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Learning Objectives

- Understanding the difference between FASB and GASB
- Identify recent GASB statements and their effective dates, as well as updates on current projects at the GASB.
- Identify the key requirements of each statement and the changes to existing GAAP.
- How you auditor can help without impairing independence

GASB Updates

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GASB

Overview

The **Governmental Accounting Standards Board (GASB)** is a private-sector organization responsible for establishing accounting and financial reporting standards for state and local governments in the United States. Created in 1984, GASB aims to enhance transparency, accountability, and financial reporting within the public sector.

Objectives

GASB's primary objectives include developing standards that provide relevant financial information to users, aiding in decision-making processes, and fostering consistency in financial reporting among different government entities.

Authority

GASB operates under the financial accounting and reporting principles established by the American Institute of Certified Public Accountants (AICPA) and has the authority to establish standards for state and local governments.



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FASB

Overview

The **Financial Accounting Standards Board (FASB)**, established in 1973, is a private, non-profit organization that sets accounting standards for the private sector in the United States. FASB's mission is to establish and improve financial accounting and reporting standards, providing decision-makers with useful information.

Objectives

FASB's core objectives include ensuring consistency and comparability in financial reporting, providing information that is relevant to users, and promoting transparency in financial statements of private companies.

Authority

FASB derives its authority from the Securities and Exchange Commission (SEC), which recognizes and enforces its standards for publicly traded companies. It sets standards that govern the preparation of financial reports by non-governmental entities.



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Similarities between FASB and GASB

1.Non-Governmental Status: Both GASB and FASB operate as private-sector entities, independent of the government, to maintain impartiality and objectivity in standard-setting.

2.Mission for Standardization: Both organizations share the common goal of establishing and improving accounting standards to enhance financial reporting and decision-making.

3.Influence on Financial Reporting: GASB and FASB significantly impact financial reporting practices, albeit in different sectors – governmental and private.

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Differences between FASB and GASB

Scope of Applicability:

- GASB:** Focuses on establishing standards for state and local governments.

- FASB:** Sets standards for the private sector, including publicly traded and private companies.

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Differences between FASB and GASB

User Groups:

- **GASB:** Targets users of financial information related to state and local governments, such as citizens, legislators, and investors in municipal bonds.
- **FASB:** Aims to meet the needs of investors, creditors, and other users of financial information in the private sector.



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Differences between FASB and GASB

Basis of Accounting:

- **GASB:** Allows for both accrual and modified accrual basis of accounting.
- **FASB:** Generally requires the use of accrual basis accounting for the private sector.



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Effective Dates

June 30: Fiscal Year 2024

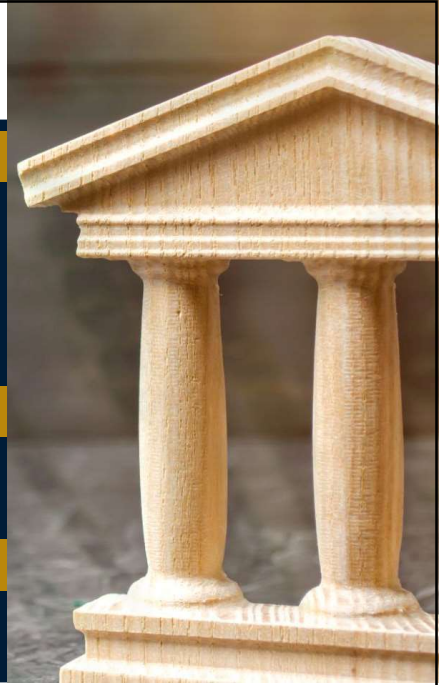
- Statement 99 – omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100 – accounting changes and error corrections

June 30: Fiscal Year 2025

- Statement 101 – compensated absences
- Statement 102 – certain risk disclosures

June 30: Fiscal Year 2026

- Statement 103 – financial reporting model improvements



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Pronouncements Being Implemented

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APRIL 2022

**Governmental
Accounting Standards Series**

Statement No. 99 of the
Governmental Accounting
Standards Board


Omnibus 2022

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GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Omnibus 2022

Statement No. 99



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Omnibus 2022

WHAT?

