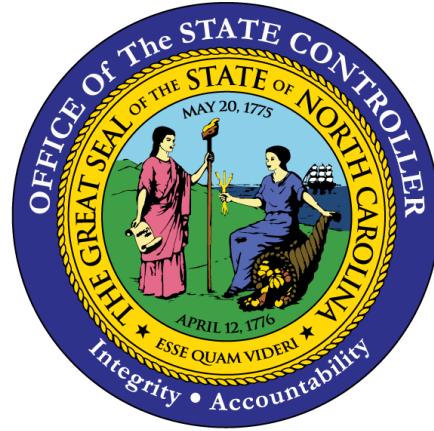


North Carolina, Office of the State Controller



Latest Inventions from the Mind of GASB – The Sequel – Part 2

May 19, 2022

Gerry Boaz, CPA, CGFM, CGMA and Jerry E. Durham, CPA, CGFM, CFE

■ **Financial**

Reporting Model

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?

Comment deadline was February 26, 2021

Public hearings and user forums in March and April 2021

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

Proposal: Recognition in Governmental Funds

Short-term financial resources measurement focus
and accrual basis of accounting

Elements from *short-term* transactions or other events recognized as the *underlying transaction or other event occurs*

Elements from *long-term* transactions and other events recognized *when payments are due*

Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash

Recognition in Governmental Funds (cont.)

Short-Term Transactions

Period from inception to conclusion is one year or less

Long-Term Transactions

Period from inception to conclusion is more than one year

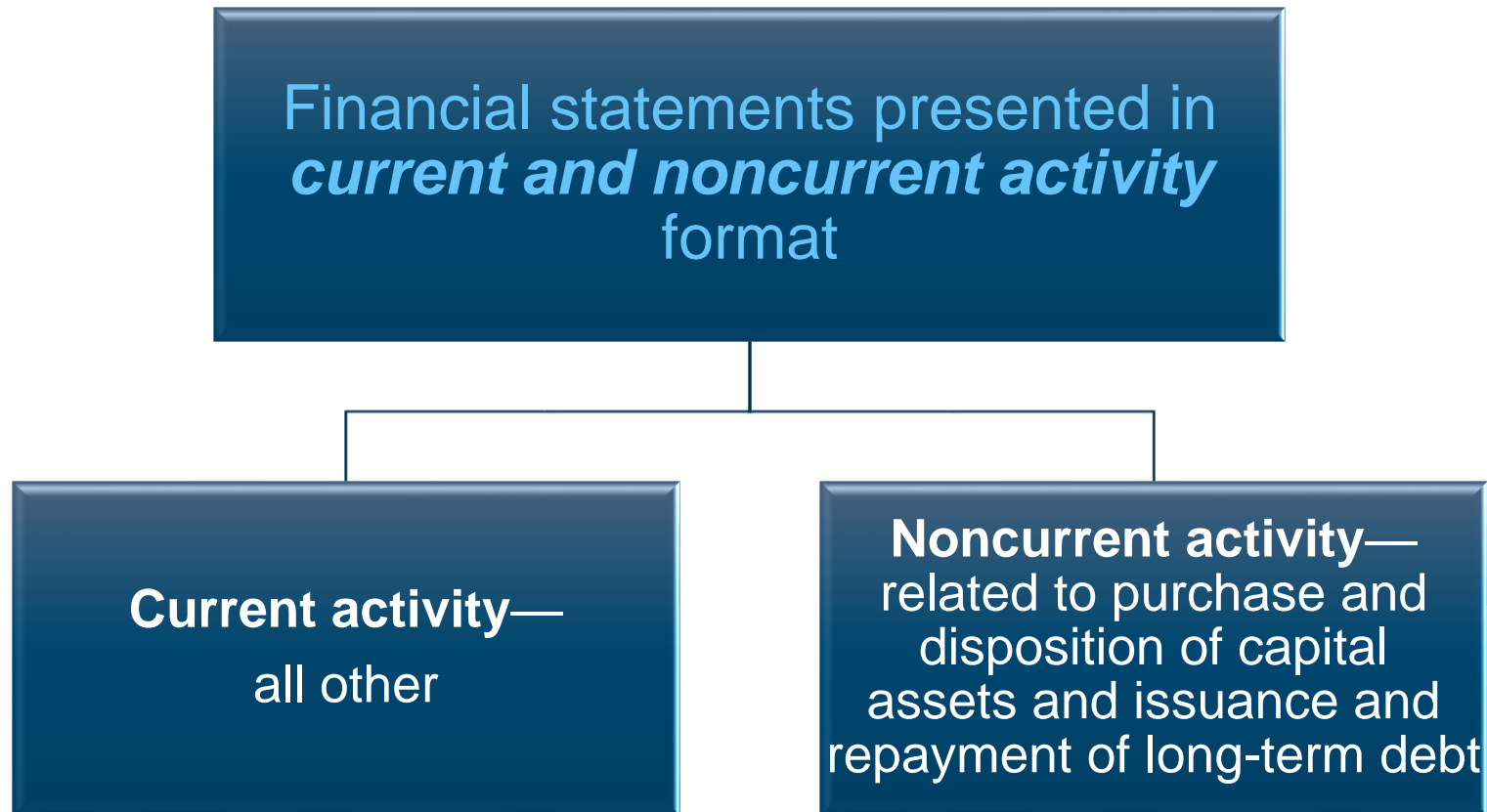
Inception

generally is when a party to the transaction takes an action that results in the initial recognition of an asset or liability

Conclusion

generally is when the final payment of cash or other financial assets is due according to the terms of the binding arrangement (or estimated payments)

Proposal: Presentation of Governmental Funds



	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,311,156	\$ 2,015,047	\$ 27,648,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Special assessments	-	-	41,500	41,500
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,192,493	20,787,512
Investment earnings	5,829	11,384	119,043	136,256
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	654,482	771,287	5,642,709
	<u>106,760,279</u>	<u>5,977,022</u>	<u>19,516,177</u>	<u>132,253,478</u>
Total inflows of short-term financial resources for current activities				
OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
General government	14,053,444	6,961,201	2,213,691	23,228,336
Public health and safety	70,880,913	-	590,383	71,471,296
Highway and streets	12,137,714	-	4,715,808	16,853,522
Culture and recreation	3,581,583	335,659	1,808,065	5,725,307
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
	<u>101,304,999</u>	<u>7,296,860</u>	<u>13,201,992</u>	<u>121,803,851</u>
Total outflows of short-term financial resources for current activities				
Net flows of short-term financial resources for current activities				
	<u>5,455,280</u>	<u>(1,319,838)</u>	<u>6,314,185</u>	<u>10,449,627</u>
NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES				
Transfers in	-	-	10,651,605	10,651,605
Debt service	(2,434,544)	(366,412)	(9,198,505)	(11,999,461)
Capital outlay	(111,987)	(1,515)	(1,346,497)	(1,459,999)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
	<u>(10,227,406)</u>	<u>(374,372)</u>	<u>(2,314,297)</u>	<u>(12,916,075)</u>
Net flows of short-term financial resources for noncurrent activities				
Net change in short-term financial resources fund balances				
	(4,772,126)	(1,694,210)	3,999,888	(2,466,448)
Short-term financial resources fund balances at beginning of year				
	9,319,621	9,776,474	27,892,592	46,988,687
Short-term financial resources fund balances at end of year				
	<u>\$ 4,547,495</u>	<u>\$ 8,082,264</u>	<u>\$ 31,892,480</u>	<u>\$ 44,522,239</u>

Current and Noncurrent Activity Format

Proposed Statement of Short-Term Financial Resource Flows

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

Proposals: Proprietary Funds (cont.)

Subsidies

- 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

	<u>2016</u>	<u>2015</u>
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	<u>1,146,343</u>	<u>1,091,377</u>
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	<u>1,681,544</u>	<u>1,596,059</u>
Income (loss) generated by operations	<u>(535,201)</u>	<u>(504,682)</u>
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	<u>558,101</u>	<u>530,057</u>
Operating income (loss) and noncapital subsidies	<u>22,900</u>	<u>25,375</u>
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	<u>221,023</u>	<u>126,314</u>
Income before other items	<u>243,923</u>	<u>151,689</u>
Other items:		
Capital contributions	<u>23,231</u>	<u>74,830</u>
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	<u>\$ 3,328,265</u>	<u>\$ 3,061,111</u>

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

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

Apply in fiscal years beginning after June 15, 2024

Less than \$75 million

Apply in fiscal years beginning after June 15, 2025

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
Comment Period Ended	February 26, 2021
Final Statement Expected	April 2023

■ Revenue and Expense Recognition

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?

