

Definition of Conduit Debt

1. There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or trustee.
2. The issuer and the third-party obligor are *not* within the same financial reporting entity.
3. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
4. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
5. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.

Limited, Additional & Voluntary Commitments Extended by Issuers

Generally, issuers' commitments are **limited** to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** to support debt service in the event of the third-party obligor's default.

For example:
- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

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Recognition by the Issuer

- Do *not* recognize a conduit debt obligation as a liability
- May have a related liability arising out of an additional or voluntary commitment
- **Additional commitment**: report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation
- **Voluntary commitment**: if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments
- Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

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Arrangements and Capital Assets

Some conduit debt obligations include arrangements* that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Capital asset is built or acquired with proceeds of the conduit debt obligation.
- Issuer retains title to the capital asset from the beginning of the arrangement.
- Payments from the third-party obligor are to cover debt service payments.
- Payment schedule of the arrangement coincides with the debt service repayment schedule.

*Often characterized as “leases”

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Arrangements and Capital Assets (continued)

Accounting by the issuer:

- Do *not* report those arrangements as leases
- Do *not* recognize a liability for the related conduit debt obligations
- Do *not* recognize a receivable for the payments related to those arrangements
- If the arrangement meets the definition of a service concession arrangement, follow Statement 60

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Arrangements and Capital Assets (continued)

Does title pass to third-party obligor at end of arrangement?	Does the issuer recognize a capital asset?	Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of *entire* capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only *portions* of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement

Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

If the issuer recognizes a related liability

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

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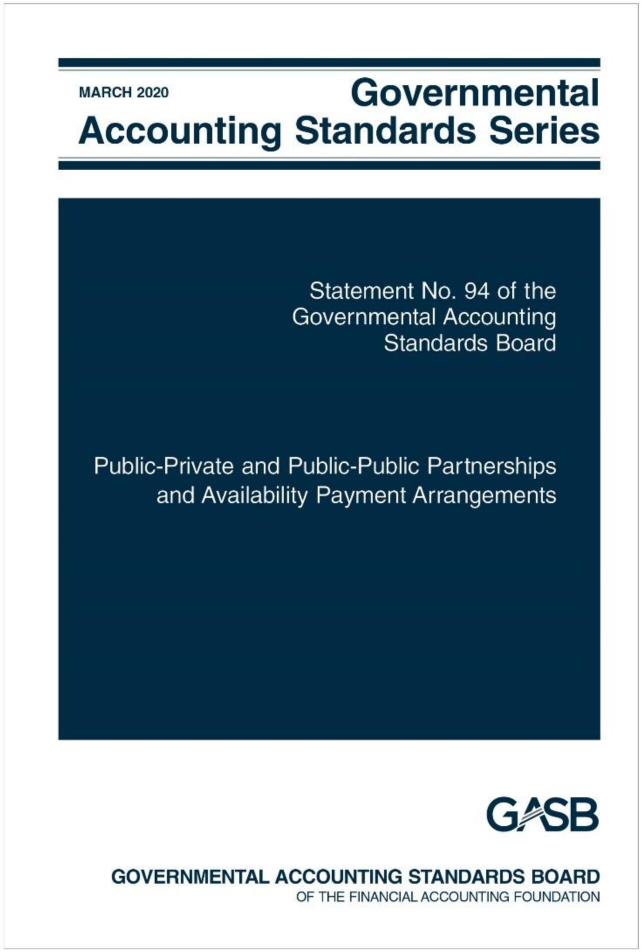
Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Statement No. 94


MARCH 2020

Governmental Accounting Standards Series

Statement No. 94 of the Governmental Accounting Standards Board

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

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P3s, APAs, and SCAs

What?

The Board issued guidance for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87, and improvements to Statement 60

Why?

GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60’s guidance for service concession arrangements (SCAs)

When?

Effective for reporting periods beginning after June 15, 2022

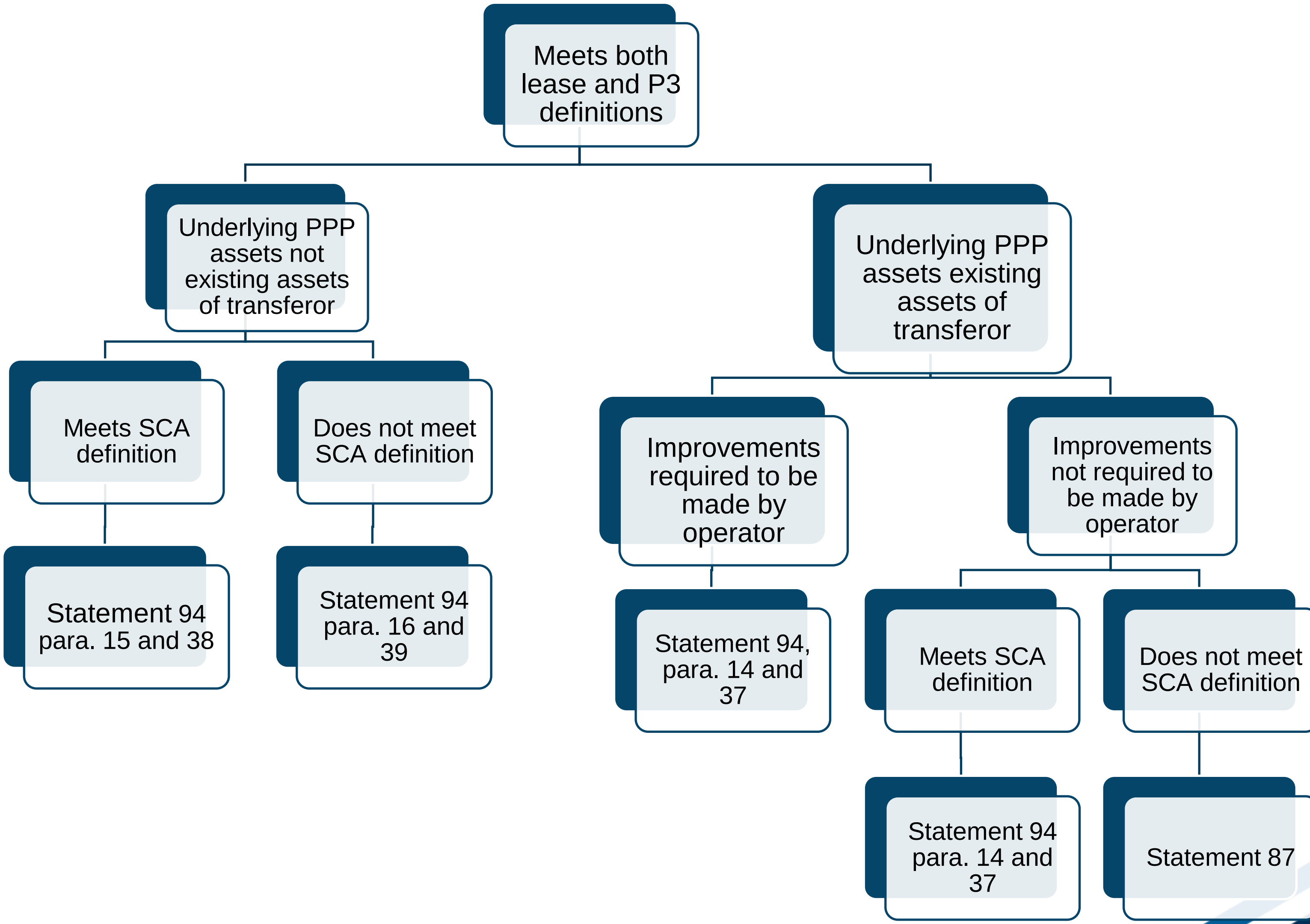
Definitions: PPPs and APAs

Public-private partnerships and **public-public partnerships (P3s)** are arrangements "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 or use a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