Practice issues identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees

WHEN?

Omnibus Statements are issued to address issues in multiple pronouncements that, individually, would not justify a separate pronouncement

WHY?

Omnibus Statements are issued to address issues in multiple pronouncements that, individually, would not justify a separate pronouncement

GASB Update



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General Omnibus Topics

Financial Guarantees

Other Derivative Instruments

Leases, PPPs, and SBITAS

Extended Use of LIBOR

Technical Updates/Corrections

GASB Updates

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Financial Guarantees

Definition

- A guarantee of an obligation of a legally separate entity or individual that requires the guarantor to indemnify a third-party obligation holder under specified conditions.

Existing Guidance (Prior to Statement 99)

- Exchange or Exchange-like Financial Guarantees
 - Statement 62, paragraphs 96 – 110.
- Nonexchange Financial Guarantees – Statement 70

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Financial Guarantees

Statement 99 DOES

- Apply the liability recognition, liability measurement, and disclosure requirements in Statement 70 to governments that extend exchange or exchange-like financial guarantees.

Statement 99 DOES NOT

- Prescribe expense classification.
- Prescribe recognition guidance for the consideration received in an exchange or exchange-like financial guarantee transaction.

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Financial Guarantees (cont..)

	Exchange (Stmt 62)	Nonexchange (Stmt 70)
Liability Recognition	Probable	More likely than not
Liability Measurement	Estimate of the future outflows expected	Discounted present value of the best estimate of the future outflows expected
Disclosure Requirements	<ul style="list-style-type: none"> • Description of the financial guarantee • Total amount of all outstanding guarantees extended • Amounts expected to be recovered 	<ul style="list-style-type: none"> • 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

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Other Derivative Instruments

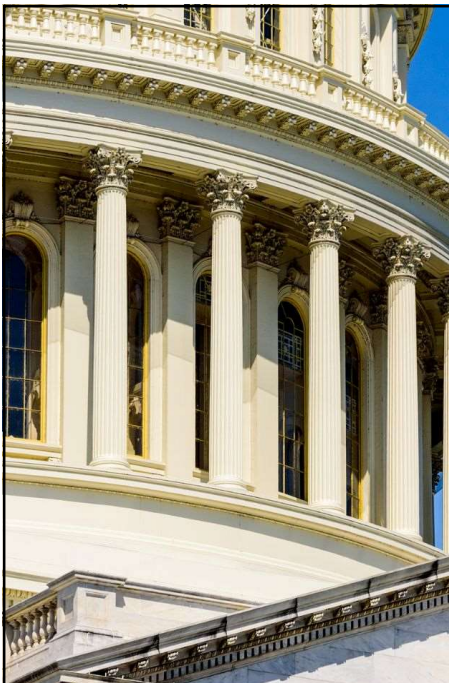
New Category – Other Derivative Instruments

- Derivative Instruments that do not meet the definition of investment derivative instruments or hedging derivative instruments.
 - Investment derivative instruments – held primarily for the purpose of income or profit and has a present service capacity based solely on its ability to generate cash or be sold to generate cash.
 - Hedging derivative instruments – associated with a hedgeable item and significantly reduces an identified risk by substantially offsetting changes in cash flow or fair values of hedgeable items.

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Other Derivative Instruments

Other Derivative Instruments

- Change in fair value should be reported on flow statement separately from investment revenues
- Disclosures should be distinguished from hedging derivative instruments and investment derivative instruments
- Disclose fair value of derivative instruments that were reclassified from hedging derivative instruments

Termination of hedge accounting

- If hedging derivative instruments cease to be effective, the balance of the deferrals should be reported on the flows statement separately from investment revenues.