Comment deadline was February 26, 2021

Public hearings and user forums in March and April 2021

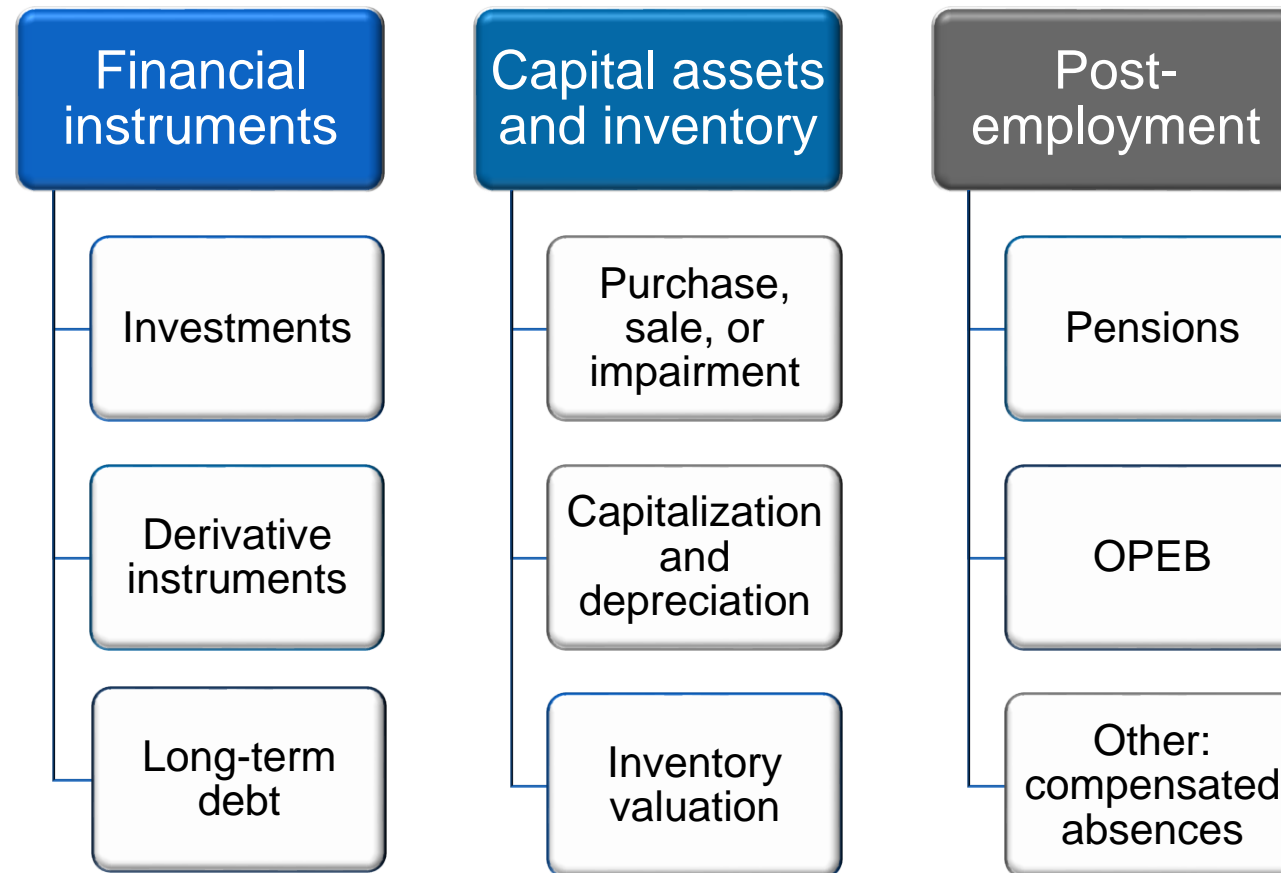
Broad Project Objective

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

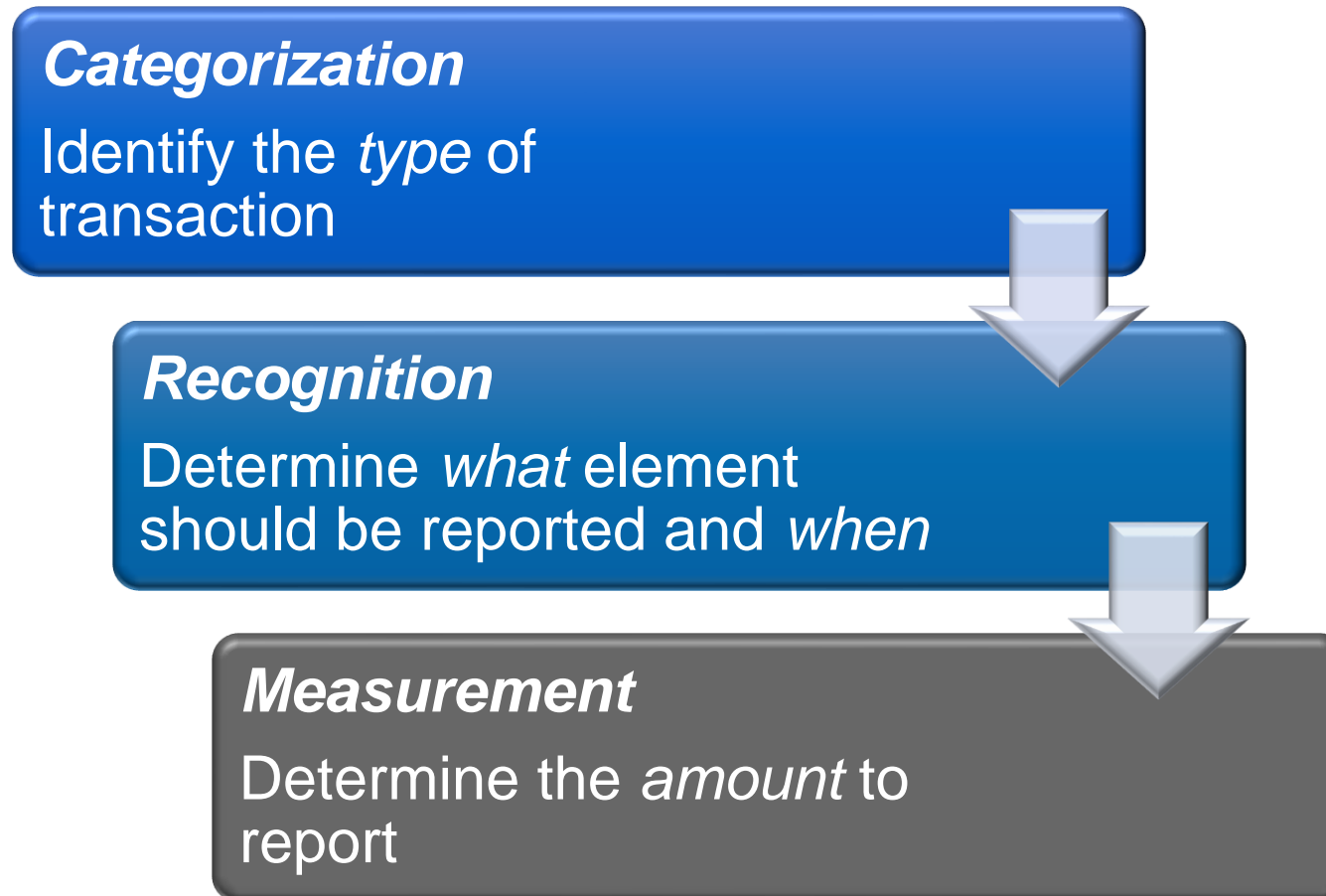
- Expand on areas where there is no guidance—expenses
- Expand on areas where there is limited guidance—certain revenues
- Consider practice issues and challenges identified in current guidance—Statement 33
- Consider the conceptual framework—issued after Statement 33
- Consider performance obligation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

Scope of the Project

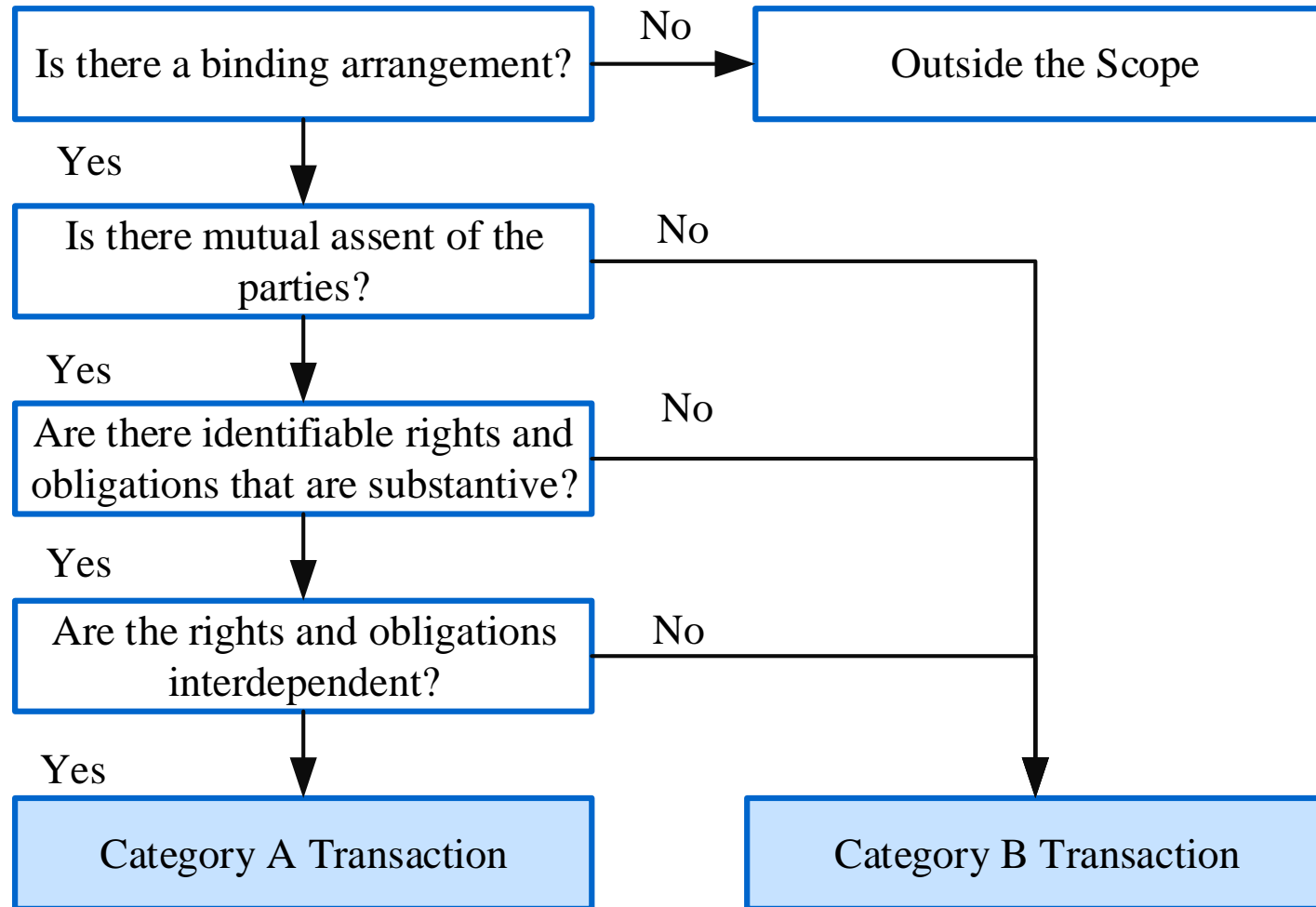
- The scope is defined broadly to include revenues and expenses except for those ***explicitly excluded***:



