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GASB UPDATE

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MDCPA.CNF.IO

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AGENDA

- ❑ Statement 99: Omnibus 2022
- ❑ Statement 100: Accounting Changes and Error Corrections
- ❑ Statement 101: Compensated Absences
- ❑ Statement 102: Certain Risk Disclosures
- ❑ Statement 103: Financial Report Model Improvements
- ❑ Statement 104: Disclosure of Certain Capital Assets

Effective Dates – December Year-Ends

- December 31, 2024
 - Statement 99
 - Statement 100
 - Statement 101

- December 31, 2025
 - Statement 102

- December 31, 2026
 - Statement 103
 - Statement 104

Effective Dates – June Year-Ends

- June 30, 2024
 - Statement 99
 - Statement 100

- June 30, 2025
 - Statement 101
 - Statement 102

- June 30, 2026
 - Statement 103
 - Statement 104

Disclaimer!

- ❑ All GASB statements are subject to materiality
- ❑ Materiality is a concept not a magic number!
 - Will omission be misleading to the users of the financial statements?
 - Discuss with all who are a part of the financial reporting process
- ❑ Materiality is to be applied individually and in the aggregate

Statement 99: Omnibus 2022

- ❑ What is an Omnibus Statement?
 - Issues were identified during implementation of prior standards
 - Omnibus standards address issues to multiple pronouncements
 - Content often includes several specific items that would not justify a separate pronouncement

Statement 99: Omnibus 2022

- ❑ Includes clarifications of the following:
 - Classification and reporting of derivative instruments
 - Statement 87, Leases
 - Statement 94, Public-Private and Public-Public Partnerships
 - Statement 96, SBITAs
 - Extension period of the use of LIBOR
 - Disclosures related to nonmonetary transactions
 - Statement 34, Basic Financial Statements
 - Statement 63, Financial Reporting of Deferred Inflows/Outflows

Statement 100: Accounting Changes and Error Corrections

- ❑ Provides formal standards for treatment of accounting changes and error corrections
- ❑ Prior guidance considered outdated and sourced from several sources
- ❑ Provides specific guidance on classification of change vs. error

Accounting Changes

- ❑ Includes:
 - Change in accounting principle
 - Change in accounting estimate
 - Change to or within the reporting entity

- ❑ Does not include:
 - Change from non-GAAP to GAAP

Accounting Changes

- Change in Accounting Principal
 - From one generally accepted principle to another
 - Change in preferability
 - Implementation of new pronouncements
 - Do not include changes in accounting policy
 - Example: change in capitalization thresholds

Accounting Changes

- Accounting Estimates
 - Amounts subject to uncertainty
 - Determined based on inputs
 - Data
 - Assumptions
 - Measurement

Accounting Changes

- Change in Accounting Estimate
 - Results from a change in an input
 - Inputs change due to
 - Change in circumstance
 - New data
 - More experience
 - Change in measurement
 - When preferable

Accounting Changes

- Change to or within the financial reporting entity
 - Addition/removal of a fund
 - A change in fund presentation as major or nonmajor
 - Addition/removal of component unit
 - Change in presentation of component unit
 - Blended vs. discrete

Correction of an Error

- ❑ Mathematical mistakes
- ❑ Misapplication of GAAP
- ❑ Oversight of facts that were available

Reporting Accounting Changes and Error Corrections

- ❑ Change in accounting principal
 - Retroactively by restatement of all prior periods presented, if practicable
 - Restatement of current period, if not practicable
- ❑ Change in accounting estimate
 - Prospectively
- ❑ Change to or within the reporting entity
 - Adjust current period beginning balances
- ❑ Error correction
 - Retroactively by restatement of all prior periods presented

Restatement – Error Correction

From Statement of Activities

| | Net (Expense) Revenue and Changes in Net Position | | | |
|--|---|--------------------------|----------------|--------------------------|
| | Primary Government | | | Component Unit |
| | Governmental Activities | Business-Type Activities | Total | Local Marketing District |
| Change in net position | 44,250,590 | 4,399,357 | 48,649,947 | 1,099,204 |
| Net position - beginning, as previously report | 213,745,123 | 92,639,241 | 306,384,364 | 3,495,814 |
| Restatement for correction of an error | - | (150,924) | (150,924) | - |
| Net position - beginning, as restated | 213,745,123 | 92,488,317 | 306,233,440 | 3,495,814 |
| Net position - ending | \$ 257,995,713 | \$ 96,887,674 | \$ 354,883,387 | \$ 4,595,018 |