GASB Updates



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Accounting Changes and Error Corrections

Statement No. 100

GASB Update

June 2022 **Governmental Accounting Standards Series**

Statement No. 100 of the
Governmental Accounting
Standards Board

Accounting Changes and
Error Corrections

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OF THE FINANCIAL ACCOUNTING FOUNDATION

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Accounting Changes and Error Corrections

WHAT?

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

WHY?

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

WHEN?

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

Earlier application is encouraged.

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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

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Changes in Accounting Principle

A change in accounting principle results from either:

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

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Accounting Estimates

Accounting estimates are:

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

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Change in Accounting Estimate

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

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Change to or within the Financial Reporting Entity

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

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Correction of an Error

- An error results from:
 - Mathematical mistakes
 - Misapplication of accounting principles
 - Oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date
 - Facts that could reasonably be expected to have been obtained and taken into account at that time about conditions that existed as of the financial statement date

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Accounting for Accounting Changes and Error Corrections

Change in accounting principle

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

Change in accounting estimate

- Reported prospectively
- Recognized in current-period flows

Change to/within the reporting entity

- Reported by adjusting current period beginning balances

Error correction

- Reported retroactively by restating prior periods presented

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Display

Shown separately

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

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Note Disclosures

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

The nature of the change or error and its correction

Reason for the change

The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

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RSI and SI

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

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

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

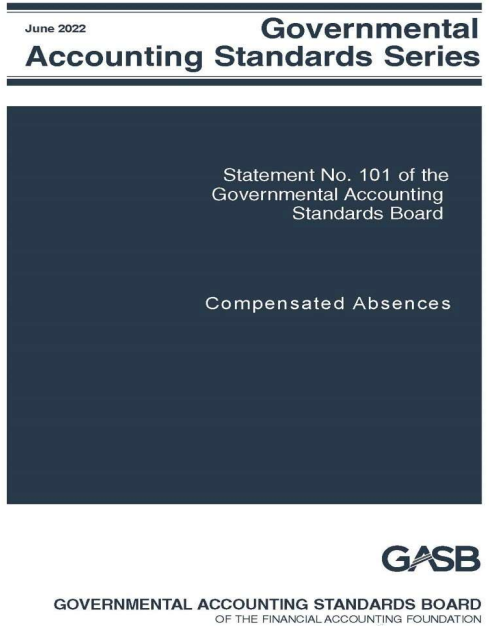
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Compensated Absences

Statement No. 101



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Compensated Absences

WHAT?

The Board has amended existing guidance for compensated absences

WHY?

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

WHEN?

Effective for fiscal years beginning after December 15, 2023.
Earlier application is encouraged

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Scope and Applicability

A COMPENSATED ABSENCE IS

- Leave for which employees may receive one or more:
 - Cash payments when the leave is used for time off
 - Other cash payments, such as payment for unused leave upon termination of employment
 - Noncash settlement, such as conversion to postemployment benefits

EXAMPLES:

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

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Recognition Criteria- Leave that has not been used

LEAVE IS ATTRIBUTABLE TO SERVICES ALREADY RENDERED

Employee has performed the services required to earn the leave

LEAVE ACCUMULATES

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

LEAVE IS MORE LIKELY THAN NOT TO BE USED FOR TIME OFF OR OTHERWISE PAID OR SETTLED

Likelihood of more than 50 percent

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Exclusions from Accrual Under GASB 101

- Termination benefits as defined by GASB 47
- Sporadic events
- Holidays based on a specific date not at the discretion of employees
- Certain salary-related payments
- Leave more likely than not to convert to a defined benefit plan
- Unlimited leave

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Measurement

Pay Rate

Generally the employee's pay rate at financial reporting date

Salary-related payments

Directly and incrementally related

DC pension or OPEB recognized as related leave is earned – not pension or OPEB liability