Proposed Recognition Model Components



Proposed Categorization Methodology

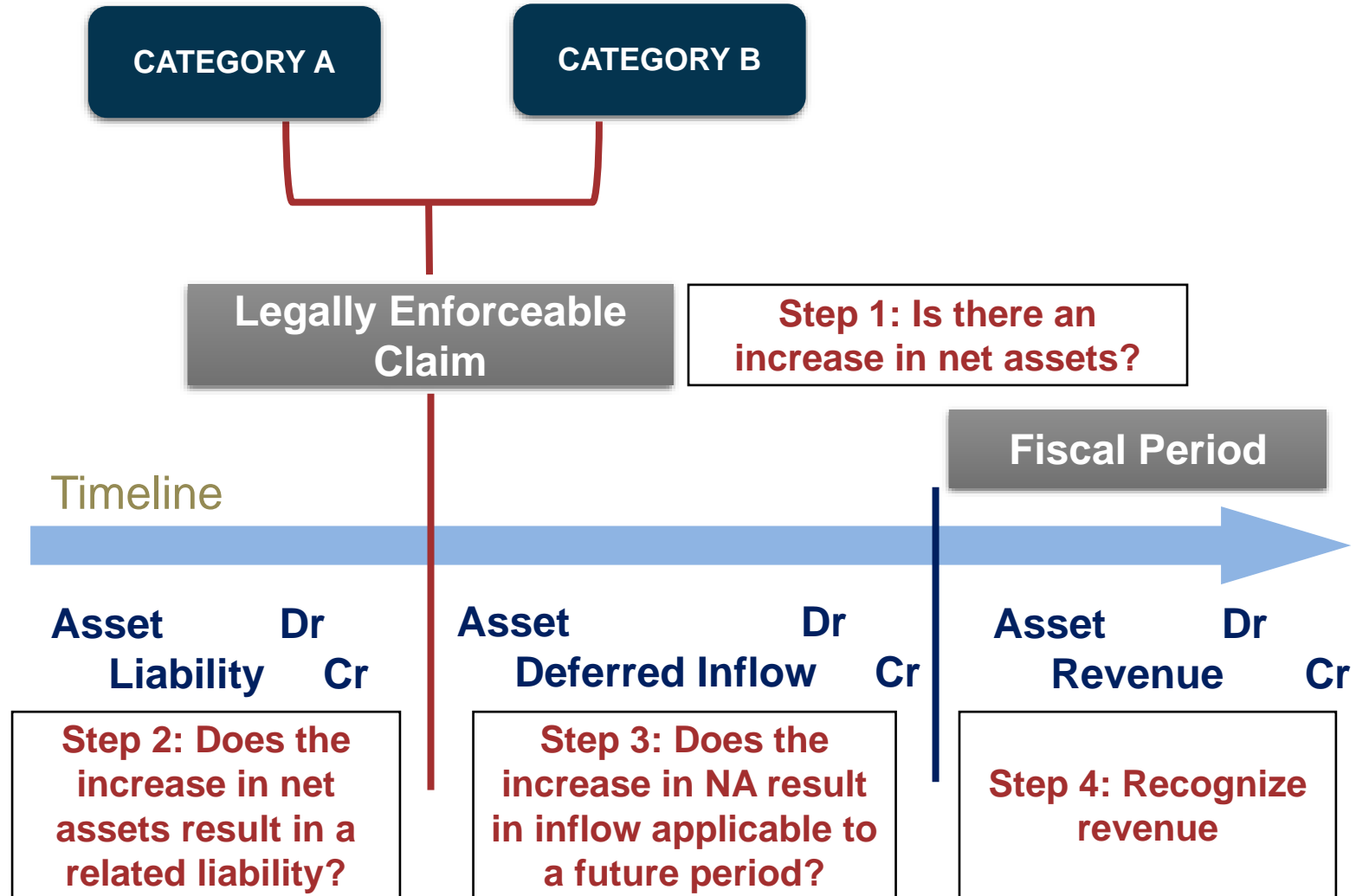


Outcomes of the Proposed Model *

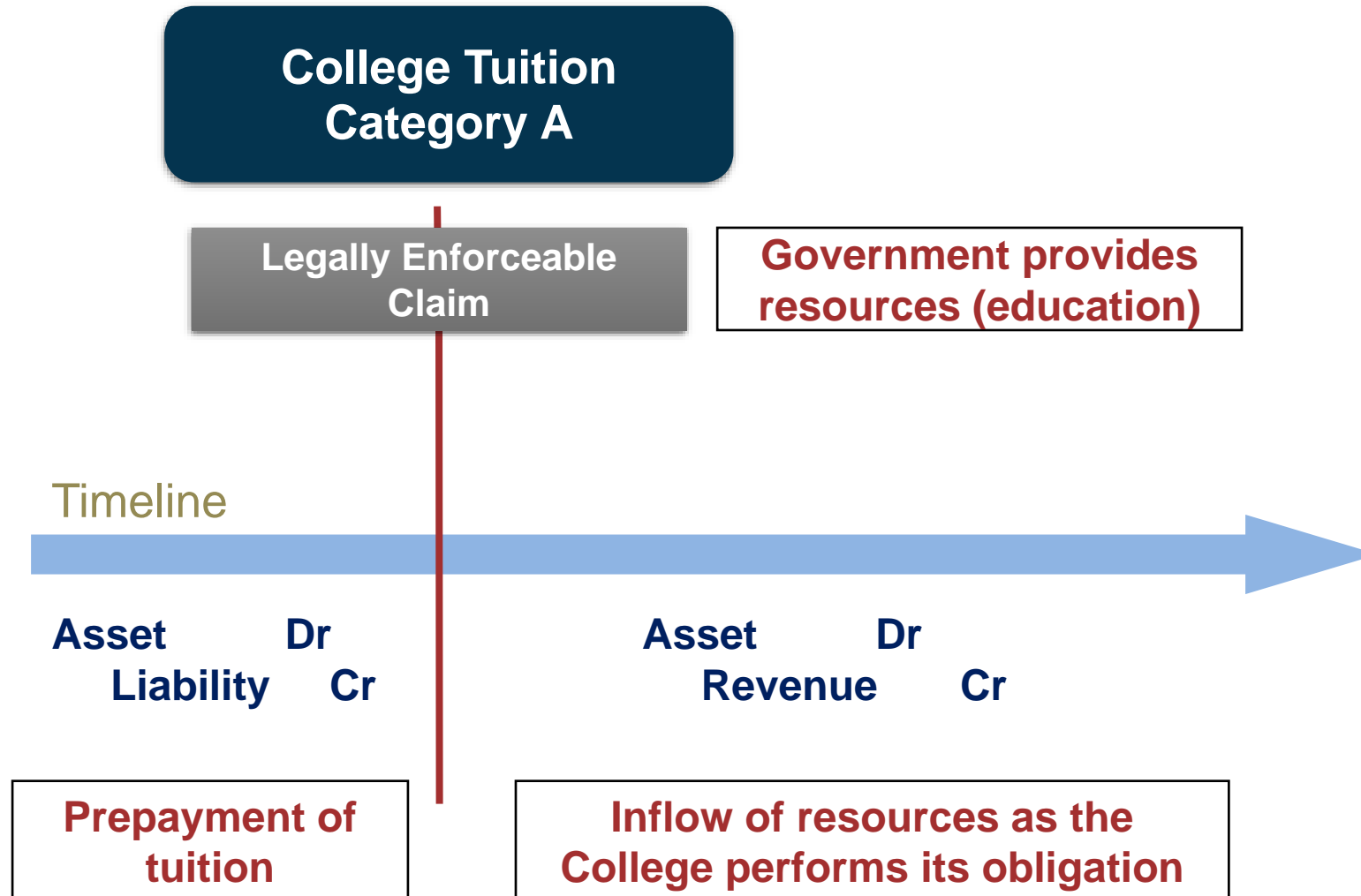
Category A	Category B
Fees for service (water, electric, garbage)	Taxes (property tax, income tax, sales tax)
Eligibility-based grants	Punitive fees
Research grants and revolving loans	Special assessments
Medicaid fees for services	Donations
Tuition fees	Regulatory fees (drivers licenses, building permits, marriage licenses, professional licenses)
Most expenses	Purpose-restricted grants
	Capital fees (developer fees, PFCs)
	Medicaid supplementary payments

* Transactions highlighted in blue would have different outcomes than under current literature

