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# Moving into the Future with Purpose

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# GASB Update

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September 10, 2024

# Agenda

- GASB 100
- GASB 101
- GASB 102
- GASB 103
- GASB Agenda

# GASB 100, Accounting Changes & Error Corrections

- Implementation date: Fiscal years beginning after June 15, 2023
  - June 30, 2024
  - December 31, 2024
  - April 30, 2025
- Objective
  - Clarify definitions and treatment for the three types of accounting changes
  - Distinguish error corrections from accounting changes
  - Update recognition and disclosure requirements
  - Provide guidance on treatment for RSI and other supplementary information

# GASB 100, Accounting Changes & Error Corrections

- What's changed?
  - Terminology – ~~prior period adjustments~~
    - Changes in Accounting Principle
    - Error Corrections
  - Changes to or within the financial reporting entity (adjustments)
  - The aggregate amount of adjustments and restatements for each reporting unit *must* be presented on the face of the financial statements

# GASB 100, Accounting Changes & Error Corrections

## *Change in Accounting Principle*

- Change from one GAAP principle to another
  - Newly adopted principle is preferable based on qualitative characteristics
- Implementation of new pronouncements will generally be treated as changes in accounting principle

# GASB 100, Accounting Changes & Error Corrections

## *Change in Accounting Principle*

- Recognition: Retroactive
  - Single Period: Restate beginning position for the cumulative effect
  - Comparative: Restate financial statements for all periods presented
    - Restate beginning position of first period presented for the cumulative effect of the change on all periods prior to the first presented, if practicable

# GASB 100, Accounting Changes & Error Corrections

## *Change in Accounting Principle*

- Disclosures
  - Nature of change
  - Identify the new pronouncement
  - Impacted line items
  - Why new principle is preferred (excluding new pronouncements)
  - If not restating all years, explain “why”
  - Summary table disclosure

# GASB 100, Accounting Changes & Error Corrections

## *Change in Accounting Estimate*

- What is an accounting estimate?
  - *Amounts subject to measurement uncertainty that are recognized or disclosed in basic financial statements*
- Changes to inputs from:
  - Change in circumstance
  - New information
  - More experience

# GASB 100, Accounting Changes & Error Corrections

## *Change in Accounting Estimate*

- Recognition: Prospective
  - No adjustments to beginning position
  - Report in the period of the change

# GASB 100, Accounting Changes & Error Corrections

## *Change in Accounting Estimate*

- Disclosures
  - Nature of change
  - Reason for the change
    - Why new estimate is preferred

# GASB 100, Accounting Changes & Error Corrections

## Changes to **or within** the Reporting Entity

- Changes in fund presentation as major/nonmajor
- Funds added/removed (continuing operations)
- Additions/removal of component units
- Component unit reclassifications

# GASB 100, Accounting Changes & Error Corrections

## Changes to **or within** the Reporting Entity

- Recognition: Current period
  - Adjust current period beginning position
- Ghost Columns

# GASB 100, Accounting Changes & Error Corrections

|                                                      | General              | Tax Increment<br>Financing #3 | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|------------------------------------------------------|----------------------|-------------------------------|-----------------------------------|--------------------------------|
| <b>REVENUES</b>                                      |                      |                               |                                   |                                |
| Total Revenues                                       | 52,194,521           | 2,605,510                     | 3,012,890                         | 57,812,921                     |
| <b>EXPENDITURES</b>                                  |                      |                               |                                   |                                |
| Total Expenditures                                   | 43,778,070           | 3,021,580                     | 3,490,218                         | 50,289,868                     |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | 8,416,451            | (416,070)                     | (477,328)                         | 7,523,053                      |
| <b>OTHER FINANCING SOURCES (USES)</b>                |                      |                               |                                   |                                |
| Total Other Financing Sources (Uses)                 | (8,365,325)          | -                             | (48,584)                          | (8,413,909)                    |
| NET CHANGE IN FUND BALANCES                          | 51,126               | (416,070)                     | (525,912)                         | (890,856)                      |
| FUND BALANCES, JANUARY 1, AS PREVIOUSLY STATED       | 22,448,747           | -                             | 8,357,144                         | 30,805,891                     |
| Change within financial reporting entity             | -                    | 5,071,711                     | (5,071,711)                       | -                              |
| FUND BALANCES, JANUARY 1, AS ADJUSTED/RESTATE        | 22,448,747           | 5,071,711                     | 3,285,433                         | 30,805,891                     |
| <b>FUND BALANCES, DECEMBER 31</b>                    | <b>\$ 22,499,873</b> | <b>\$ 4,655,641</b>           | <b>\$ 2,759,521</b>               | <b>\$ 29,915,035</b>           |