Availability payment arrangements (APA):

- 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

Other Provisions: Recognition and Measurement Guidance



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Other Provisions

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

Transferor Reporting

For all P3s, recognize:

- Receivable for installment payments to be received, if any
- Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term

If underlying P3 asset is a new asset or an existing asset that has been improved…

- …and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation
- …and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

Operator Reporting

For all P3s, recognize:	If underlying P3 asset is (a) existing asset or (b) new asset and the P3 is an SCA…	If underlying P3 asset is a new asset and the P3 is not an SCA…
• Liability for installment payments to be made, if any	• …also recognize an intangible right-to-use asset	• Also recognize the underlying P3 asset until ownership is transferred • And a liability and deferred outflow of resources for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer

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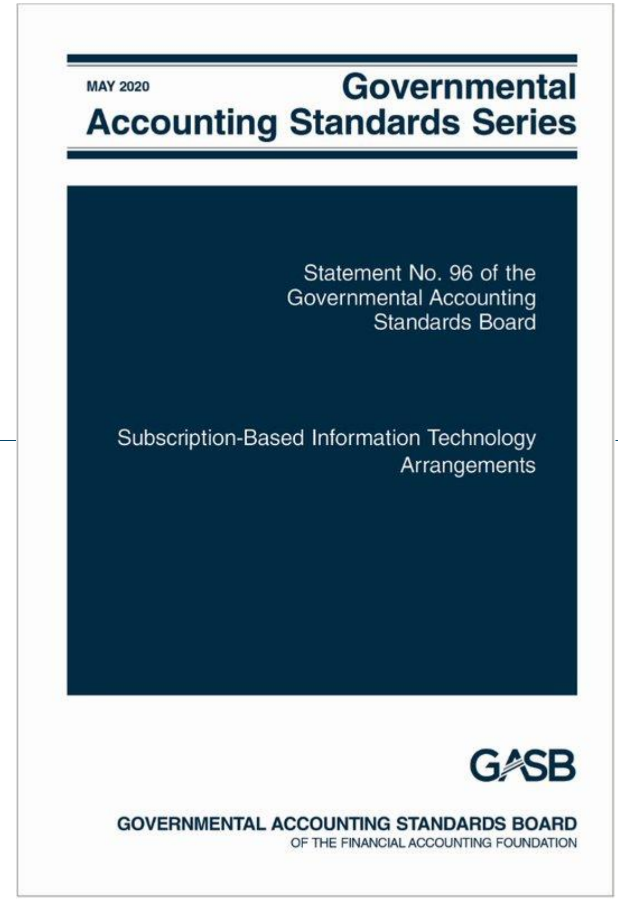
Subscription-Based Information Technology Arrangements

Statement No. 96



Statement 96 on SBITAs

What?

The Board issued standards related to reporting subscription-based information technology arrangements (SBITAs), such as cloud computing contracts

Why?

Stakeholders were concerned that those transactions were not covered by the guidance in Statements 51 or 87; diversity existed in practice

When?

Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter

Earlier application is encouraged

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Scope and Applicability

A subscription-based information technology arrangement (SBITA) "is 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."

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

Scope and Applicability (continued)

- Statement 96 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 compared to the cost of the underlying tangible capital asset
  - 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 P3 in Statement 94
  - Licensing arrangements that provide a perpetual license to governments to use a vendor’s computer software, which are subject to Statement 51

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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Recognition and Measurement

An SBITA should be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

Measurement of the subscription asset should include certain capitalizable implementation costs based on stages similar to those for internally developed software in Statement 51:

- Preliminary project stage
- Initial implementation stage
- Operation and additional implementation stage

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Accounting for Activities Associated with a SBITA

Preliminary project stage	Initial implementation stage	Operation & additional implementation stage
• Outlays should be expensed as incurred	• In general, outlays should be capitalized • However, if no subscription asset is recognized (such as for a short-term SBITA), outlays should be expensed as incurred	• Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria

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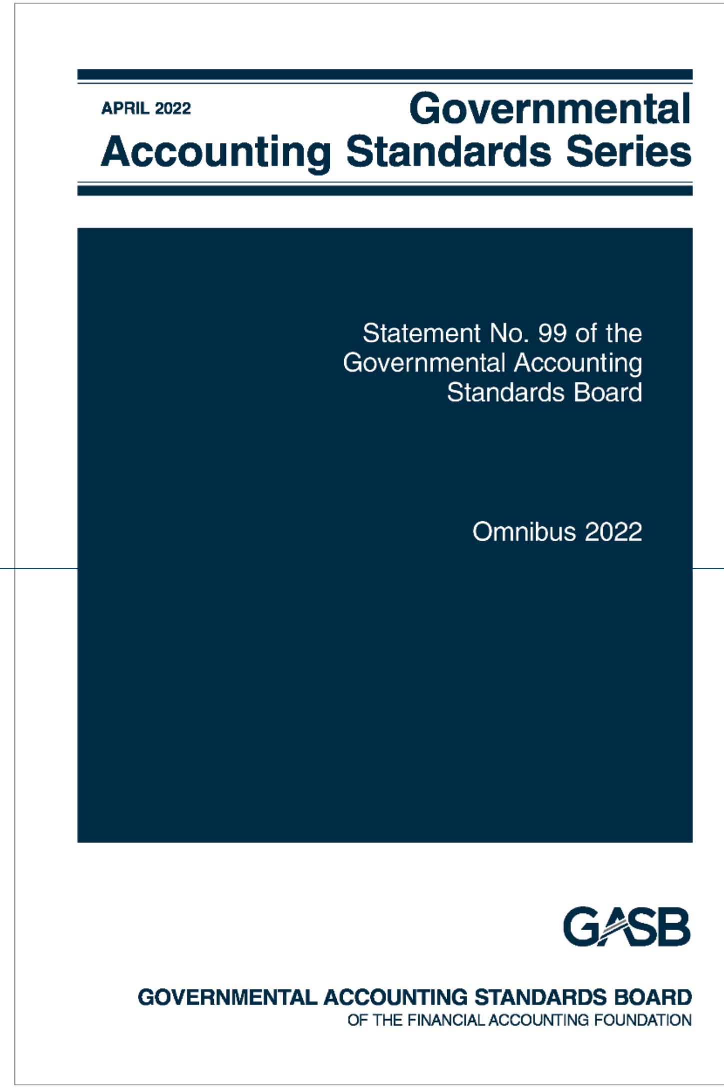
Omnibus 2022

Statement No. 99


APRIL 2022

Governmental Accounting Standards Series

Statement No. 99 of the Governmental Accounting Standards Board

Omnibus 2022

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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

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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 should be reported on flow statement separately from investment revenues
- Disclosures should 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 should be reported on the flows statement separately from investment revenues.