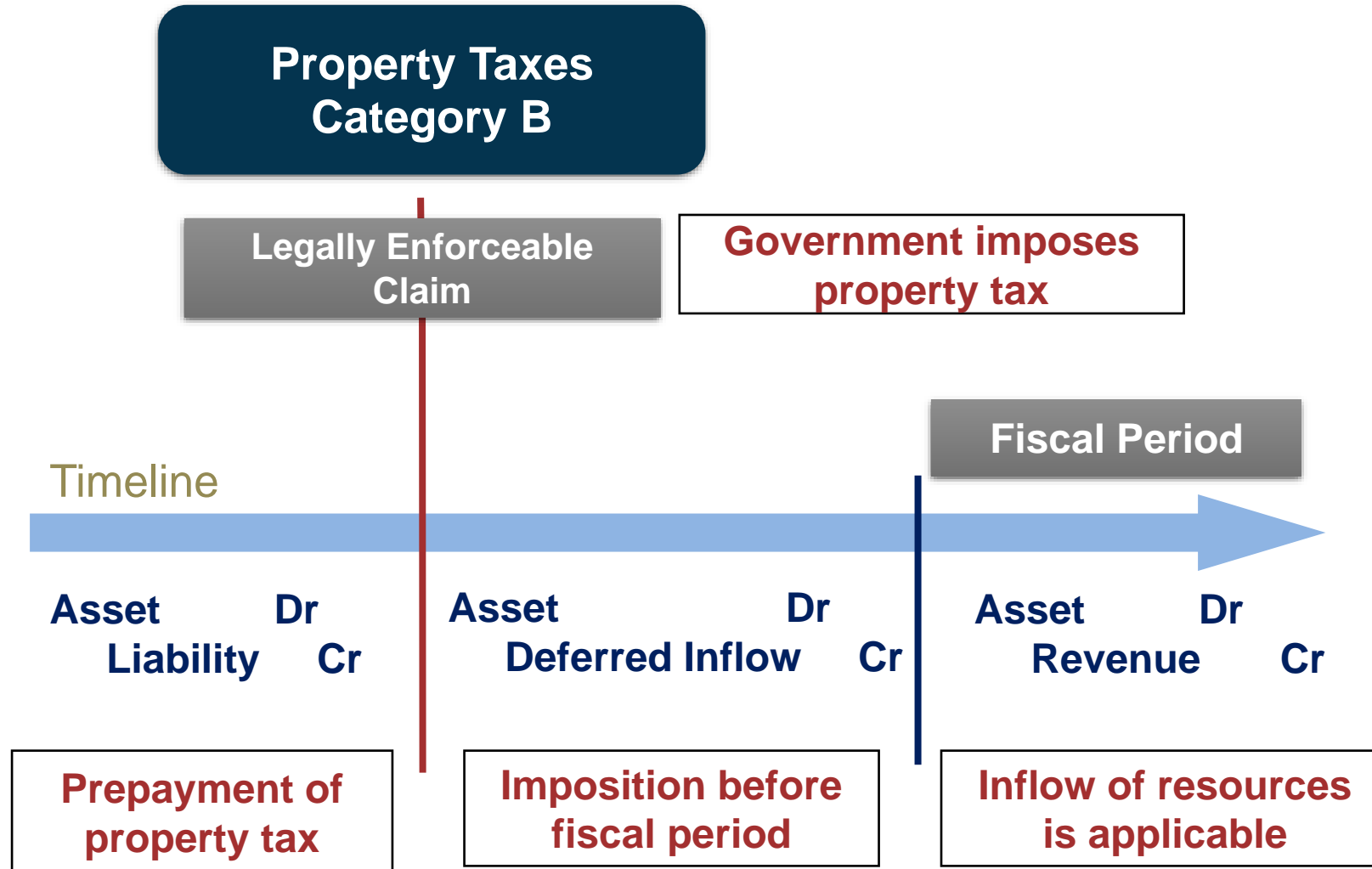
Proposed Revenue Recognition Principles



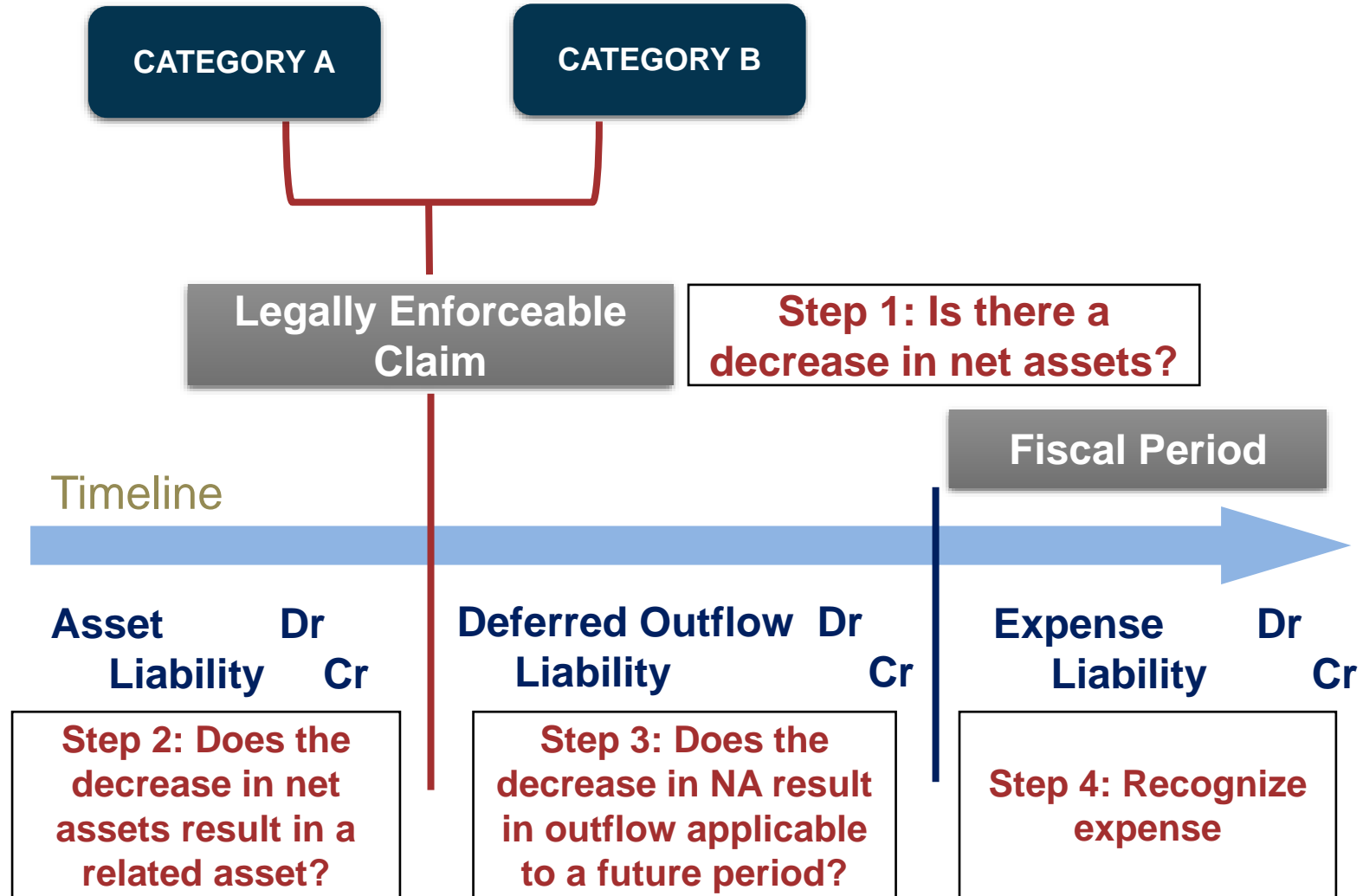
Category A Revenue Recognition Example



Category B Revenue Recognition Example

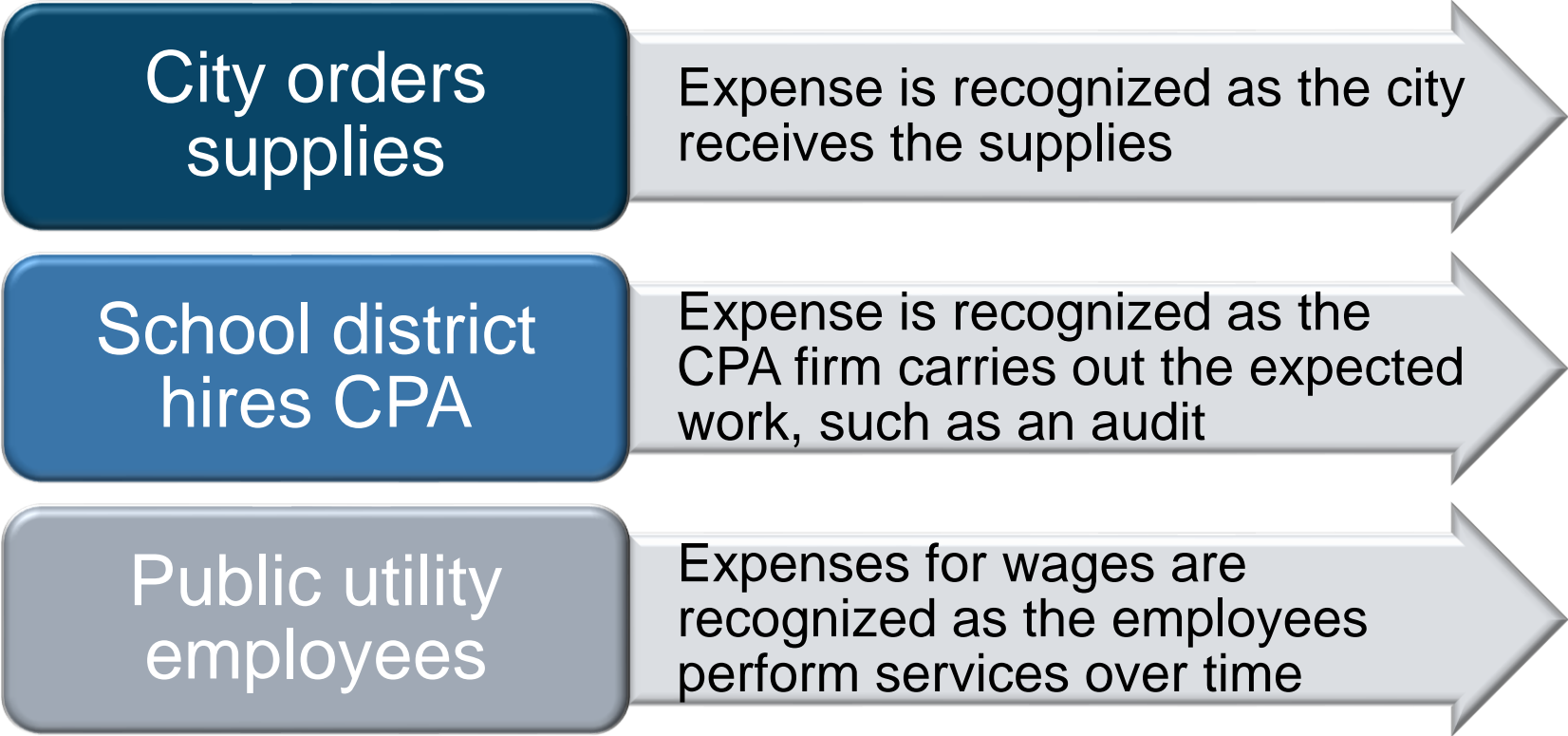


Proposed Expense Recognition Principles



Category A Expense Recognition Examples

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



Category B Expense Recognition Examples

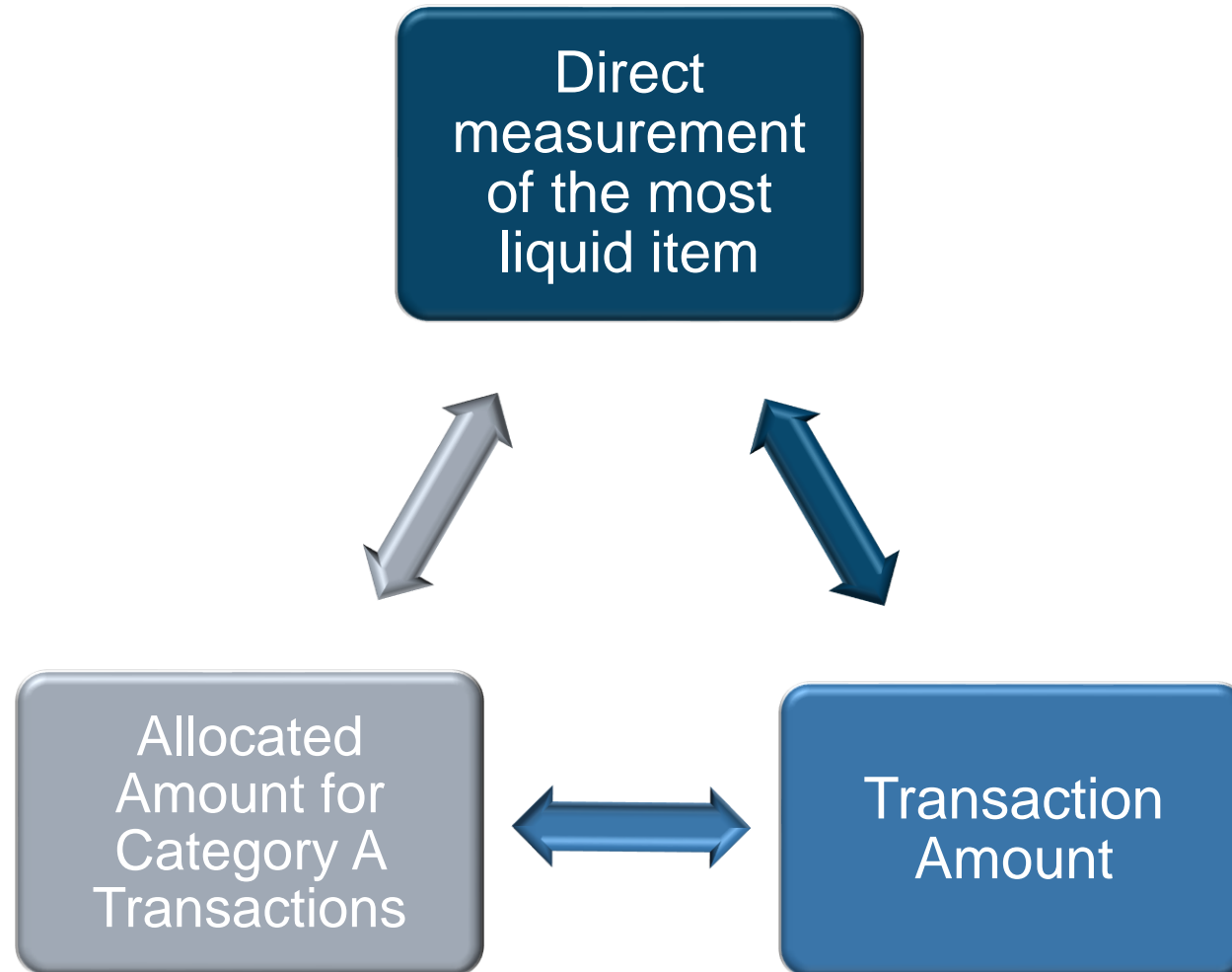
Expense is recognized at the same time as the *payable*, unless there are time requirements

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
Comment Period Ended	February 26, 2021
Exposure Draft Expected	June 2023

- **Conceptual Framework –
Notes to the Financial
Statements**

***Conceptual Framework—
Communication Methods in General Purpose External
Financial Reports That Contain Basic Financial
Statements: Notes to Financial Statements***

Revised Exposure Draft

An amendment of GASB Concepts Statement No. 3

Revised Exposure Draft

What?

The Board requested additional input from stakeholders on concepts regarding what information should be disclosed in notes

Why?

The GASB reexamined existing note disclosure requirements and concluded that it was necessary to elaborate on the concept of “essential” as it relates to notes

When?

Comment deadline was October 15, 2021

Concepts Related to Disclosures

Concepts Statements guide the Board's decisions when setting accounting and financial reporting standards

Concepts Statement 3 establishes criteria for what communication method should be used to report information – financial statements, notes to financial statements, required supplementary information, and supplementary information

Proposed Concepts

The purpose of note disclosures is to provide information that explains, describes, or supplements the financial statements and is **essential** to users in making economic, social, and political decisions and assessing accountability

Principal revisions to the previous Exposure Draft relate to the criteria that determine essentiality

Information that is essential possesses the following characteristics:

Users utilize the information in their analyses for making decisions or assessing accountability or would modify those analyses to incorporate the information if it were made available

The information has or would have a meaningful effect on users' analyses for making decisions or assessing accountability

A **breadth or depth** of users utilize or would utilize the information in their analyses for making decisions or assessing accountability

Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	August 2018
Exposure Draft Issued	February 2020
Redeliberations Began	September 2020
Revised Exposure Draft Issued	June 2021
Comment Period Ended	October 15, 2021
Final Concepts Statement Expected	June 2022

■ Conceptual Framework - Recognition

Conceptual Framework: Recognition of Elements of Financial Statements

Exposure Draft: *Recognition of Elements of Financial Statements*

What?

The Board issued an Exposure Draft of a **Concepts Statement** on recognition of financial statement elements

Why?

Recognition concepts are one of the components needed to complete the conceptual framework

When?