# GASB 100, Accounting Changes & Error Corrections



|                                                      | General              | Formerly<br>Major<br>Tax Incremental<br>Financing #3 | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|------------------------------------------------------|----------------------|------------------------------------------------------|-----------------------------------|--------------------------------|
| <b>REVENUES</b>                                      |                      |                                                      |                                   |                                |
| Total Revenues                                       | 52,194,521           | -                                                    | 5,618,400                         | 57,812,921                     |
| <b>EXPENDITURES</b>                                  |                      |                                                      |                                   |                                |
| Total Expenditures                                   | 43,778,070           | -                                                    | 6,511,798                         | 50,289,868                     |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | 8,416,451            | -                                                    | (893,398)                         | 7,523,053                      |
| <b>OTHER FINANCING SOURCES (USES)</b>                |                      |                                                      |                                   |                                |
| Total Other Financing Sources (Uses)                 | (8,365,325)          | -                                                    | (48,584)                          | (8,413,909)                    |
| NET CHANGE IN FUND BALANCES                          | 51,126               | -                                                    | (941,982)                         | (890,856)                      |
| FUND BALANCES, JANUARY 1, AS PREVIOUSLY STATED       | 22,448,747           | 5,071,711                                            | 3,285,433                         | 30,805,891                     |
| Change within financial reporting entity             | -                    | (5,071,711)                                          | 5,071,711                         | -                              |
| FUND BALANCES, JANUARY 1, AS ADJUSTED/RESTATED       | 22,448,747           | -                                                    | 8,357,144                         | 30,805,891                     |
| <b>FUND BALANCES, DECEMBER 31</b>                    | <b>\$ 22,499,873</b> | <b>\$ -</b>                                          | <b>\$ 7,415,162</b>               | <b>\$ 29,915,035</b>           |

# GASB 100, Accounting Changes & Error Corrections

## Changes to **or within** the Reporting Entity

- Disclosures
  - Nature of change
  - Reason for the change
    - Major/Nonmajor changes excluded if only related to quantitative thresholds for major/nonmajor fund determination

# GASB 100, Accounting Changes & Error Corrections

## Error Corrections

- What is defined as an accounting error?
  - Mathematical mistakes
  - Misapplication of principles
  - Oversight or misuse of facts

# GASB 100, Accounting Changes & Error Corrections

## Error Corrections

- Recognition: Retroactive
  - Single Period: Restate beginning position for the cumulative effect
  - Comparative: Restate financial statements for all periods presented
    - Restate beginning position of first period presented for the cumulative effect of the change on all periods prior to the first presented

# GASB 100, Accounting Changes & Error Corrections

## Error Corrections

- Disclosures
  - Nature of error
  - Periods affected
  - Impacted line items
  - Effect on prior period *change* in net position, fund balance, or fund net position had the error not occurred (single period)
  - Effect on error correction on the change in net position, fund balance, or fund net position (comparative)
  - Summary table disclosure

# GASB 100, Accounting Changes & Error Corrections

- Note Disclosure

## Adjustments to and Restatements of Beginning Balances

During fiscal year 20X2, changes to or within the financial reporting entity and an error correction resulted in adjustments to and restatements of beginning net position and fund net position, as follows (amounts in thousands):

|                                                 | Reporting Units Affected by Adjustments to and Restatements of Beginning Balances |                         |                          |                 |                 |
|-------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------|--------------------------|-----------------|-----------------|
|                                                 | Funds                                                                             | Government-Wide         |                          | Component Units |                 |
|                                                 | Enterprise Fund D                                                                 | Governmental Activities | Business-Type Activities | QRS Foundation  | XYZ Foundation  |
| 12/31/X1, as previously reported                | \$ 74,831                                                                         | \$ 768,033              | \$ 543,163               | \$ -            | \$ -            |
| Change from blended to discrete presentation    | (2,184)                                                                           | -                       | (2,184)                  | 2,184           | -               |
| Addition of discretely presented component unit | -                                                                                 | -                       | -                        | -               | 1,500           |
| Error correction                                | -                                                                                 | 71,312                  | -                        | -               | -               |
| 12/31/X1, as restated                           | <u>\$ 72,647</u>                                                                  | <u>\$ 839,345</u>       | <u>\$ 540,979</u>        | <u>\$ 2,184</u> | <u>\$ 1,500</u> |