Leases, PPPs, and SBITAs

Remeasurement of certain assets and liabilities

- Should 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 should 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, should 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 should be remeasured if there is a change in the PPP term
- Deferred outflow of resources should be adjusted by the same amount as any remeasurement change to the liability for the underlying PPP asset

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Replacement of Interbank Offered Rates

London Interbank Offered Rate (LIBOR)

- Date at which it is not an appropriate benchmark interest rate changes to when it is no longer determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021.

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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

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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

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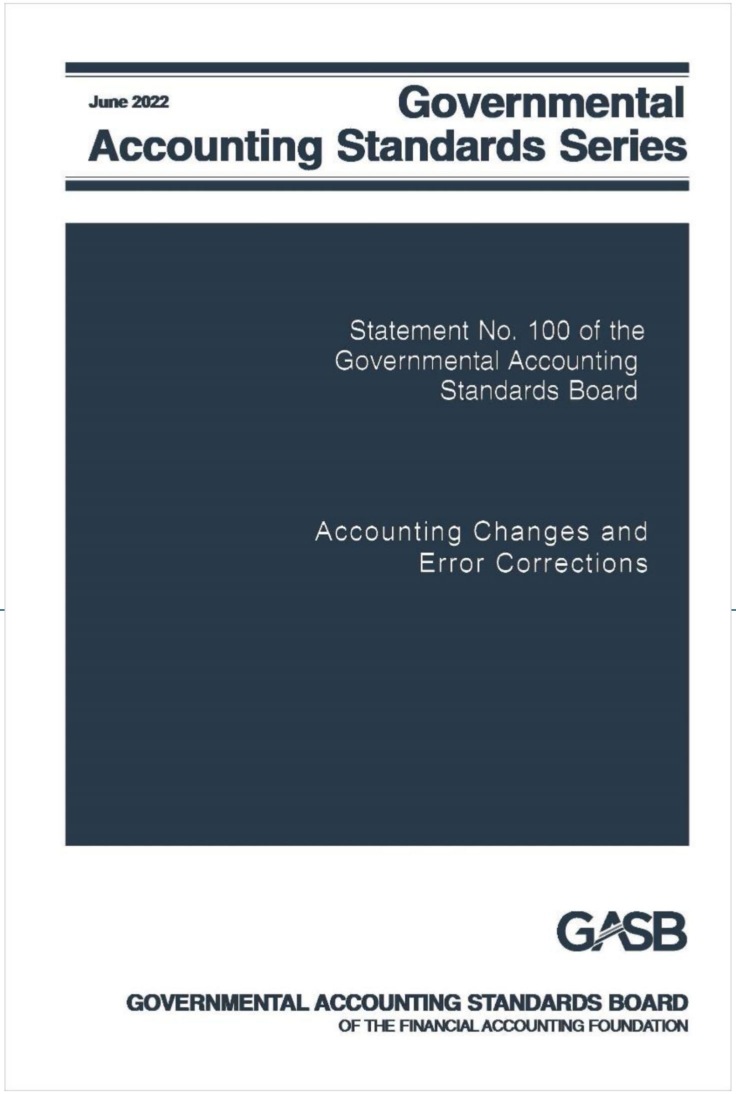
Accounting Changes and Error Corrections

Statement No. 100


June 2022

Governmental Accounting Standards Series

Statement No. 100 of the Governmental Accounting Standards Board

Accounting Changes and Error Corrections

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Accounting Changes and Error Corrections

What?

Based on a reexamination of the requirements in Statement 62, the Board has replaced the guidance that previously existed in Statement 62 with new standards for accounting changes and error corrections.

Why?

The previous guidance was based on several sources of accounting standards, some of which had been superseded, and much of which was been in effect without review by the GASB for decades.

When?

Effective for changes made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged.

Classification

Accounting changes

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

Correction of an error in previously issued financial statements

Change in Accounting Principle

- A change in accounting principle results from either:
  - A **change** from one generally accepted accounting principle to another that is justified on the basis that the newly adopted accounting principle is preferable
    - Preferability based on the qualitative characteristics of financial reporting
  - Implementation of new pronouncements

Accounting Estimates

- Accounting estimates are:
  - Amounts subject to measurement uncertainty that are recognized or disclosed in basic financial statements
  - Outputs determined based on inputs such as data, assumptions, and measurement methodologies

Change in Accounting Estimate

- A *change* in accounting estimate occurs when the inputs change
  - Inputs include data, assumptions, and measurement methodologies
- Changes in inputs result from:
  - Change in circumstance
  - New information
  - More experience
- Change in measurement methodology should be justified on the basis that new methodology is preferable
  - Based on qualitative characteristics of financial reporting

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Change to or within the Financial Reporting Entity

- A change to or within the financial reporting entity results from:
  - Addition/removal of a fund that results from movement of continuing operations within the primary government, including its blended component units
  - A change in the fund presentation as major or nonmajor
  - Addition/removal of a component unit (except for acquisitions, mergers, and transfers of operations, and Statement 90 component units)
  - Change in presentation (blended or discrete) of a component unit

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Correction of an Error

- An error results from:
  - Mathematical mistakes
  - Misapplication of accounting principles
  - 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 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 for Accounting Changes and Error Corrections

Change in accounting principle

- Reported retroactively by restating prior periods presented, if practicable
- If not practicable, restate beginning balances of current period

Change in accounting estimate

- Reported prospectively
- Recognized in current-period flows

Change to/within the reporting entity

- Reported by adjusting current period beginning balances

Error correction

- Reported retroactively by restating prior periods presented

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Display

Shown separately

- Aggregate amount of adjustments to and restatements of beginning balances should be displayed for each reporting unit

Note Disclosures

Disclosures vary depending on the type of item, but common disclosures include:

- The nature of the change or error and its correction
- Reason for the change
- The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

RSI and SI

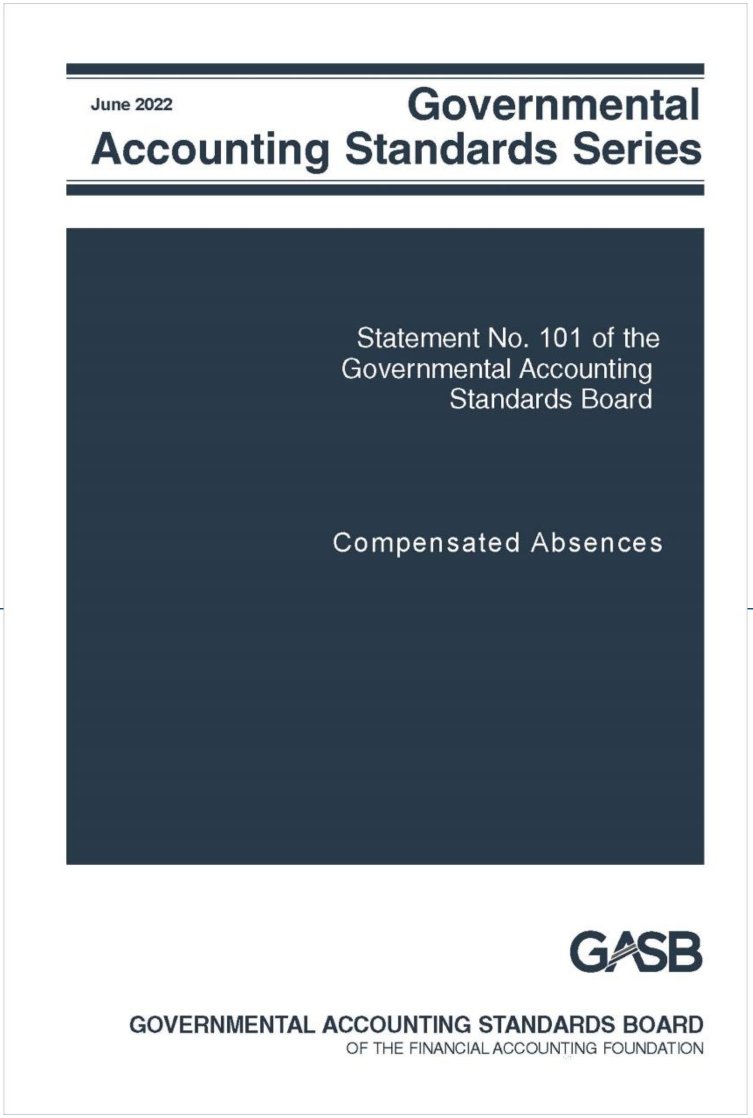
The Statement addresses how to present in RSI and SI information that is affected by an accounting change or error correction