A
B
C

A: As originally reported

B: Aggregate amount of restatement or adjustment

C: As restated

Source: GFOA 2024 Governmental GAAP Update

Change To or Within Reporting Entity

CITY OF GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2025

| | General | Housing Grants | (Formerly major) South TIF | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------|----------------|-------------------------------|-----------------------------------|--------------------------------|
| REVENUES | | | | | |
| Total revenues | 163,930,514 | 40,234,800 | | 33,826,649 | 237,991,963 |
| EXPENDITURES | | | | | |
| Total expenditures | 139,780,226 | 37,082,987 | | 25,708,787 | 202,572,000 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ 24,150,288 | \$ 3,151,813 | | \$ 8,117,862 | \$ 35,419,963 |
| NET CHANGE IN FUND BALANCES | 49,342,445 | 25,168,049 | | 2,191,145 | 76,701,639 |
| FUND BALANCES, JULY 1, as previously reported | (12,099,613) | 6,646,703 | 2,000,000 | 9,705,268 | 6,252,358 |
| Adjustment - changes from major fund to nonmajor fund | - | - | (2,000,000) | 2,000,000 | - |
| FUND BALANCES, JULY 1, as adjusted | (12,099,613) | 6,646,703 | | 11,705,268 | 6,252,358 |
| FUND BALANCES, JUNE 30 | \$ 37,242,832 | \$ 31,814,752 | | \$ 13,896,413 | \$ 82,953,997 |

Source: GFOA 2024 Governmental GAAP Update

Note Disclosure

- ❑ The nature of the change or correction
- ❑ Reason for the change
- ❑ The effects of the change in a tabular format

Excerpt from Notes

Reporting Units Affected by Adjustments to and Restatements of Beginning Balances

| | Funds | | | | | |
|--|---------------|----------------|----------------|----------------|----------------------|-------------------|
| | General | Water | Sewer | ██████████ | Non-Major Enterprise | Internal Services |
| <i>Newly major enterprise fund</i> | → | | | | | |
| Net position or fund balances, Beginning of Year, As Previously Reported | \$ 40,067,060 | \$ 526,960,955 | \$ 642,789,560 | \$ - | \$ 24,916,112 | \$ 82,509,025 |
| Change within the reporting entity | - | - | - | (1,421,949) | 1,421,949 | - |
| Adoption of GASB 96: | | | | | | |
| ██████████ Software | - | 68,125 | - | - | - | 2,368,591 |
| SBITA Obligations | - | (66,539) | - | - | - | (2,051,865) |
| SBITA - Accrued Interest | - | (560) | - | - | - | (33,371) |
| Adoption of GASB 101 | - | (1,653,838) | (1,530,104) | (1,333,136) | - | (1,219,693) |
| Error Correction - Opioid | 689,152 | - | - | - | - | - |
| Net position or fund balances, Beginning of Year, As Restated | \$ 40,756,212 | \$ 525,308,143 | \$ 641,259,456 | \$ (2,755,085) | \$ 26,338,061 | \$ 81,572,687 |

Source: GFOA 2024 Governmental GAAP Update

RSI and SI

- ❑ Change in accounting principle
 - Only restated for periods included in the basic financial statements

- ❑ Error Correction
 - All periods included, if practicable

Statement 101: Compensated Absences

- ❑ Scope:
 - Cash payments when the leave is used
 - Cash payments for unused leave upon termination
 - Noncash settlement (i.e. conversion to OPEB)

- ❑ Examples:
 - Vacation and sick leave
 - PTO
 - Holidays
 - Parental leave

- ❑ No change to government fund presentation!