DB pension or OPEB excluded

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Leave Used But Not Paid



Liability for amount of cash payment or noncash settlement

Include applicable salary-related payments



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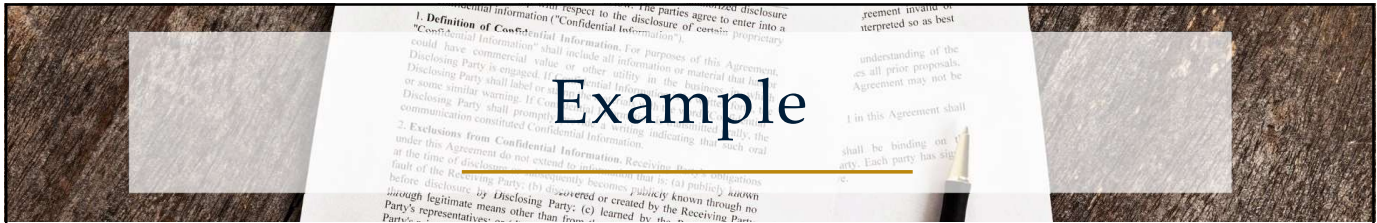
Note Disclosures and Effective Date

- Note disclosures
 - No new note disclosures
 - Option to present net increase or decrease with indication that it is a net amount
 - Not required to disclose governmental fund used to liquidate
 - *******Retrospective implementation in accordance with GASB 100**
- Effective date - Fiscal years beginning after December 15, 2023

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Sick leave is paid out 50% after 5 years of service:

- Employees over five years of service, unused sick leave = \$1,200,000
- Employees less than five years of service, unused sick leave = \$1,400,000

Sick leave relates to services already rendered and accumulates

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	GASB 16	GASB 101
Liability Calculation	<p>The vested portion would be recorded at 50% (\$600,000).</p> <p>For employees with less than five years of service, based on historical trends, it's probable that 25% of employees will stay on for more than five years and receive the termination payment at 50% (\$1,400,000 x 25% x 50% = \$175,000).</p>	<p><u>Vested portion:</u></p> <ul style="list-style-type: none"> • Based on historical trends, assuming 80% of the vested balance more likely than not would be eventually paid out at termination/retirement with the other 20% used prior to termination/retirement for sick leave. • $\\$1,200,000 \times 80\% \times 50\% = \\$480,000$ • $\\$1,200,000 \times 20\% = \\$240,000$ <p><u>Unvested portion:</u></p> <p>For employees less than five years of service:</p> <ul style="list-style-type: none"> • Based on historical trends, assume 30% of the total balance is more likely than not to be paid out for employees staying on for more than five years to receive the termination payment, 40% of the total balance is more likely than not to be used for sick leave and the remaining 30% will be forfeited. • Vested paid out $\\$1,400,000 \times 30\% \times 50\% = \\$210,000$ • Unvested, used for sick leave $\\$1,400,000 \times 40\% = \\$560,000$
Liability Amount	\$775,000	\$1,490,000

GASB Updates



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Certain Risk Disclosures

Statement No. 102

DECEMBER 2023

Governmental Accounting Standards Series

Statement No. 102 of the
Governmental Accounting
Standards Board

Certain Risk Disclosures

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Statement 102: Certain Risk Disclosures

WHAT?

The Board has established requirements to disclose certain risks faced by governments

WHY?

Stakeholders asked the GASB to address this issue

WHEN?

Approved in December 2023

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Scope: Concentrations and Constraints

Concentrations: lack of diversity in an aspect of a significant inflow or outflow of resources

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

Constraints: limitations imposed by an external party or the government's highest level of decision authority

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

Concentrations and constraints limit a government's ability to acquire resources or control spending.

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Application of Disclosure Criteria:

Primary government reporting unit, including blended component units, AND

Other reporting units that report a liability for revenue debt

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Disclosure Criteria

Disclosures would be required when a government determines that:

- A concentration or constraint is known to the government prior to the issuance of financial statements
- The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact
- An event or events associated with the concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

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General Disclosure Principles

If comparative financial statements are presented, disclosure requirements only apply to the current period

Some requirements may supplement other note disclosures; combine to avoid unnecessary duplication

Information that is the same for more than one reporting unit should be combined to avoid unnecessary duplication

Disclosure for discretely presented component units subject to paragraph 63 of Statement 14, *The Financial Reporting Entity*