Periods earlier than those presented in basic financial statements should ***not*** be restated for changes in accounting principles

Periods earlier than those presented in basic financial statements should be restated for error corrections, if practicable

Compensated Absences

Statement No. 101


June 2022

Governmental Accounting Standards Series

Statement No. 101 of the Governmental Accounting Standards Board

Compensated Absences

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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

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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

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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	Salary-related payments
Generally the employee's pay rate at financial reporting date	Directly and incrementally related
Exception: more likely than not to be paid at a different rate	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

Implementation Guidance Updates

2020-1, 2021-1 and 2023-1

Implementation Guidance Updates

What?

The need for updates to Q&A implementation guidance is considered annually.

Why?

New guidance is added as new pronouncements are issued and new issues arise.

When?

Effective dates vary by Q&A from periods beginning after June 15, 2020 through periods beginning after June 15, 2023.

Implementation Guide 2020-1

Adds new questions on standards regarding

- Certain asset retirement obligations
- Conduit debt obligations
- External investment pools
- Fiduciary activities
- Financial reporting entity
- Leases

Updates existing Q&A guidance related to

- External investment pools
- OPEB
- Pensions
- Deferral of certain Implementation Guide questions and answers

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Implementation Guide 2021-1

Adds new questions on standards regarding

- Derivative instruments
- Fiduciary activities
- Leases, including
  - Definition of a lease
  - Lease term: options to extend or terminate; reassessment
  - Short-term leases
  - Lessee recognition and measurement
  - Lessor recognition and measurement
  - Lease incentives
  - Modifications and terminations
- Nonexchange transactions

Updates existing Q&A guidance related to

- Financial reporting model
- Sales and pledges and intra-entity transfers (Statement 48)

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Implementation Guide 2023-1

Adds new questions on standards regarding

- Leases
- SBITAs
- Changes to or within the financial reporting entity (Statement 100)

Updates existing Q&A guidance related to

- Leases

Current Technical Agenda Projects

Classification of Nonfinancial Assets

Classification of Nonfinancial Assets

What?

The Board will review the existing classification of nonfinancial assets and other related sub-classifications (for example, capital assets or intangible assets)

Why?

A review of existing standards found that they generally were effective, but that there were aspects that could be significantly improved

When?

An Exposure Draft is scheduled to be considered for issuance in Q3 2023

Tentative Board Decisions

Asset	Classification
Tangible capital assets held for sale	Major class of capital assets
Intangible owned capital assets	Major class(es) of capital assets
Intangible lease assets (Stmt 87)	Major class(es) of capital assets
Intangible subscription assets (Stmt 96)	Separate from other capital assets
Assets representing right to use intangible assets	Not separate from assets representing right to use tangible underlying assets - but – Separate from owned intangible assets

- Scope of project limited to classification and related presentation and disclosure issues
- The term *nonfinancial asset* will not be defined

Tentative Board Decisions – Capital Assets Held for Sale

- Capital assets to be classified as held for sale if:
  - The government has decided to sell the asset
  - It is probable that the sale will occur within one year of the financial statement date
- Factors to consider if it is probable that the sale will occur within one year:
  - Asset is available for immediate sale in its present condition
  - An active program to locate a buyer has been initiated, including being put out for bid,
  - Market conditions for the type of asset
  - Regulatory approvals needed to sell the asset
- No exceptions to the one year timeframe
- Assets may be reclassified out of held for sale if usage changes

Project Timeline

Pre-Agenda Research Started	August 2020
Added to Current Technical Agenda	December 2021
Deliberations Begin	July 2022
Exposure Draft Scheduled to Be Considered for Issuance	September 2023

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Financial Reporting Model Reexamination

Financial Reporting Model Improvements

What?

The Board proposed improvements to the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6

Why?

A review of those standards found that they generally were effective, but that there were aspects that could be significantly improved

When?

A final Statement is scheduled to be considered for issuance in Q1 2024

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Overview of the Proposals

Measurement focus and basis of accounting for the governmental funds

Format of governmental funds financial statements

Clarification of operating and nonoperating in proprietary funds

Presentation of proprietary funds statement of revenues, expenses, and changes in net position

Management's discussion and analysis

Budgetary comparisons

Major component unit presentations

Unusual or infrequent items

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Recognition in Governmental Fund Financial Statements

- June 2023 – Board tentatively decided to remove governmental funds from the scope of the project
  - A conceptually pure model (with no exceptions) would provide less meaningful information
    - Would present fund balance that does not reflect all the accruals that the Board believed should be recognized
    - In order for the new measurement focus and basis of accounting to provide more meaningful information it would need to include exceptions for certain transactions
      - Result would be a lack of a conceptually consistent (pure) foundation, which was a primary objective of the project

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Recognition in Governmental Fund Financial Statements (continued)

- Board also questioned the ability of the proposed model to produce comparable results due to the potential difficulty in applying the new concepts
- Board determined that the perceived costs did not justify the expected benefits of the proposed new measurement focus and basis of accounting

Presentation of Governmental Funds (also removed from the scope of the project in August)

Financial statements presented in ***current and noncurrent activity*** format

Current activity—
all other

Noncurrent activity—
related to purchase and disposition of capital assets and issuance and repayment of long-term debt

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Proposals: 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 • Contributions to permanent and term endowments

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Proposals: Proprietary Funds (cont.)

“Subsidies” as proposed

- Resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided
- Resources provided to another party or fund that results in higher rates than otherwise would be established for the level of goods and services to be provided

Add a new subtotal for operating income (loss) and noncapital subsidies

Proposals: Proprietary Funds (cont.)