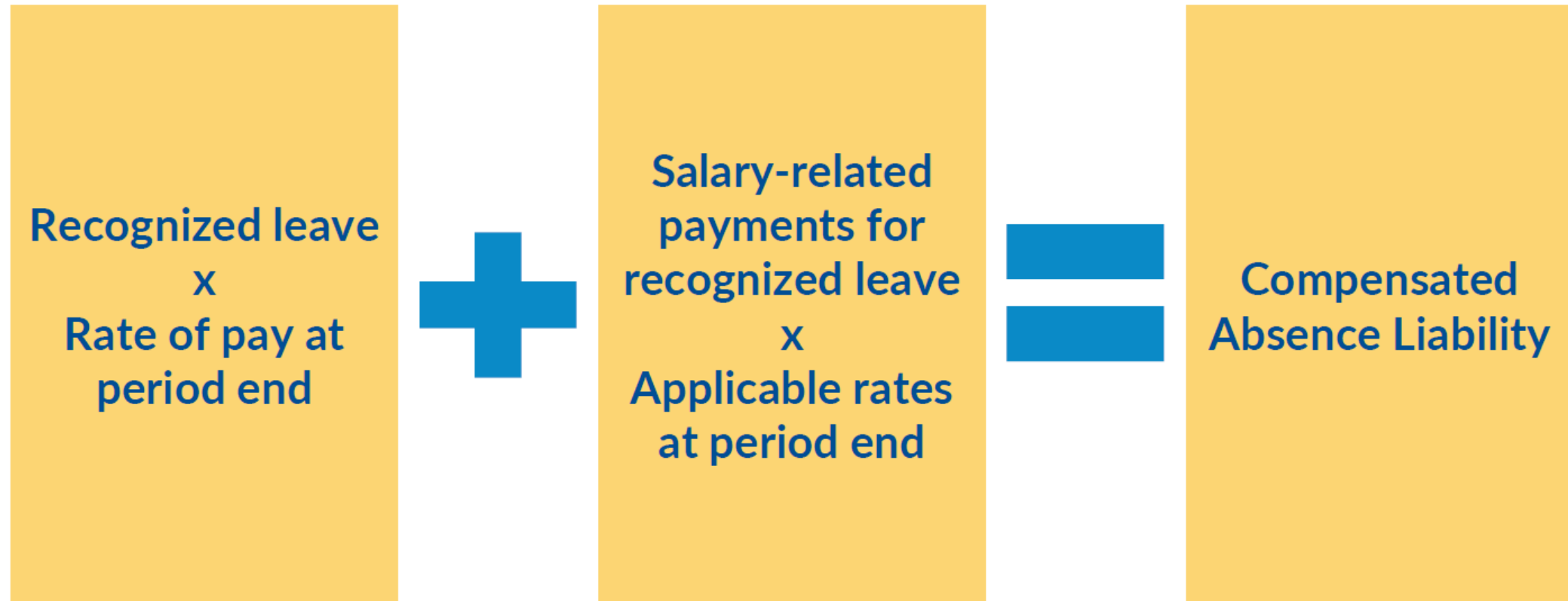
Recognition

- ❑ Employee has performed the services to earn the leave
- ❑ Leave can be carried forward
- ❑ Leave is more likely than not to be used for time off or otherwise paid
 - More than 50%

Recognition Exceptions

- ❑ Exclude leave not likely to be settled through conversion to OPEB
- ❑ Leave that is dependent upon the occurrence of an event that affects a small portion of employees should be recognized when leave commences
 - Parental leave
 - Military leave
 - Jury duty
- ❑ Unlimited leave
 - Recognize when used

Measurement



Source: GFOA 2024 Governmental GAAP Update

Measurement

- ❑ If rates are different per leave – use the respective rate for that portion at period end
 - Not to be confused with salary increase
 - i.e. 50% of payrate
- ❑ Increases in rates are recognized in the period the change occurs
- ❑ Leave paid by noncash (conversion to pension/OPEB)
 - Use the amount more likely than not to be settled

Salary-Related Payments

- ❑ A direct function of the employee's pay
- ❑ Incrementally associated with the leave
- ❑ Examples:
 - Employer share of payroll tax
 - Employer contributions to benefit plans

Key Changes

- ❑ More likely than not concept:
 - Determine how much of the leave balance at year-end is more likely than not to be used as time off in the future

- ❑ Leave earned but not paid out at termination can still require an accrual
 - Accrual equals amount of unused leave that is more likely than not to be used as leave in future reporting periods

Simple Example

- ❑ Employee earns 10 sick leave days per year
- ❑ Days rollover each year but are not paid out at termination
- ❑ Ending balance of Employee's sick days is 10 on year 1
- ❑ It is estimated that the employee will more likely than not take 5 sick days in year 2
- ❑ Liability = 5 sick days X Pay Rate + Salary Related Items