# GASB 100, Accounting Changes & Error Corrections

- Note Disclosure

## Adjustments to and Restatements of Beginning Balances

During fiscal year 20X2, changes to or within the financial reporting entity and an error correction resulted in adjustments to and restatements of beginning net position and fund net position, as follows (amounts in thousands):

|                                                 | Reporting Units Affected by Adjustments to and Restatements of Beginning Balances |                         |                          |                 |                 |
|-------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------|--------------------------|-----------------|-----------------|
|                                                 | Funds                                                                             | Government-Wide         |                          | Component Units |                 |
|                                                 | Enterprise Fund D                                                                 | Governmental Activities | Business-Type Activities | QRS Foundation  | XYZ Foundation  |
| 12/31/X1, as previously reported                | \$ 74,831                                                                         | \$ 768,033              | \$ 543,163               | \$ -            | \$ -            |
| Change from blended to discrete presentation    | (2,184)                                                                           | -                       | (2,184)                  | 2,184           | -               |
| Addition of discretely presented component unit | -                                                                                 | -                       | -                        | -               | 1,500           |
| Error correction                                | -                                                                                 | 71,312                  | -                        | -               | -               |
| 12/31/X1, as restated                           | <u>\$ 72,647</u>                                                                  | <u>\$ 839,345</u>       | <u>\$ 540,979</u>        | <u>\$ 2,184</u> | <u>\$ 1,500</u> |

# GASB 100, Accounting Changes & Error Corrections

- RSI and SI
  - Changes in Accounting Principle and Changes to or Within the Reporting Entity
  - Years presented in the Basic Financial Statements
    - Report information consistently
  - Years prior to those presented in the Basic Financial Statements
    - Do not restate
    - Explain

# GASB 101, Compensated Absences

- Implementation date: Fiscal years beginning after December 15, 2023
  - December 31, 2024
  - April 30, 2025
  - June 30, 2025
- Objective
  - Better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences
  - Achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures

# GASB 101, Compensated Absences

- Re-defining compensated absences
  - Cash payments when the leave is used for time off
  - Other cash payments, such as payments for unused leave upon termination of employment
  - Noncash settlement, such as conversion to postemployment benefits
- Examples: vacation and sick leave, paid time off, holidays, parental leave, certain types of sabbatical leave

# GASB 101, Compensated Absences

## Accrued liability reporting

- Separate categorizations
  - Leave accumulated and has not been used by employees or otherwise paid/settled
    - Compensated absences liability, DB pension/OPEB liabilities
  - Leave used by employees but not yet paid by employer
    - Salaries payable, payroll taxes payable, DC pension/OPEB plan contributions payable
- No measurement impact on fund level/modified accrual reporting

# GASB 101, Compensated Absences

## Recognition Criteria

- Leave that has not been used
  - Attributable to services already rendered
  - Accumulates – can be carried forward from reporting period earned
  - More likely than not (likelihood of more than 50%) to be used for time off or otherwise paid/settled
- Leave used by not paid
  - Liability for amount of cash payment or noncash settlement
  - Include applicable salary-related payments

# GASB 101, Compensated Absences

## Measurement

- Two components for consideration
  - Pay rate – Use the employee's pay rate at financial reporting date
    - Exception: More likely than not to be paid at a different rate – use that alternative rate
  - Salary-related payments
    - Directly and incrementally related
    - Defined-contribution pension or OPEB recognized as related leave is earned – not a pension or OPEB liability
    - Defined-benefit pension or OPEB excluded
- Example: Employee's annual pay is \$100,000 as of June 30<sup>th</sup> and increased to \$110,000 on July 1<sup>st</sup>. Liability is calculated based on \$100,000. Effect of rate increase will be recognized as an addition to the liability in the next fiscal year.

# GASB 101, Compensated Absences

## Exceptions to general recognition approach

- Leave dependent on occurrence of sporadic event that affects relatively small proportion of employees in any particular reporting period
  - Recognize liability when leave commences for entire period
  - Includes parental leave, military leave, jury duty
  - Excludes sick leave or sabbatical leave
  - Example: Report 60 days of leave liability for an employee who begins a 90-day parental leave 30 days before fiscal year-end

# GASB 101, Compensated Absences

## Exceptions to general recognition approach

- Leave more likely than not to be settled through conversion to defined benefit OPEB
  - Not recognized as compensated absence liability
  - Liability will be included in actuarially calculated pension/OPEB liability
- Unlimited leave and date-specific holiday leave
  - Recognize liability when leave is taken
  - Example: Employees entitled to a paid day off on January 1<sup>st</sup> if they are in active service at end of day on December 31<sup>st</sup>. **No liability** should be reported for that leave for December 31<sup>st</sup> year-end financial statements.