"Subsidies" Board tentative decisions

- Indicate that all transfers are included
- Clarify that subsidies can have a direct or an indirect impact on user fees and charges
- Clarify that subsidies should be classified as noncapital subsidies unless limited to capital purposes

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	2016	2015
Operating revenues:		
Tuition and fees (net of discounts)	$ 574,168	$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	1,146,343	1,091,377
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	1,681,544	1,596,059
Income (loss) generated by operations	(535,201)	(504,682)
Noncapital subsidies:		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	558,101	530,057
Operating income (loss) and noncapital subsidies	22,900	25,375
Financing and investing activities:		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	221,023	126,314
Income before other items	243,923	151,689
Other items:		
Capital contributions	23,231	74,830
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	$ 3,328,265	$ 3,061,111

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Proposals: 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)

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

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

Proposals: Management's discussion and analysis (continued)

Board Tentative Decisions

- Reference to the SSAP should not be required
- Presenting an analysis of balances and transactions of nonmajor funds in the aggregate should not be required
- Discussion of significant variations between the original and final budget amounts and between the final budget amounts and actual results for the general fund and major special revenue funds should be presented as notes to budgetary comparison information, which is proposed to be presented as RSI
- Information about infrastructure assets accounted for using the modified approach should be removed

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Other Proposals

Budgetary comparisons

- Would be presented as required supplementary information (no option for basic statements)
- Required variances would be final-budget-to-actual and original-budget-to-final-budget

Major component unit presentations

- If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements

Other Proposals (continued)

Unusual or Infrequent Items

- Separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence (replacing extraordinary and special items)
- Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management

Proposed Effective Dates

Based on total annual revenues in fiscal year beginning after June 15, 2022

$75 million or more	Less than $75 million
Apply in fiscal years beginning after June 15, 2024	Apply in fiscal years beginning after June 15, 2025

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Issued	September 2018
Exposure Draft Approved	June 2020
Redeliberations Began	May 2021
Final Statement Scheduled to Be Considered for Issuance	March 2024

Going Concern Uncertainties and Severe Financial Stress: Reexamination of Statement 56

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Going Concern Uncertainties and Severe Financial Stress

What?

The Board will review existing standards related to going concern and address issues related to disclosures regarding going concern uncertainties and severe financial stress

Why?

As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; users need information about governments' severe financial stress, but that information is not readily available

When?

The Board added the project to its current technical agenda in December 2021

Topics to Be Considered

How should the existing guidance on going concern uncertainties (including the definition of a going concern) be clarified or improved to reduce diversity in practice in applying the guidance?

How should severe financial stress be defined? How should that definition differ from going concern uncertainties?

If a government is determined to be exposed to severe financial stress, what relevant information should a government disclose in notes to financial statements?

Tentative Board Decisions

The proposed GCU guidance should be focused on uncertainty about a government's existence, regardless of its financial condition. The proposed SFS guidance should be focused on a government's financial stress, regardless of whether there is uncertainty about its continued existence.

Going concern is the assumption that a governmental entity will continue to exist as the same legally separate entity, regardless of its financial condition.

Cease to be a going concern is the situation in which a governmental entity ceases to exist as the same legally separate entity, whether through a merger, acquisition, or dissolution without replacement.

- A merger is a form of government dissolution in which either:
  - a. A government ceases to exist as the same legally separate entity and is combined with one or more governments to form one or more new governments
  - b. A government ceases to exist as the same legally separate entity and its operations are absorbed into, and provided by, one or more continuing governments.
- An acquisition is a form of government dissolution in which a government ceases to exist as the same legally separate entity and is acquired in exchange for significant consideration.
- A dissolution without replacement is a form of government dissolution in which a government ceases to exist as the same legally separate entity without being merged or acquired.

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Tentative Board Decisions

Going concern uncertainty is the substantial doubt about whether a governmental entity will continue to exist as the same legally separate entity, regardless of its financial condition. Substantial doubt means the likelihood is probable.

To identify whether there is GCU for disclosure purposes, a government should evaluate all relevant factors that indicate a likelihood of a potential government dissolution and determine whether all relevant factors, considered in the aggregate, indicate that GCU exists.

The term *financial stress* should continue to be used as part of the description of the condition a government is experiencing. A modifier is needed to describe the degree of financial stress a government is experiencing.

Project Timeline

Pre-Agenda Research Started	April 2015
Added to Current Technical Agenda	December 2021
Deliberations Begin	July 2022
Preliminary Views Scheduled to Be Considered for Issuance	August 2024
Exposure Draft Scheduled to Be Considered for Issuance	March 2026

Revenue and Expense Recognition

Revenue and Expense Recognition

What?

The Board proposed a comprehensive model for recognition of revenues and expenses

Why?

Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When?

The Board is scheduled to consider the issuance of an Exposure Draft in Q1 2025

Broad Project Objective

Develop a comprehensive, principles-based model that establishes guidance applicable to a wide range of revenue and expense transactions to:

- Expand on areas where there is no guidance—expenses
- Expand on areas where there is limited guidance—certain revenues
- Consider practice issues and challenges identified in current guidance—Statement 33
- Consider the conceptual framework—issued after Statement 33
- Consider performance obligation recognition

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Scope of the Project

- The scope is defined broadly to include revenues and expenses except for those ***explicitly excluded:***

- Financial instruments
  - Investments
  - Derivative instruments
  - Long-term debt
- Capital assets and inventory
  - Purchase, sale, or impairment
  - Capitalization and depreciation
  - Inventory valuation
- Post-employment
  - Pensions
  - OPEB
  - Other: compensated absences

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Proposed Recognition Model Components