Developing Estimates

- ❑ Employment polices and contracts may differ by employee class
- ❑ Verify if leave is eligible to be used or paid in the future (does it rollover?)
- ❑ What are the historical leave patterns
 - Average days used for leave
 - Average days paid out on termination
 - History of forfeitures

Complex Example

- ❑ Sick leave is paid at 50% after 5 years of service at retirement/termination
- ❑ Employees over 5 years of service have a total unused sick leave balance valued at \$2,000,000 and includes salary related items (Vested)
- ❑ Employees less than 5 years of service have a total unused sick leave balance valued at \$1,000,000 and includes salary related items (Unvested)
- ❑ Vested
 - Estimate of 80% of balance will be paid out at retirement/termination
 - Estimate of 20% of will be used for leave prior to retirement/termination
- ❑ Unvested
 - Estimate of 30% of balance will vest and be paid out at retirement/termination
 - 40% of the balance will be used as sick leave
 - 30% of balance will be forfeited

Example

- Vested Employees:
 - Payout at termination/retirement portion
 - 80% likelihood X 50% payrate X \$2,000,000 balance = \$800,000
 - Leave to be used portion
 - 20% likelihood X 100% payrate X \$2,000,000 balance = \$400,000

- Unvested Employees:
 - Payout at termination/retirement portion
 - 30% likelihood X 50% payrate X \$1,000,000 balance = \$150,000
 - Leave to be used portion
 - 40% likelihood X 100% payrate X \$1,000,000 balance = \$400,000

- Total Compensated Liability:
 - \$800,000+\$400,000+\$150,000+\$400,000 = \$1,750,000

Financial Statement Reporting

- Leave that is accumulated and not yet used
 - Compensated absence liability reported in:
 - Government funds – government wide statements only
 - Proprietary funds statements

- Leave used by not yet paid
 - Salaries payable and related payroll liabilities
 - Government funds statements
 - Proprietary funds statements
 - Government wide statements

Disclosures

- ❑ No significant changes!
- ❑ Continue to include rollforward of long-term liabilities
 - Can include as increases and decreases or net increase or decrease
- ❑ No longer required to disclose which government fund is used to liquidate the liability

Statement 102: Certain Risk Disclosures

- ❑ Items resulting in recognition in the financial statements are not within scope
- ❑ Determination:
 - Concentrations and constraints exist that make the government vulnerable
 - The occurrence or likelihood of events could cause substantial impact

Terminology

□ Concentration

- Lack of diversity related to a significant inflow or outflow of resources
- Examples:
 - Source of revenue/tax base
 - Supplies and materials
 - Labor

Terminology

- Constraint
 - Limitation imposed by an external party or formal action by the governments highest level of decision-making authority
 - Examples
 - Limits on raising revenue and spending
 - Debt limits

- Substantial impact
 - Professional judgement
 - Greater than significant or material

When is Disclosure Required?

- ❑ A concentration or constraint is known to exist prior to issuance of the financial statements
- ❑ The concentration or constraint makes the government vulnerable to the risk of substantial impact
- ❑ An event associated with the concentration or constraint
 - Has occurred
 - Has begun to occur
 - Is more likely than not to begin to occur within 12 months of the date of financial statement issuance
- ❑ Mitigating actions already taken by the government do not result in stopping any of the above from being met

When is Disclosure Required?

- ❑ Disclosure criteria must be applied separately to:
 - The primary government
 - Including all fund activities
 - Individual reporting units that report revenue-backed debt
 - Major funds
 - Aggregate remaining funds

What is Required to be Disclosed?

- ❑ For each concentration or constraint
 - The nature of the circumstances
 - The vulnerability to the risk of a substantial impact
 - Each associated event (occurred or begun to occur)
 - Mitigating actions taken

- ❑ Can be combined with other related disclosures to avoid duplication

Statement 103: Financial Reporting Model Improvements

- Includes improvements to the following:
 - MD&A
 - Clarification of operating and nonoperating in proprietary funds
 - Presentation of proprietary fund statement of revenues, expenses, and change in net position
 - Budget comparisons
 - Component unit presentation
 - Unusual or infrequent items

MD&A

- Provides guidance to streamline
 - Focus on why balances and results changed from prior year
 - Avoid duplication
 - Focus of primary government with mention of component units a matter of professional judgment

- Required five section format
 - Overview
 - Financial summary
 - Detailed analysis
 - Capital asset and long-term financing
 - Currently known facts, decisions, or conditions