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Disclosure Requirements:

Provide information in sufficient detail to enable users to understand the nature of the circumstances and the government's vulnerability to the risk of a substantial impact:

Description of the concentration or constraint


If they have occurred, description of each event associated with the concentration or constraint that could cause a substantial impact

Description of actions taken by the government to mitigate the risk (Only actions that have happened
- no disclosure if just plan is in place
- something has to have been done)

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- 
- Effective for fiscal years beginning after June 15, 2024
 - All reporting periods thereafter
 - Transition is prospective

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Overview of GASB 103, Financial Reporting Model Improvements



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Background

- ❖ The objective of this Statement is 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. This Statement also addresses certain application issues
- ❖ GASB 103 establishes new accounting and financial reporting requirements, or modifies existing requirements, related to the following topics:
 - Management's discussion and analysis (MD&A)
 - Unusual or infrequent items
 - Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position
 - Information about major component units in basic financial statements
 - Budgetary comparison information
 - Financial trends information in the statistical section
- ❖ Requirements of GASB 103 apply to the financial statements of all state and local governments

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Effective Date & Transition

- ❖ Effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter
- ❖ Earlier application is encouraged
- ❖ If a primary government chooses early implementation of this Statement, all component units also should implement this Statement in the same year, subject to the provisions of para. 59 of GASB14
- ❖ Changes adopted at transition to conform to the provisions of this Statement should be reported as a change in accounting principle in accordance with GASB 100, Accounting Changes and Error Corrections, including the related display and disclosure requirements

GASB Updates



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Key Provisions of GASB 103 and Significant Changes to the Financial Reporting Model



GASB Update



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Management's Discussion & Analysis (MD&A)

The Statement notes that MD&A should:

- ❖ Provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions
 - Information that management is aware of as of the date the financial statements are issued
- ❖ Include an analysis of government's activities - both short-term and long-term analyses
- ❖ Be written in a manner that can be understood by users who may not have a detailed knowledge of governmental accounting and financial reporting
- ❖ Include explanations and interpretations that help users understand the information provided
- ❖ Discussion comparison to prior year, with emphasis on current year
- ❖ Avoid unnecessary duplication
- ❖ Focus on the primary government

GASB 103 continues the requirement that the basic financial statements be preceded by MD&A, which is presented as Required Supplementary Information (RSI)

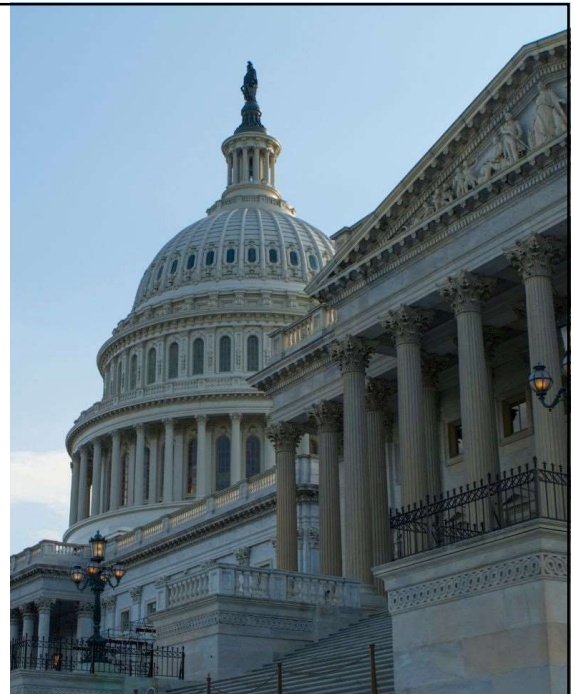
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Management's Discussion & Analysis (MD&A)

- ❖ No change from prior guidance, this information was required to be included in MD&A per existing GASB guidance
- ❖ This section of MD&A should provide an overview of the financial statements, including:
 - The relationship of the statements to each other
 - Focus on the significant differences in the types of information the financial statements provide