Categorization

Identify the *type* of transaction

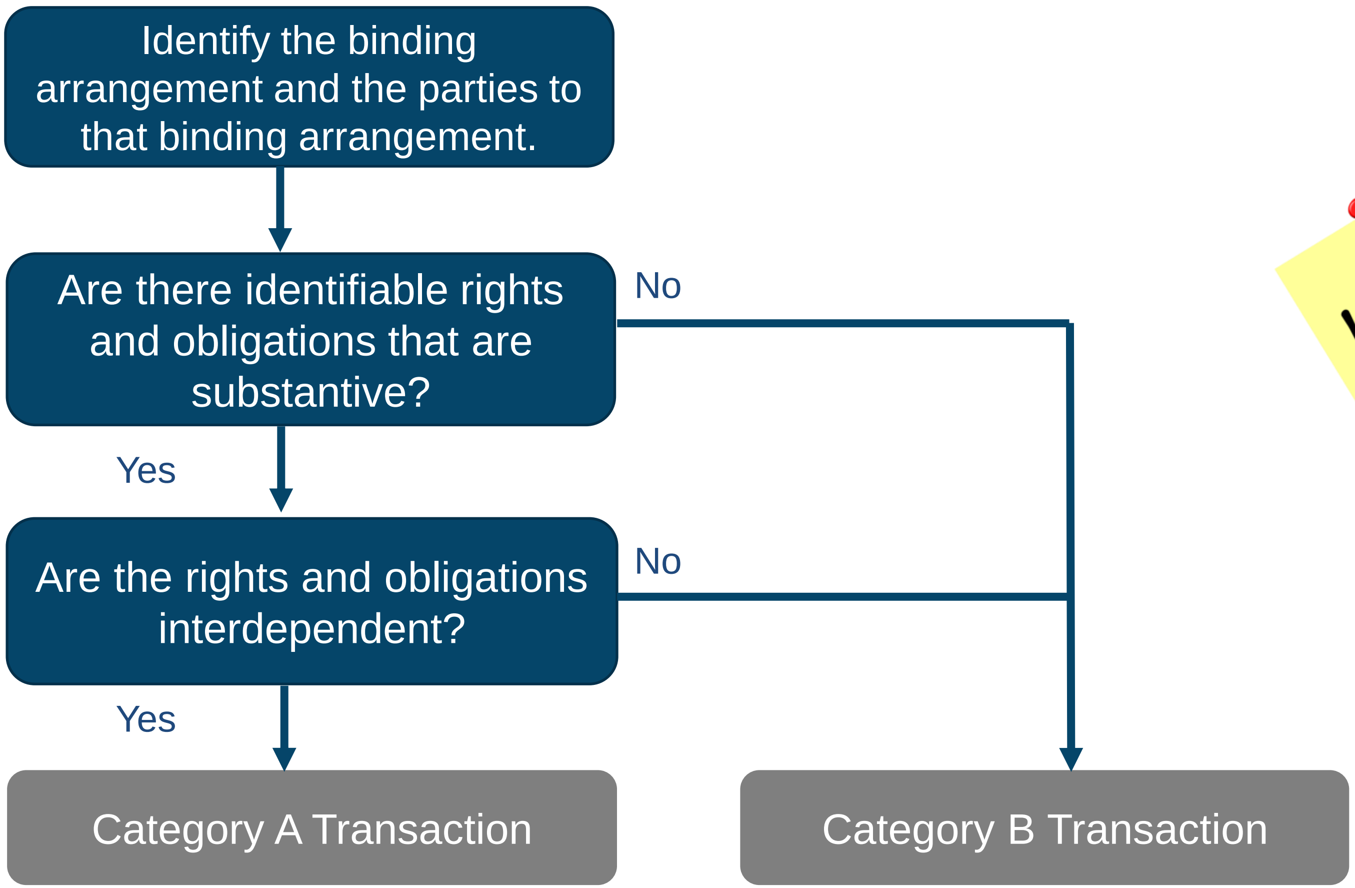
Recognition

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

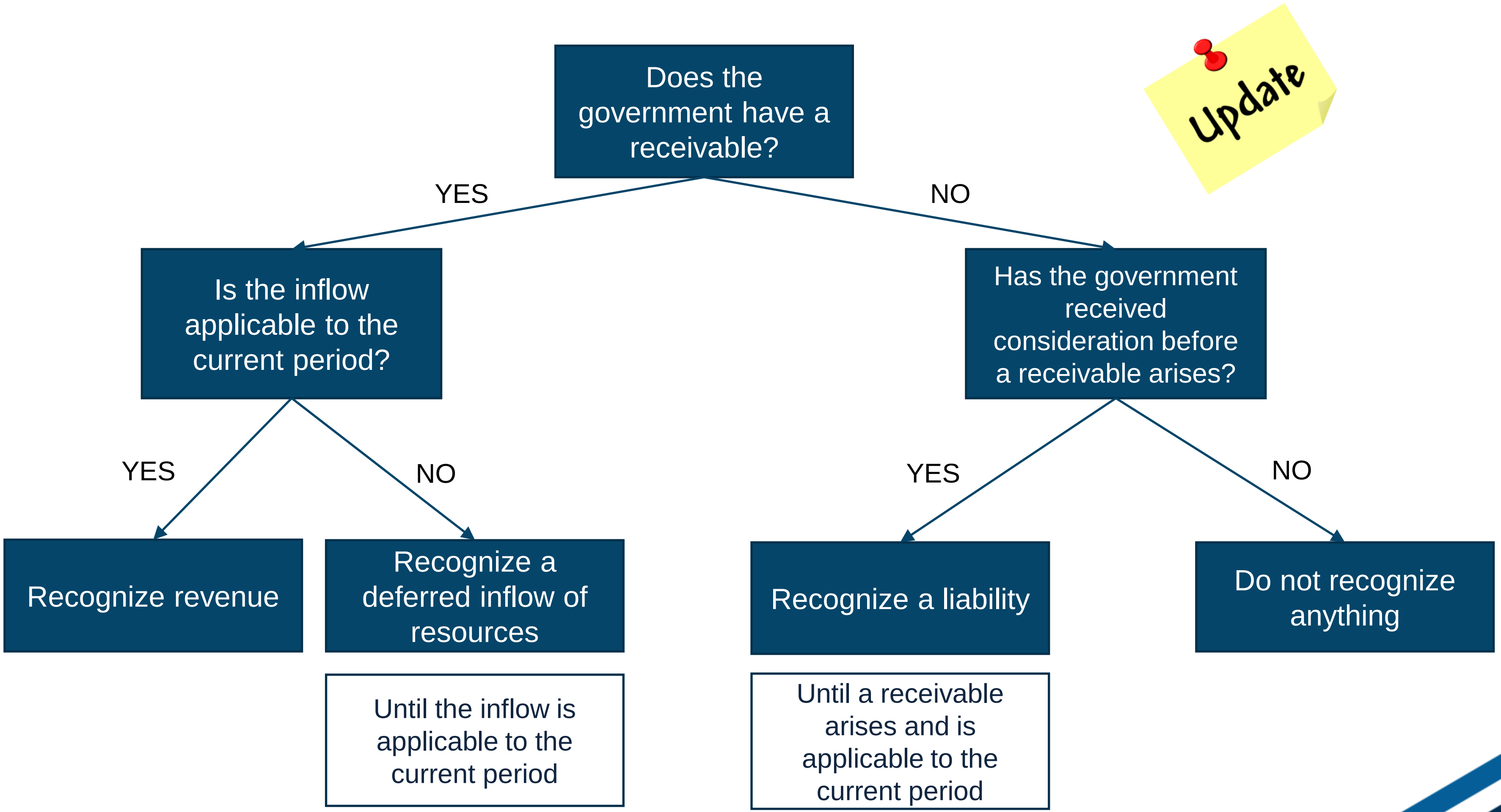
Measurement

Determine the *amount* to report

Proposed Categorization Methodology



Proposed Revenue Recognition Principles



Proposed Revenue Recognition Principles

A **receivable** should be recognized when a **legally enforceable claim** arises in a revenue transaction. A legally enforceable claim arises at different points based on the terms and conditions specified in the binding arrangement.

Advances in revenue transactions are resources received before a **legally enforceable claim** arises and should result in a **liability** being recognized, regardless of whether those advances are refundable.

Category A Proposed Revenue Recognition Principles

Categorization

Contain the following characteristics:

- Identifiable rights and obligations that are substantive
- Rights and obligations are interdependent

Recognition

Revenues and expenses are recognized based on the satisfaction of a **performance obligation**

Category A Expense Recognition Examples

A performance obligation is satisfied when there is a transfer of control of resources

City orders supplies	Expense is recognized as the city receives the supplies
School district hires CPA	Expense is recognized as the CPA firm carries out the expected work, such as an audit
Public utility employees	Expenses for wages are recognized as the employees perform services over time

Category B Proposed Revenue Recognition Principles

Categorization

Fails one of the following:

- Identifiable rights and obligations that are substantive
- Rights and obligations are interdependent

Recognition

Revenues and expenses are recognized based on **<u>five subcategories</u>**

Category B Proposed Revenue Recognition Principles Continued

Receivable	• Recognized when a legally enforceable claim arises
Revenue	• Recognized at the same time as the receivable, unless there are time requirements
Liability	• Resources received prior to the establishment of a legally enforceable claim
Deferred Inflow of Resources	• If the transaction includes a time requirement, assess the recognition of a deferred inflow of resources

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Category B Expense Recognition Examples