Comment deadline was February 26, 2021

Public hearings and user forums in March and April 2021

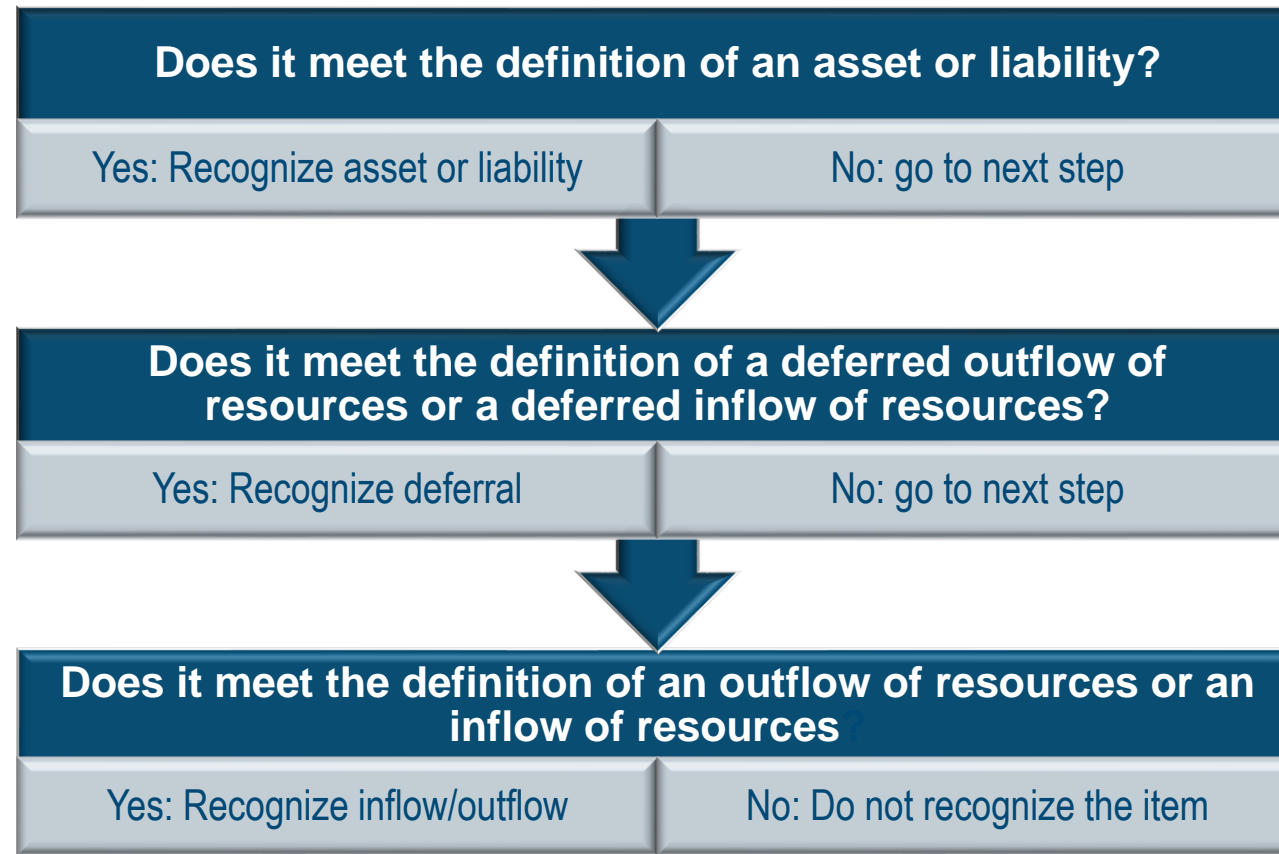
Recognition Concepts

The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

The related **basis of accounting** determines *when* those items should be reported.

Proposal: Recognition Hierarchy

Follow a specific order when evaluating an item for recognition:



Proposal: Recognition Framework

Two Measurement Focuses

Economic Resources

(applied in government-wide, proprietary fund, and fiduciary fund financial statements)

Short-Term Financial Resources

(would replace current financial resources in the governmental funds)

Proposal: Recognition Framework (continued)



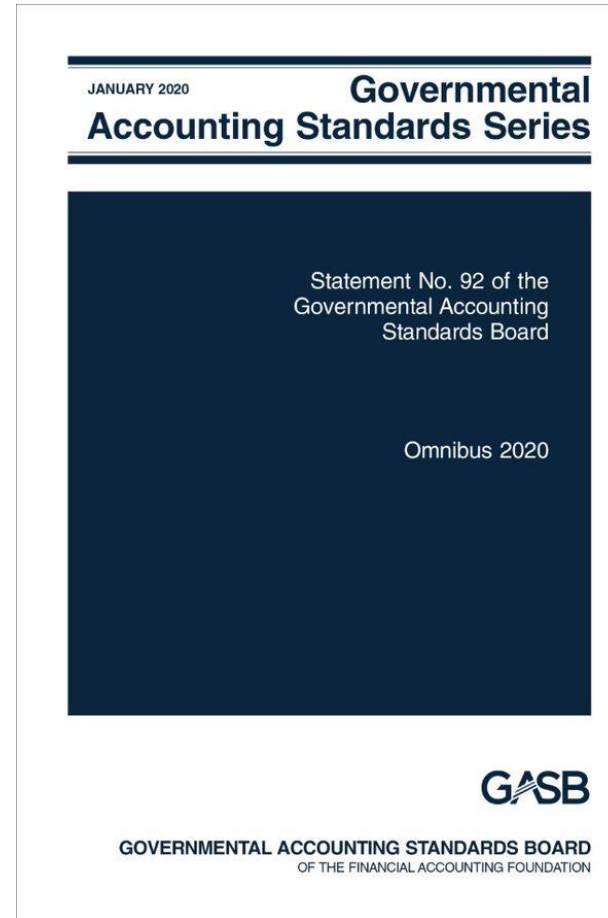
Project Timeline

Preliminary Views Issued	September 2018
Redeliberations Began	June 2019
Exposure Draft Approved	June 2020
Comment Period Ended	February 26, 2021
Final Concepts Statement Expected	April 2023

■ Omnibus 2020

Omnibus 2020

Statement No. 92



Omnibus 2020

What?

The Board has amended existing standards covering multiple topics

Why?

Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

When?

Effective dates vary by topic

Earlier application is encouraged and permitted by topic

Provisions of Statement 92

Leases

- Effective date of Statement 87 and Implementation Guide 2019-3 is changed from “reporting periods” to “fiscal years...and all reporting periods thereafter”

Government combinations and disposals of operations

- Provides an exception to the use of acquisition value in the measurement of an acquired asset retirement obligation

Derivative instruments

- Amends NCGA and GASB pronouncements to standardize the terminology used to refer to derivative instruments

Provisions of Statement 92 (continued)

Application of Statement 84 to Postemployment Benefit Arrangements

- Limit the requirements of paragraphs 22 and 25 to defined benefit pension and OPEB plans
- Supersedes guidance in Statements 73 and 74 regarding recognition of a liability to employers and NECEs for the excess of assets over liabilities for benefits payments and administrative expenses in custodial funds in circumstances in which assets are accumulated for the pensions and OPEB of other employers and NECEs

Applicability of Statements 73 and 74

- Amend Statements 73 and 74 to replace references to control of assets in those same circumstances, to avoid limiting the application of the associated requirements of those Statements

Fair value measurements

- Amends paragraph 81 of Statement 72 to adjust the example of nonrecurring fair value measurements

Provisions of Statement 92 (continued)

Intra-entity transfers of assets

- Amends paragraph 15 of Statement 48 to clarify that amounts associated with the transfer of capital or financial assets from an employer or NECE to a defined benefit pension or OPEB plan within the same financial reporting entity should be reported as contributions to the plan, in accordance with Statements 68 and 75
- Clarifies that the provisions of paragraph 15 apply to all transfers of assets within a financial reporting entity

Reinsurance recoveries

- Amends paragraph 37 of Statement 10 to clarify that amounts that are recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment expenses may be reported as reductions of expenses but are not required to be.

Effective Dates for Statement 92

Requirements related to:	Effective Date
1. Leases 2. Reinsurance recoveries 3. Derivative instruments	Upon issuance
4. Intra-entity transfers of assets 5. Applicability of Statements 73 and 74	Fiscal years beginning after June 15, 2021
6. Application of Statement 84 to postemployment benefit arrangements 7. Fair value measurements	Reporting periods beginning after June 15, 2021
8. Government combinations and disposals of operations	For government acquisitions occurring in reporting periods beginning after June 15, 2021

- **Compensated
Absences**

Compensated Absences

Exposure Draft, *Compensated Absences*

What?

The Board proposed updated guidance for accounting and financial reporting for compensated absences

Why?

A review of Statement 16 indicated opportunities for improvement and additional guidance for certain types of leave

When?

Comment deadline:
June 4, 2021

Proposal: Scope and Applicability

A compensated absence is

- Leave that employees use for time off with pay
- Leave for which employees receive payment upon termination of employment, or
- Leave for which employees receive settlement through other means, such as conversion to postemployment benefits

Examples:

- Vacation and sick leave
- Paid time off (PTO)
- Holidays
- Certain types of sabbatical leave

Proposal: Recognition Criteria

Absence accumulates

- Can be carried forward from reporting period when earned to a future reporting period when it will be paid or settled