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Management's Discussion & Analysis (MD&A) Overview of the Financial Statements

GASB 103 requires that the information presented in MD&A be limited to the related topics discussed in five sections:

1. Overview of the Financial Statements
2. Financial Summary
3. Detailed Analyses
4. Significant Capital Asset and Long-Term Financing Activity, and
5. Currently Known Facts, Decisions, or Conditions



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Management's Discussion & Analysis (MD&A) Financial Summary

- ❖ This section of the MD&A should include condensed financial information derived from the government-wide financial statements comparing the current year to the prior year for both governmental activities and business-type activities
- ❖ Governments should present the information needed to support their analysis of financial position and results of operations required in the Detailed Analyses section (covered in upcoming slides), including the following elements, if applicable:

- | | | |
|--|---|---|
| 1) Total assets, distinguishing between capital assets and other assets | 6) Program revenues, by major source, distinguishing between charges for services, operating grants and contributions, and capital grants and contributions | 11) Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, transfers, and unusual or infrequent items |
| 2) Total deferred outflows of resources | 7) General revenues, by major source | 12) Contributions to term and permanent endowments or permanent fund principal |
| 3) Total liabilities, distinguishing between long-term liabilities and other liabilities | 8) Total revenues | 13) Transfers |
| 4) Total deferred inflows of resources | 9) Program expenses, at a minimum by function or identifiable activity, as appropriate | 14) Unusual or infrequent items |
| 5) Total net position, distinguishing between the net investment in capital assets, restricted net position, and unrestricted net position | | 15) Beginning net position |
| | | 16) Change in net position |
| | | 17) Ending net position |

GASB Updates

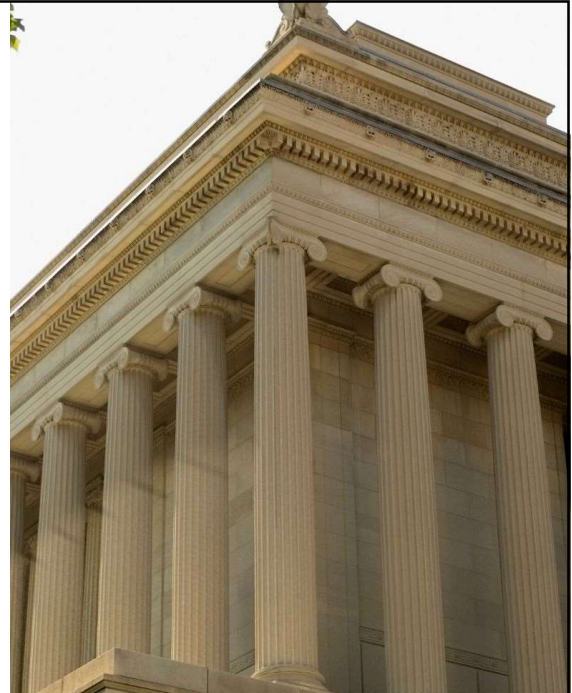
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Management's Discussion & Analysis (MD&A) Detailed Analysis

This section of MD&A should include the following:

- ❖ An analysis of the primary government's financial position and the results of operations
 - Summarize significant changes to both governmental activities and business-type activities as reported in the government-wide financial statements and,
 - If applicable, should refer to the analysis of significant capital asset and long-term financing activity rather than duplicating information
 - Report the amounts or percentages of significant changes
 - Provide explanations for why those changes from the prior year occurred and indicate the magnitude of those changes
 - Include facts, decisions, or conditions about which the user may not be aware, with the understanding that not all users may be from the government's geographical area
 - Include a discussion of significant policy changes (such as changes in tax rates or fees, or the imposition of a hiring freeze) and important economic factors (such as changes in the tax or employment bases) that significantly affected operating results for the year, as applicable



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Management's Discussion & Analysis (MD&A) Detailed Analysis

This section of MD&A should include the following:

- ❖ An analysis of fund balance or net position and the results of operations of each major fund
 - Summarize significant changes to each major fund
 - If applicable, should refer to the analysis of significant capital asset and long-term financing activity rather than duplicating information
 - In addition to reporting the amounts or percentages of significant changes, the analysis should explain why those changes from the prior year occurred and indicate the magnitude of those changes
 - The analysis should include facts, decisions, or conditions about which the user may not be aware, with the understanding that not all users may be from the government's geographical area
 - The analysis also should address restrictions, commitments, and assignments that significantly affect the availability of fund resources for future use
 - The analysis of major funds may focus on explanations that differ from the analysis already required by paragraph 8c(1) (analysis of the primary government's financial position and results of operations) rather than duplicating them



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Management's Discussion & Analysis (MD&A)

Significant Capital Asset and Long-Term Financing Activity

Description of significant capital asset activity during the year, including certain intangible assets

- ❖ Discussion of significant additions and disposals of capital assets and changes to commitments made for the acquisition of capital assets
- ❖ The description should address any significant policy changes and economic factors relevant to the capital asset activity that occurred during the year
 - If applicable, the description should refer to the detailed analysis of significant capital asset activity required by paragraph 8c (Detailed Analyses section of MD&A) rather than duplicating information

Note: Intangible assets subject to the provisions of Statement No. 51, Accounting and Financial Reporting for Intangible Assets, as amended, and intangible right-to-use assets subject to the provisions of Statements No. 87, Leases, as amended, No. 94, Public-Private and Public-Public Partnerships (P3s) and Availability Payment Arrangements, as amended, and No. 96, Subscription-Based Information Technology Arrangements (SBITAs), as amended, are considered capital assets.

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Management's Discussion & Analysis (MD&A)

Significant Capital Asset and Long-Term Financing Activity

Description of significant long-term financing activity during the year, including debt, leases, P3s, and subscription-based information technology arrangements (SBITAs)

- ❖ Include a discussion of such agreements entered into, changes in credit ratings, and changes to debt limitations that may affect the financing of planned facilities or services, if any
- ❖ Address any significant policy changes and economic factors relevant to the long-term financing activity that occurred during the year
- ❖ If applicable, refer to the detailed analysis of significant long-term financing activity required by paragraph 8c (Detailed Analyses section of MD&A) rather than duplicating information



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Management's Discussion & Analysis (MD&A) Currently Known Facts, Decisions, & Conditions

Description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or that are expected to produce significant differences from current-period results of operations (revenues, expenses, and other changes in net position).

Examples of the types of information to include in the description:

- ❖ Trends in relevant economic and demographic data, such as changes in population (total or specific age groups), customer base, income levels, building permits, enrollment, and unemployment rates
- ❖ Relevant factors used to develop the subsequent year's budget that will provide an indication of how results of operations are expected to change in the subsequent year
- ❖ Expected changes in budgetary net position or fund balance
- ❖ Actions the government has taken related to postemployment benefit liabilities, capital asset improvement plans, lessee liabilities, operator liabilities in P3 arrangements, SBITA liabilities, and other long-term financings that will affect the government in a subsequent period
- ❖ Actions other parties have taken that will affect the government in a subsequent period, such as new legislation or regulations imposed on the government

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Unusual or Infrequent Items

Description of significant long-term financing activity during the year, including debt, leases, P3s, and subscription-based information technology arrangements (SBITAs)

- ❖ Include a discussion of such agreements entered into, changes in credit ratings, and changes to debt limitations that may affect the financing of planned facilities or services, if any
- ❖ Address any significant policy changes and economic factors relevant to the long-term financing activity that occurred during the year
- ❖ If applicable, refer to the detailed analysis of significant long-term financing activity required by paragraph 8c (Detailed Analyses section of MD&A) rather than duplicating information



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Unusual or Infrequent Items

- ❖ Display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows
- ❖ Inflows and outflows related to each unusual or infrequent item should be presented separately and not netted
- ❖ Disclose in notes to financial statements the program, function, or identifiable activity to which an unusual or infrequent item is related, if applicable, and whether that item is within the control of management