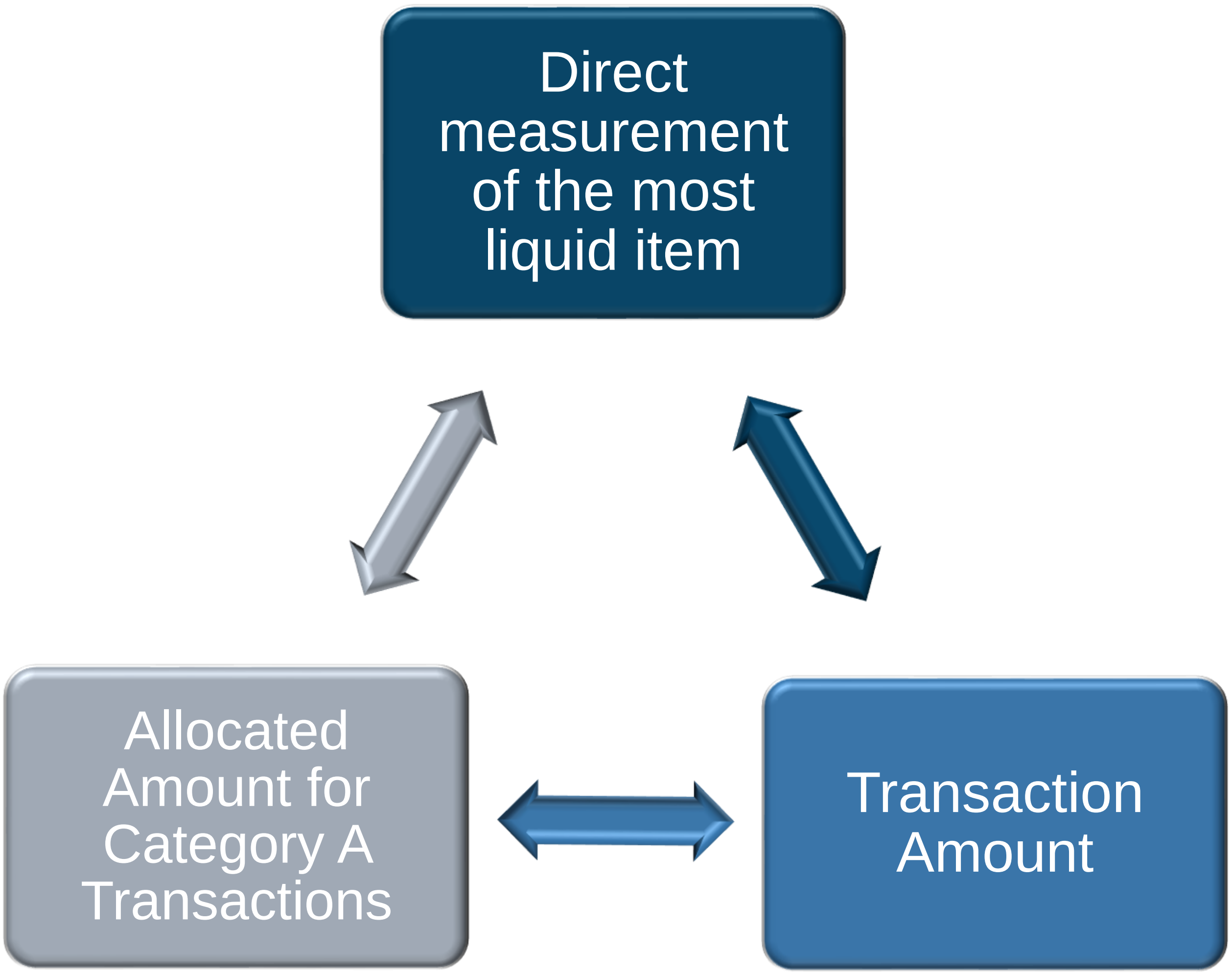
Expense is recognized at the same time as the ***payable***, unless there are time requirements

Contractual arrangements

Shared revenue (outflows)

General aid (outflows)

Proposed Measurement Principles



Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Preliminary Views Approved	June 2020
Redeliberations Began	May 2021
Exposure Draft Scheduled to Be Considered for Issuance	March 2025

Certain Risk Disclosures

Certain Risk Disclosures

What?

The Board has proposed standards to disclose certain risks faced by governments

Why?

Stakeholders asked the GASB to address this issue

When?

A final Statement is scheduled to be considered for issuance in 2023

Tentative Decisions: Scope: Types of Risks

Concentrations: lack of diversity in an aspect of a significant revenue source or expense

- For example, (1) principal employers, (2) principal industries, (3) principal resource providers, (4) composition of principal inflows of resources, (5) workforce covered by collective bargaining agreements, and (6) suppliers of material, labor, or services

Constraints: imposed by an external party or the government's highest level of decision authority that limits the government's ability to acquire resources or control spending

- For example, (1) limitations on raising revenue, (2) limitations on spending, (3) limitations on the incurrence of debt, and (4) mandated spending

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Tentative Decisions: Disclosure Criteria

Disclosures would be required when a government determines that:

- 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 or events associated with the concentration or constraint that could cause the substantial impact either have occurred or are more likely than not to begin to occur within 12 months of the date the financial statements are available to be issued.

Tentative Decisions: Disclosure Requirements

- Description of the concentration or constraint
- If they have occurred, description of each event associated with the concentration or constraint that could cause a substantial impact
- Description of actions taken by the government to mitigate the risk

Tentative Decisions: Disclosure Requirements: General Principles

Disclose sufficient detail to enable users to understand the general nature of the risks and the government's vulnerability to a substantial effect.

Disclosure is not required if mitigating actions cause any of the disclosure criteria to no longer be met.

Disclosure criteria should always be assessed at the level of the primary government (including blended component units).

In addition, if a reporting unit has a liability for revenue debt, the disclosure criteria should also be assessed for that reporting unit.

If the information to be disclosed is the same for more than one reporting unit, that information should be combined to avoid unnecessary duplication.

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Project Timeline

Added to Current Technical Agenda	July 2020
Deliberations Began	September 2020
Exposure Draft Issued	June 2022
Redeliberations Began	November 2022
Final Statement Scheduled to be Considered for Issuance	2023

Infrastructure Assets

Infrastructure Assets

What?

The GASB is evaluating existing guidance related to infrastructure assets and the usefulness of information reported by governments

Why?

Stakeholders have asked the GASB to review various aspects of infrastructure asset reporting; the most relevant standards have been in effect 15-20 years

When?

The Board added the project to its technical agenda in April 2023

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Topics to Be Considered

How should infrastructure assets be recognized and measured in financial statements? Should the optional use of the modified approach continue to be allowed to report infrastructure assets?

Should additional information related to maintenance and preservation of infrastructure assets be presented in financial statements and, if so, what information and what method of communication should be used to provide that information?

Project Timeline

Pre-Agenda Research Started	August 2019
Added to Current Technical Agenda	April 2023
Deliberations Begin	May 2023
Preliminary Views Scheduled to Be Considered for Issuance	July 2024
Exposure Draft Scheduled to Be Considered for Issuance	January 2026

Pre-Agenda Research Activity

Subsequent Events

Subsequent Events

What?

The GASB is evaluating existing guidance related to subsequent events and the usefulness of information reported by governments

Why?

Existing guidance is based on other literature dating back to 1972 and generally have not be reevaluated

When?