Absence is attributable to services rendered

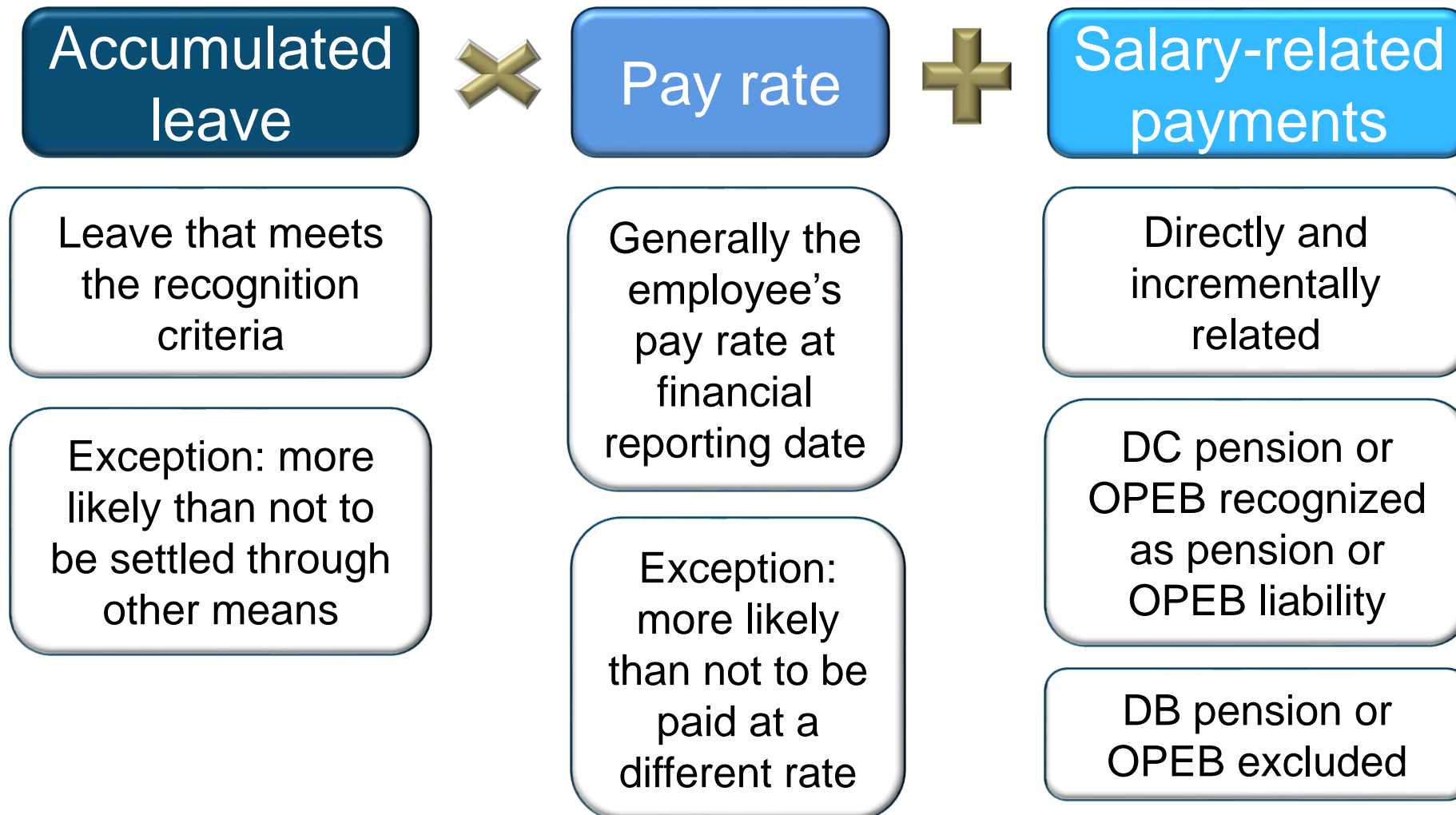
- Employee already has performed the services required to earn the absence

Absence is *more likely than not* to be either paid or settled

- Likelihood of more than 50 percent

Exception: more likely than not to be converted to defined benefit pension/OPEB

Proposal: Measurement



Proposal: 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
 - Reporting periods beginning after December 15, 2022

Project Timeline

Pre-Agenda Research Started	August 2018
Added to Current Technical Agenda	December 2019
Deliberations Began	February 2020
Exposure Draft Approved	February 2021
Comment Period Ended	June 4, 2021
Final Statement Expected	December 2021

■ Accounting Changes and Error Corrections

Accounting Changes and Error Corrections

Exposure Draft, *Accounting Changes and Error Corrections*

What?

The Board has proposed improvements and clarifications to the existing standards for accounting changes and error corrections

Why?

The relevant guidance is based on several sources of accounting standards, some of which have been superseded, and much of which has been in effect without review by the GASB for decades

When?

Comment deadline was August 31, 2021

Proposal: 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

First-time adoption of the US GAAP established by the GASB financial reporting framework

Proposal: 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*, based on the qualitative characteristics of financial reporting

Implementation of new pronouncements

Proposal: Change in Accounting Estimate

A change in accounting estimate results from changes to the inputs to the estimate, such as data, assumptions, and measurement methodologies

Changes in inputs result from a change in circumstance, new information, or more experience

A change in measurement methodology should be justified on the basis that *it is preferable* to the prior methodology, based on the qualitative characteristics of financial reporting

Proposal: 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 resources 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

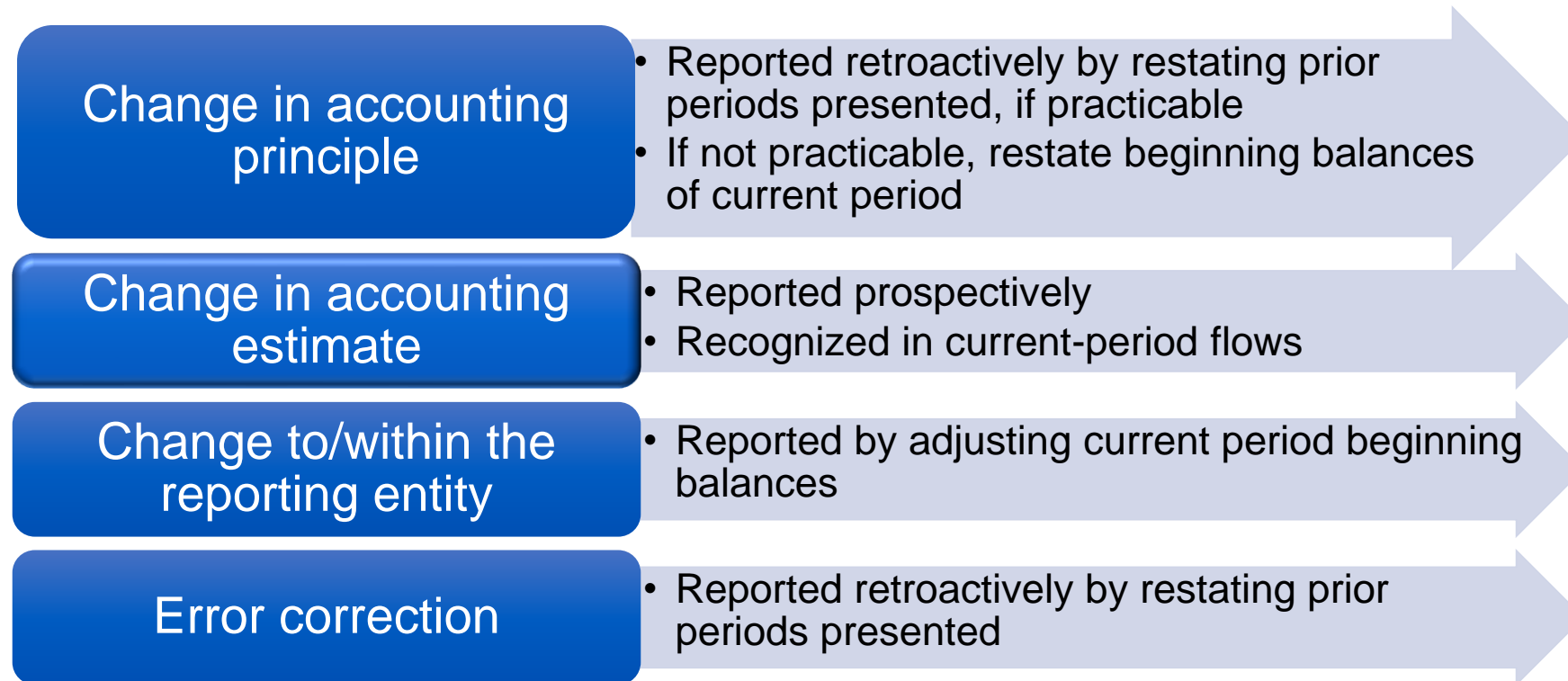
Proposal: Correction of an error

An error results from mathematical mistakes, mistakes in the application of accounting principles, or 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 existed at the time the financial statements were issued are those 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

A change from (a) applying an accounting principle that is not generally accepted to transactions or other events to (b) applying a generally accepted accounting principle is an error correction

Proposal: Accounting for accounting changes and error corrections



Proposed disclosures: Changes in accounting principle

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

Project Timeline

Pre-Agenda Research Started	August 2018
Added to Current Technical Agenda	December 2019
Deliberations Began	February 2020
Exposure Draft Issued	May 2021
Comment Period Ended	August 31, 2021
Final Statement Expected	May 2022

■ Risks and Uncertainties - Disclosures

Risks and Uncertainties Disclosures

Risks and Uncertainties Disclosures

What?

The Board added a practice issue project to identify potential risks and uncertainties in the government environment and consider developing related disclosure requirements

Why?

Ongoing financial and economic issues related to coronavirus diseases prompted stakeholders to ask the GASB to consider what governments should report about the risks and uncertainties they face

When?

Deliberations began in September 2020

Topics Considered

What information do users need regarding disclosures of risks and uncertainties that State and Local Governments face?

How can information about risks and uncertainties be disclosed with essential specificity rather than boiler plate discussions?

What is the basis for determining whether a government should disclose a risk or uncertainty?

How can guidance be developed to emphasize that disclosures of risks and uncertainties should not include predictions of the future or projections?

How do risks and uncertainties relate to severe financial stress or going concern considerations?

Project Developments

Scope of the project is defined by the identification of specific categories of risks and uncertainties disclosures

Each category is subject to certain limitations further narrowing the scope: **Degree of Likelihood, Degree of Impact, Time Frame**

Current Vulnerabilities Due to Certain Concentrations: A risk to the government based on a current condition creates a lack of (1) diversity related to an aspect of a significant revenue or (2) flexibility in managing a significant expense

Government Environment: A risk to the government based on a current condition common in the government environment (though not necessarily limited to governments) that creates a limitation on acquiring resources or controlling spending

The disclosure objective is to provide essential information to users of government financial reports about risks faced by those governments that may impact the government's ability to continue to provide services and meet its obligations as they come due.

Project Timeline

Added to Current Technical Agenda	July 2020
Deliberations Began	September 2020
Additional Outreach Conducted	February–April 2021
Exposure Draft Expected	February 2022

- **Implementation**
Guide Updates

Implementation Guidance Updates

2019-1, 2020-1, and 2021-1

Implementation Guidance Updates

What?

The GASB annually updates its Q&A implementation guidance

Why?

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

When?