Proprietary Funds Presentation

- ❑ Provides improved guidance on operating vs. nonoperating
- ❑ New definition of subsidies
- ❑ New format for statement of revenues, expenses and changes in net position

Operating Vs. Nonoperating

- ❑ Nonoperating
 - Subsidies (not related to principal ongoing operations)
 - Contributions
 - Revenue and expense related to financing
 - Investment activity
 - Gain/loss on disposal of capital assets and inventory

- ❑ Operating
 - All other revenues and expenses

Subsidies

- ❑ Operating Subsidies: Resources received/provided from another party or fund
 - When the proprietary fund does not provide/receive goods or services, AND
 - Directly or indirectly keep the proprietary fund's current and future fees lower than otherwise
- ❑ Nonoperating Subsidies: All other transfers into the proprietary fund

Unusual or Infrequent Items

- ❑ Separately present activity
- ❑ Replaces “extraordinary and special items”
- ❑ Disclose information about the activity including:
 - Programs
 - Functions
 - Activities

Statement of Revenues, Expenses and Changes in Fund Net Position
 Transit Enterprise Fund
 For the Year Ended June 30, 20X1

Note: operating revenues and expenses omitted from illustration

| | |
|---|---------------|
| Operating Income (loss) | (9,607) |
| Noncapital Subsidies | |
| Intergovernmental revenue | 8,812 |
| Transfers In | 1,009 |
| Total noncapital subsidies | <u>9,821</u> |
| Operating income(loss) and noncapital subsidies | <u>214</u> |
| Other nonoperating revenues (expenses) | |
| Investment income | 227 |
| Capital contributions | 121 |
| Interest expense | (446) |
| Total other nonoperating revenues (expenses) | <u>(98)</u> |
| Income (loss) before unusual or infrequent items | <u>116</u> |
| Unusual or infrequent item - earthquake (see note X) | |
| Grant revenues | 65 |
| Emergency response and clean-up | (100) |
| Net effect of unusul or infrequent item | <u>(35)</u> |
| Increase (decrease) in net position | <u>81</u> |
| Net position - beginning of year | <u>102</u> |
| Net position - end of year | <u>\$ 183</u> |

Operating income (loss)

Noncapital (a.k.a., operating) subsidies

NEW: Operating income (loss) and *noncapital* subsidies

Nonoperating revenues (expenses) other than noncapital subsidies

Income (loss) before unusual or infrequent items, then those items, if applicable

Change in net position

Source: GFOA 2024 Governmental GAAP Update

Budgetary Comparisons

- ❑ Report as RSI only
 - No option to include within the basic financial statements
 - Required for:
 - General fund
 - Each major special revenue fund with legally adopted budget

- ❑ Required variances and notes to RSI for:
 - Final budget to actual
 - Original budget to final budget

Component Unit Presentations

- ❑ All discretely presented component units should be:
 - Displayed in a separate column if feasible
 - Displayed in combining statements of discretely presented component units following the fund statements if not feasible

- ❑ No longer an option to include condensed statements in note disclosures

Statement 104: Disclosure of Certain Capital Assets

- ❑ Requires additional detail of intangible capital assets in capital asset roll-forward disclosure:
 - Lease assets by major class of underlying capital asset
 - Public-private/public-public partnership right to use assets by underlying capital asset
 - Subscription assets
 - Other intangible assets

Capital Assets Held for Sale

- Held for sale if:
 - The government has decided to pursue the sale, AND
 - It is probable that the sale will be finalized within one year of the financial statement date

- Considerations to determine if probable sale will be finalized within one year:
 - If the asset is available for sale in its present condition
 - If the government is actively seeking a buyer
 - There is a market for selling the type of asset
 - If there is approval for the sale

Capital Asset Held for Sale

- ❑ Separately disclose by class of asset:
 - Historical cost
 - Accumulated depreciation
 - The carrying amount of debt, if any, if the asset is pledged as collateral

Sources

- ❑ 2024 GFOA Governmental GAAP Update
- ❑ 2024 AICPA Governmental and Not-for-Profit Training Program, GASB Update
- ❑ 2024 AICPA Governmental and Not-for-Profit Training Program, GASB 101, Compensated Absences
- ❑ GASB Statements 99, 100, 101, 102, 103

Questions? Contact Me!



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Don't Forget To
Check-Out Before
You Leave!