# GASB 101, Compensated Absences

## Additional considerations

- Employees entitled to accumulate unlimited leave, but may only be eligible for settlement of a portion of unused leave upon separation (max days/\$)
  - Pre-GASB 101: Accrue liability up to a maximum settlement value
  - GASB 101: Accrue liability for accumulated leave more likely than not to be used
- Effect on defined contribution pension/OPEB expense calculation
  - Pension/OPEB expense = contributions/credits to employees' accounts as defined by benefit terms +/- increases/decreases in the employer's compensated absence liability pertaining to defined contribution pension/OPEB contribution salary-related payments

# GASB 101, Compensated Absences

## Note disclosures

- No new note disclosures
- Exceptions to existing long-term liability disclosures
  - Option to present net increase/decrease with indication that it is a net amount
  - Not required to disclose governmental fund used to liquidate

# GASB 102, Certain Risk Disclosures

- Implementation date: Fiscal years beginning after June 15, 2024
  - June 30, 2025
  - December 31, 2025
  - April 30, 2026
- Objective
  - Provide timely information regarding concentrations or constraints

# GASB 102, Certain Risk Disclosures

- When is disclosure required?
  - Vulnerable to substantial impact – concentrations or constraints
  - Occurrence or likelihood
- Which components are impacted?
  - Primary government
  - Other reporting units with revenue debt

# GASB 102, Certain Risk Disclosures

## **Concentration: Lack of diversity in an aspect of a significant revenue source or expense**

- *Principal employers*
- *Principal industries*
- *Principal resource providers*
- *Composition of principal inflows of resources*
- *Workforce*
- *Suppliers*

# GASB 102, Certain Risk Disclosures

**Constraint: Imposed by an External Party or the Government's Highest Level of Decision-Making Authority that Limits the Government's Ability to Acquire Resources or Control Spending**

- *Limitations on raising revenue*
- *Limitations on spending*
- *Limitations on the incurrence of debt*
- *Mandated spending*

# GASB 102, Certain Risk Disclosures

- When is disclosure required?
  - C/C known to exist prior to f/s issuance
  - C/C makes the government/reporting unit vulnerable to risk of substantial impact
  - Event(s) associated with the C/C
    - Have occurred
    - Have begun to occur
    - More likely than not to begin to occur within 12 months of the f/s issuance date
- If mitigating actions taken by the government prior to the issuance of the financial statements cause any of the disclosure criteria not to be met, none of the note disclosures are required.

# GASB 102, Certain Risk Disclosures

- Required Disclosures
  - For each applicable concentration or constraint
    - Nature of the circumstances disclosed
    - Vulnerability to risk of substantial impact
    - Describe the concentration or constraint
    - Identify each associated event (if they have occurred or begun to occur)
    - Status of any mitigation efforts

# GASB 102, Certain Risk Disclosures

- Example – Concentration of Workers Covered by a CBA
- The District depends on its workforce to deliver transportation services. All of the District's transportation workers are covered by a collective bargaining agreement with the State Association of Transport Workers that expires on June 30, 20X2, and a labor disruption that decreases bus, train, and subway services could disrupt the normal functioning of the District's operations.

# GASB 103, Financial Reporting Model Improvements

- Implementation date: Fiscal years beginning after June 15, 2025
  - June 30, 2026
  - December 31, 2026
  - April 30, 2027
- Early implementation is encouraged
- Objective
  - To improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability

# GASB 103, Financial Reporting Model Improvements

- Changes to following sections:
  - Management's discussion and analysis
  - Unusual and infrequent items (previously called extraordinary and special items)
  - Proprietary fund financial statements
  - Major component unit presentation
  - Budgetary comparison information
  - Statistical section – financial trends information
- **No changes** to governmental fund measurement focus or basis of accounting

# GASB 103, Financial Reporting Model Improvements

## Management's discussion and analysis

- Focus on current year balances and results of operations in comparison to prior year – fact-based analysis with emphasis on the “why”
- Seek to avoid unnecessary duplication and “boilerplate” discussion
- Focus should be on the primary government
- Fewer required elements

# GASB 103, Financial Reporting Model Improvements

## Management's discussion and analysis – current sections

1. Discussion of the basic financial statements
2. Condensed financial information
3. Analysis of the government's overall financial position and results of operations
4. Analysis of the balances and transactions of individual funds
5. Description of capital asset and long-term debt activity
6. Currently known facts, decisions or conditions of future significance
7. Analysis of budgetary variations
8. Discussion of infrastructure accounted for using the modified approach

# GASB 103, Financial Reporting Model Improvements

## Management's discussion and analysis – GASB 103 sections

1. Overview of the financial statements
2. Financial summary
3. Detailed analyses
4. Significant capital asset and long-term financing activity
5. Currently known facts, decisions, or conditions