2019-1 is effective for periods beginning after June 15, 2020

2020-1: periods beginning after either June 15, 2021 or December 15, 2021, depending on the Q&A

2021-2: Questions 4.1–4.3, 4.23, and 5.2–5.4, for reporting periods beginning after June 15, 2022; Questions 4.4–4.21, for fiscal years beginning after June 15, 2022; Question 4.22, for fiscal years beginning after June 15, 2021; Question 5.1, for reporting periods beginning after June 15, 2023

Implementation Guide 2019-1

Adds new questions on standards regarding

- Cash flows reporting
- Derivative instruments
- Fund balance
- Insurance recoveries
- Irrevocable split-interest agreements
- Intra-entity transfers of assets
- Nonexchange transactions
- Pensions and OPEB
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Derivative instruments
- Financial reporting entity
- Pension and OPEB plan reporting

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

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)

■ Classification – Nonfinancial Assets

Classification of Nonfinancial Assets

Classification of Nonfinancial Assets

What?

The Board is reviewing 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?

Exposure Draft expected to be issued in May 2023

Topics Being Considered

How should the existing definitions of nonfinancial assets and capital assets be modified, if at all? Should new classifications be added?

Should right-to-use intangible assets resulting from Statements 87, 94, and 96, continue to be classified as capital assets?

Should other intangible assets addressed in Statement 51 continue to be classified as capital assets?

Should other types of assets, such as capital assets held for resale, continue to be classified as capital assets?

If classifications are added, how should those classifications be defined?

If classifications are added and defined or existing definitions or classifications are modified, what should be the effect, if any, on presentation within the statement of net position or disclosure in notes to financial statements?

Project Timeline

Pre-Agenda Research Started	August 2020
Added to Current Technical Agenda	December 2021
Deliberations Begin	July 2022
Exposure Draft Expected	May 2023

■ Omnibus 20XX

Omnibus 20XX Exposure Draft (Now GASB 99)

Exposure Draft

Exposure Draft, *Omnibus 20XX*

What?

The Board has proposed guidance to address exchange and nonexchange financial guarantees and various practice issues

Why?

Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project

When?

Comment deadline was September 17, 2021

Topic Overview

Exchange and Exchange-like Financial Guarantees

Derivative Instruments

Leases, PPPs, and SBITAs

Replacement of Interbank Offered Rates

Technical Updates

Exchange and Exchange-like Financial Guarantees

Recognition and Measurement

- Governments that extend exchange financial guarantees would recognize a liability when it is *more likely than not* that indemnification payments will be required
- The liability to recognize would be the discounted present value of the best estimate of the future outflows expected

Disclosures

- Description of the financial guarantee
- Total amount of all outstanding guarantees extended
- Description of the timing of recognition and measurement of liabilities
- Cumulative amount of indemnification payments
- Amounts expected to be recovered

Derivative Instruments

Derivative Instruments That Are neither Investments nor Hedging Derivative Instruments

- Change in fair value would be reported on flow statement separately from investment revenues
- Disclosures would 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 would be reported on the flows statement separately from investment revenues.

Leases, PPPs, and SBITAs

Remeasurement of certain assets and liabilities

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

Replacement of Interbank Offered Rates and Technical Updates

London Interbank Offered Rate (LIBOR)

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

Supplemental Nutrition Assistance Program (SNAP)

- Apply the provisions of Statement 33

Disclosure of Nonmonetary Transactions

- Disclose measurement attributes rather than basis of accounting

Project Timeline

Added to Current Technical Agenda	August 2020
Deliberations Began	September 2020
Exposure Draft Approved	July 2021
Comment Period Ended	September 17, 2021
Final Statement Expected	April 2022

Effective Dates by Requirement

- The requirements of this Statement are effective as follows:
- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are **effective upon issuance**.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years **beginning after** June 15, 2022, and all reporting periods thereafter. **(i.e. July 1, 2022 to June 30, 2023)**
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years **beginning after** June 15, 2023, and all reporting periods thereafter. **(i.e. July 1, 2023 to June 30, 2024)**

Pre-Agenda Research Activities

■ Capital Assets

Capital Assets

Capital Assets

What?

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

Why?

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

When?

The Board added the pre-agenda research in August 2019

Topics to Be Considered

What choices do governments make with respect to their capital asset-related accounting policies? Why do they select those policies?

How do governments determine when outflows enhance the service capacity or extend the useful life of an asset?

How do governments report exchanges of capital assets?

How do depreciation and estimated useful lives compare with the actual diminution of service capacity?

What has been the experience with the modified approach to reporting infrastructure? How has it affected comparability of statement information?

Should changes in the condition of capital assets be reflected as flows of resources in the financial statements? How would it be measured?

What information do governments collect and report about deferred maintenance? How is it estimated?

- **Going Concern
Disclosures**

Going Concern Disclosures: Reexamination of Statement 56

Going Concern Disclosures

What?

The GASB is reviewing existing standards related to going concern considerations, which were incorporated into GASB literature mostly as-is from the AICPA literature in Statement 56

Why?

As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; AICPA and others have asked the GASB to examine the issue

When?

The Board added the pre-agenda research in April 2015

Topics to Be Considered

Are the current going concern indicators presented in note disclosures appropriate for state and local governments, in light of the fact that, even under severe financial stress, few governments cease to operate even when encountering such indicators?

What other criteria might better achieve the objective of disclosing severe financial stress uncertainties with respect to governments?

What information do financial statement users need with respect to the disclosure of severe financial stress uncertainties?

- **Interim Financial Reporting**

Interim Financial Reporting

Interim Financial Reporting

What?

The GASB is assessing the need for guidance on how to report on a GAAP basis for periods of less than a year

Why?

There is no guidance in the GASB literature for preparing interim financial statements

When?

The Board added the pre-agenda research in August 2019

Topics to Be Considered

What is current practice with respect to interim financial reporting?

Do interim GAAP financial reports of general purpose or business-type governments provide users with valuable information?

Should specific recognition and measurement standards be developed for interim GAAP reporting?

Should separate reporting entity standards be developed for interim GAAP reporting?

■ Post-Implementation Review

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 sample 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?

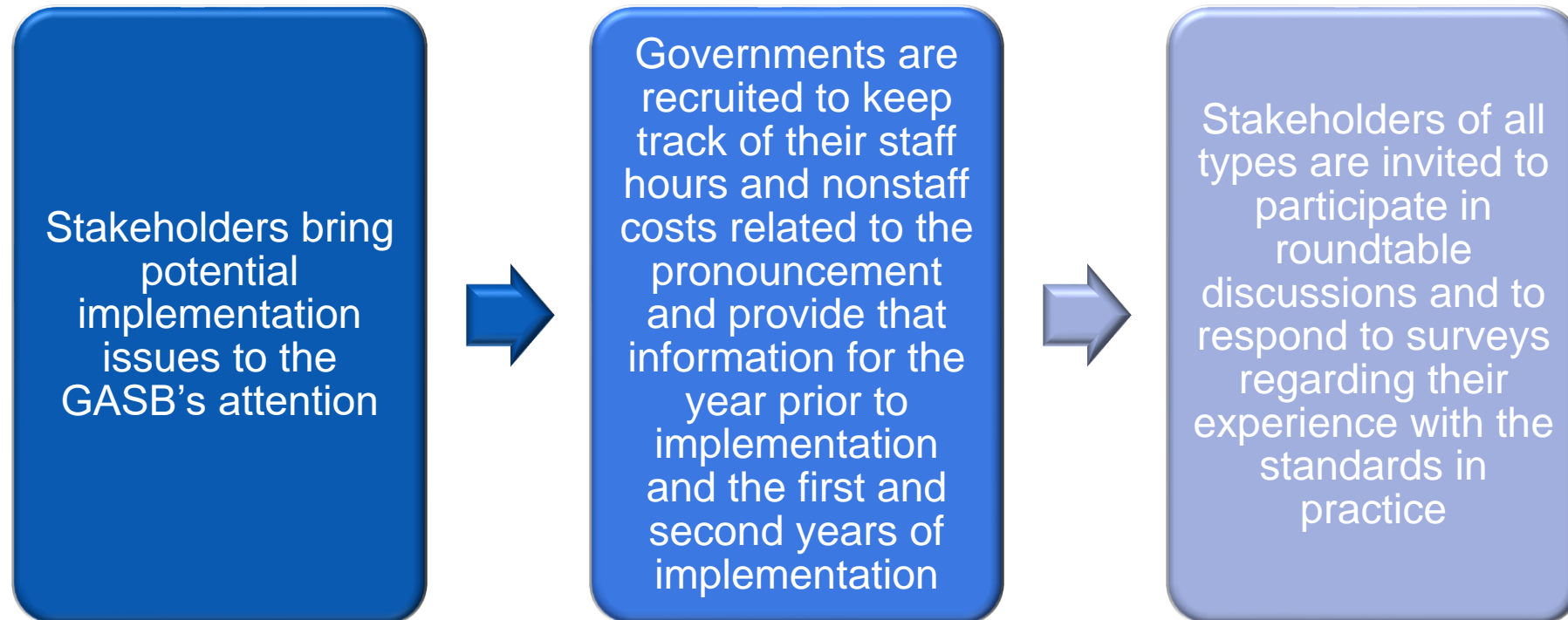
To provide general support to stakeholders when implementing significant new pronouncements

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

How does the GASB involve stakeholders in PIR?



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	Comparison of the data between the 1 st and 4 th year implementation continues; completed 11 planned stakeholder roundtables
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	Recruitment of governments continues; collection of implementation effort and cost information has begun

**Thank you for the Invitation to Participate
in your Training!**

Questions?



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