The Board added the pre-agenda research in December 2021

Topics to Be Considered

- How prevalent are recognized and nonrecognized subsequent events?
- How prevalent are subsequent event disclosures?
- What types of subsequent events are disclosed in practice?
- What difficulties do governments have, if any, distinguishing between subsequent events that require adjustments to the financial statements and those that are limited to disclosure?
- What difficulties do governments have, if any, determining whether information that became available prior to the issuance of the financial statements reflects conditions that existed as of the date of the financial statements?

Topics to Be Considered (continued)

- How are the standards applied to events occurring after the issuance of the financial statement when a government reissues the financial statements?
- What impact might the proposed changes to MD&A in the Financial Reporting Model project have on subsequent events reporting?
- What information are governments disclosing about subsequent events? Is that information essential to users for making decisions and assessing government accountability?
- What disclosures do users need, if any, about subsequent events that they are not currently receiving? How would they use that information?
- What essential information, if any, do users need regarding recognized subsequent events?

Post-Implementation Review (PIR)

What is PIR?

The GASB monitors and supports implementation of all of its pronouncements

For Statements resulting from comprehensive projects and major projects that address a fundamental aspect of the standards, the GASB also:

- Examines a random some of financial reports for the year prior to, year of, and year after implementation
- Collects information from their preparers regarding staff hours and nonstaff costs for those three years
- 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
- Reports the findings publicly

Why does the GASB conduct PIRs?

To provide general support to stakeholders when implementing significant new pronouncements

To identify and address practice issues that arise

To answer technical inquiries from stakeholders and develop and publish Q&A implementation guidance

To collect timely information that the Board can use to evaluate cost-benefit considerations as it develops other pronouncements and when it reexamines the standards in the future

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How does the GASB involve stakeholders in PIR?

Stakeholders bring potential implementation issues to the GASB's attention

Governments are recruited to keep track of their staff hours and nonstaff costs related to the pronouncement and provide that information for the year prior to implementation and the first and second years of implementation

Stakeholders of all types are invited to participate in roundtable discussions and to respond to surveys regarding their experience with the standards in practice

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Which Statements are under review?

Statement 67—Pension plan reporting

Statement 68—Employer reporting for pensions

Statement 72—Fair Value measurement & reporting

Statement 75—Employer reporting for other postemployment benefits (OPEB)

Statement 84—Fiduciary activities

Statement 87—Leases

What is the status of the PIRs?

Pensions	Conducting 5 separate surveys of stakeholders to obtain additional information about certain topics raised at stakeholder roundtables, including surveys of actuarial firms, pension plans, employers/preparers, auditors, and users
Fair value	Beginning collection and analysis of fifth-year reports
OPEB	Analysis of prior year and implementation year reports completed, second year analysis nearly completed; collection of implementation effort and cost information completed and being analyzed
Fiduciary activities	Recruitment of governments completed; collection of implementation effort and cost information has begun
Leases	Collection of implementation effort and cost information and pre-implementation year reports has begun

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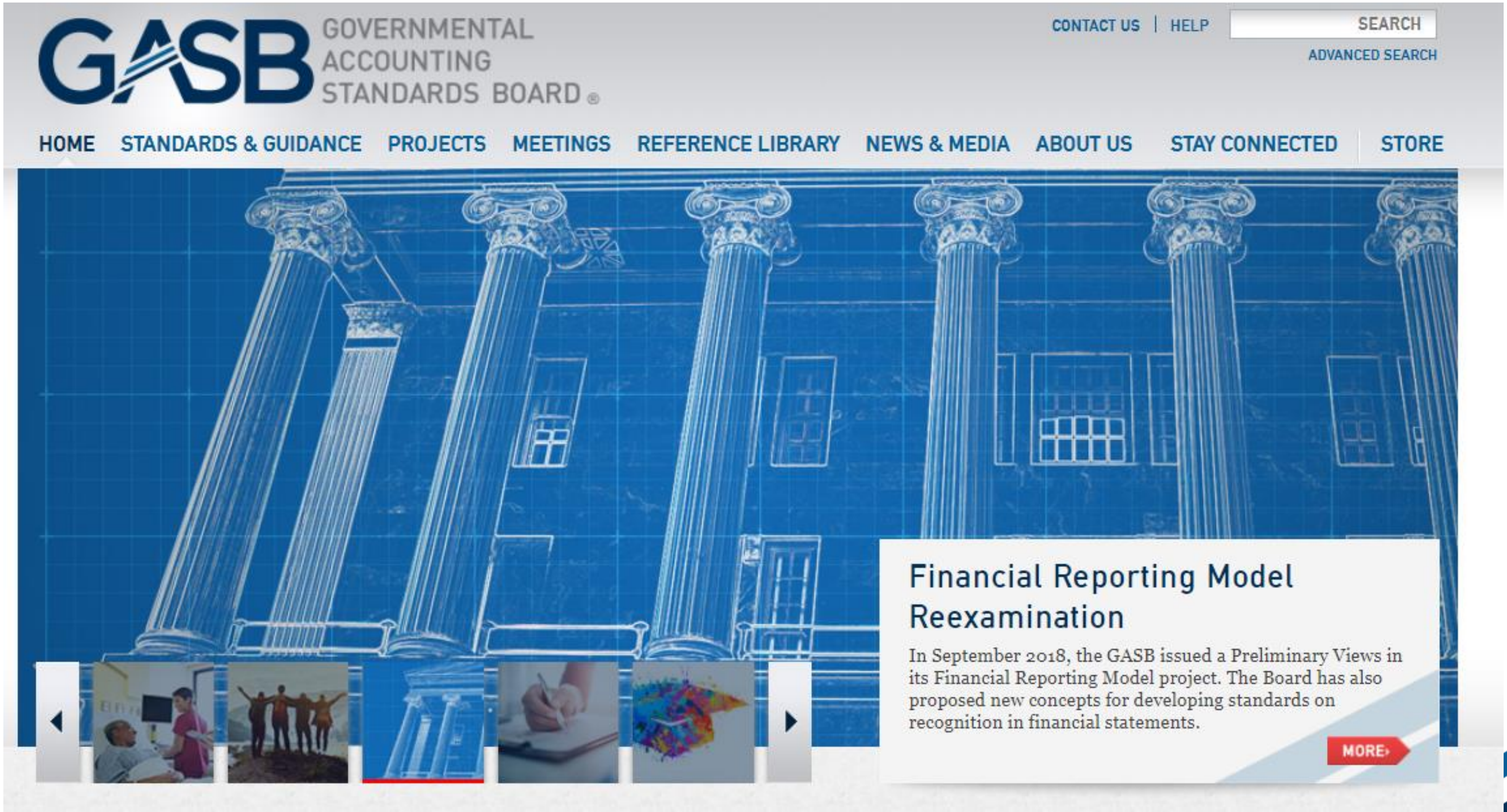
Questions?

Visit www.gasb.org

www.gasb.org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Financial Reporting Model Reexamination
In September 2018, the GASB issued a Preliminary Views in its Financial Reporting Model project. The Board has also proposed new concepts for developing standards on recognition in financial statements.
MORE

Website Resources

- Free download of Statements, Implementation Guides, Concepts Statements and other pronouncements
- Free access to the basic view of Governmental Accounting Research System (GARS)
- Free copies of proposals
- Up-to-date information on current projects
- Form for submitting technical questions
- Educational materials, including podcasts

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Thank You

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