# GASB 103, Financial Reporting Model Improvements

## *Unusual or infrequent items*

- Replaces previous categories of extraordinary items and special items
- Definition does not change – Transaction or event must be unusual in nature **and** infrequent in occurrence
- Presentation requirements
  - Last items before net change in net position or in fund balance
  - Multiple items should be presented gross, not netted
    - Example: Disaster recovery grant intended to help government recover from an unusual or infrequent natural disaster (inflow) and impairment loss from damage caused by the same natural disaster (outflow)

# GASB 103, Financial Reporting Model Improvements

## *Proprietary fund financial statements*

- Change to the format of the statement of revenues, expenses and changes in fund net position
- Redefines operating and nonoperating revenues and expenses
- Defines new category - subsidies

# GASB 103, Financial Reporting Model Improvements

## Proprietary fund financial statements

### Operating revenues (detailed)

Total operating revenues

### Operating expenses (detailed)

Total operating expenses

Operating income (loss)

### Noncapital subsidies (detailed)

Total noncapital subsidies

Operating income (loss) and noncapital subsidies

### Other nonoperating revenues and expenses (detailed)

Total other nonoperating revenues and expenses

Income (loss) before unusual or infrequent items

### Unusual or infrequent items (detailed)

Increase (decrease) in fund net position

### Fund net position—beginning of period

### Fund net position—end of period

# GASB 103, Financial Reporting Model Improvements

## Proprietary fund financial statements

- Nonoperating revenues and expenses
  - Subsidies received and provided
  - Contributions to permanent and term endowments
  - Revenues and expenses related to financing
  - Resources from the disposal of capital assets and inventory
  - Investment income and expenses
- Operating revenues and expenses
  - Revenue and expenses other than nonoperating revenues and expenses

# GASB 103, Financial Reporting Model Improvements

## Proprietary fund financial statements

- Subsidies
  - Resources received from another party or fund
    - For which proprietary fund does not provide goods and service and
    - That directly or indirectly keep the fund's current or future fees/charges lower than they would be otherwise
  - Resources provided to another party or fund
    - For which the recipient does not provide goods and services to the fund and
    - That are recoverable through the fund's current or future pricing policies
- All other transfers

# GASB 103, Financial Reporting Model Improvements

## Major component unit presentation

- Each major component unit should be presented separately in government-wide financial statements
- If separate presentation reduces readability of the statements, alternative presentation of
  - Single column in government-wide statements
  - Combining major component unit statements after fund financial statements
- Presentation of condensed statements in note disclosures no longer allowed

# GASB 103, Financial Reporting Model Improvements

## Budgetary comparison information

- Presentation in basic financial statements no longer allowed
- Two variance columns required
  - Variance between original and final budgets
  - Variance between final budget and actual results
- Notes to RSI required to explain significant variances

# GASB 103, Financial Reporting Model Improvements

## Statistical section – financial trends information

- When only business-type operations or business-type and fiduciary operations, present revenues by major source distinguishing between
  - Operating income (loss)
  - Noncapital subsidies
  - Other nonoperating revenues and expenses

# GASB Agenda: What Comes Next?

| Topic                                 | Milestone                  | Expected Date |
|---------------------------------------|----------------------------|---------------|
| Classification of Nonfinancial Assets | Final Statement            | 2024 Q3       |
| Going Concern/Severe Financial Stress | Preliminary Views Document | 2024 Q4       |
| Implementation Guidance – 2025        | Exposure Draft             | 2024 Q4       |
| Infrastructure Assets                 | Preliminary Views          | 2024 Q3       |
| Revenue and Expense Recognition       | Exposure Draft             | 2025 Q1       |
| Subsequent Events                     | Exposure Draft             | 2024 Q1       |

# GASB Agenda: What Comes Next?

- Classification of Nonfinancial Assets
  - Reconsideration of existing classifications for nonfinancial assets and other related subclassifications (capital assets, intangible assets)
- Timing
  - Final Standard 2024 Q3

# GASB Agenda: What Comes Next?

- Going Concern Uncertainties and Severe Financial Stress
  - Going Concern not meaningful for governments
  - Information on severe financial stress is lacking
- Timing
  - Preliminary Views 2024 Q4
  - Exposure Draft 2026 Q2
  - Final Standard 2027 Q2

# GASB Agenda: What Comes Next?

- Revenue and Expense Recognition
  - Establish guidance for expenses
  - Expand on limited guidance for exchange transactions
  - Improve and clarify GAAP for nonexchange transactions
- Timing
  - Exposure Draft consideration in 2025 Q4
  - Final Standard 2027 Q2

# Thank You! Any Questions?

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