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Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position

- ❖ GASB 103 requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses
 - Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses
 - Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses
- ❖ GASB 103 requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses
 - This requirement is in addition to the subtotals currently required

Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

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Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position

Statement requires the statement of revenues, expenses, and changes in fund net position to present the following information in the order shown, using the all-inclusive format indicated

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

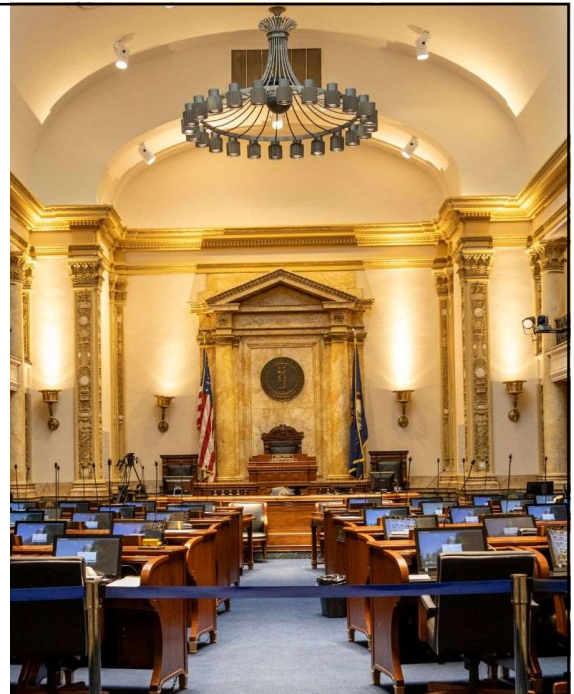
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Major Component Unit Information

- ❖ Governments are required to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements
- ❖ If the readability of those statements would be reduced:
 - combining statements of major component units should be presented after the fund financial statements



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Budgetary Comparison Information and Statistical Section Financial Trends Information

Budgetary Comparison Information

- ❖ Governments are required to present:
 - Budgetary comparison information using a single method of communication—RSI
 - (1) Variances between original and final budget amounts and (2) variances between final budget and actual amounts, and
 - An explanation of significant variances in the notes to RSI

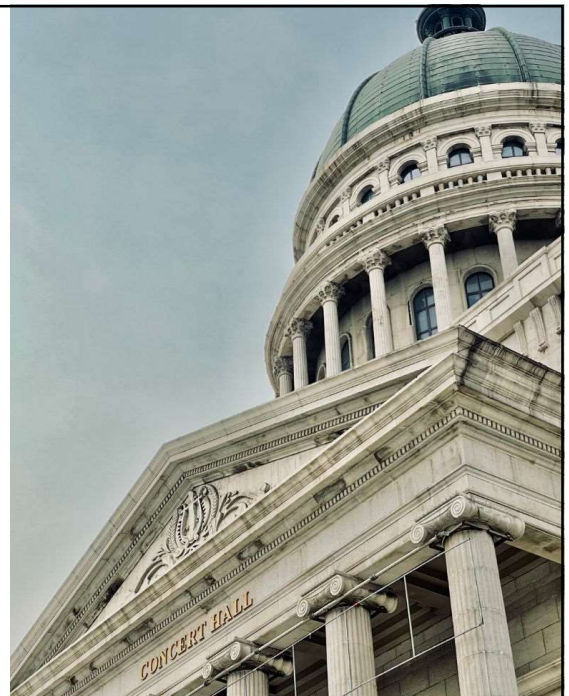
Statistical Section: Financial Trends Information

- ❖ Information about changes in net position:
 - In the statistical section of separately issued financial reports, governments engaged only in business-type activities or only in business-type and fiduciary activities should present revenues by major source for their business-type activities, distinguishing between operating, noncapital subsidy, and other nonoperating revenues and expenses

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Best Practices for Implementation

Walkthrough of Appendix C Illustrations



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Appendix C Illustrations

Appendix C provides a detailed illustration section, including 22 exhibits

Appendix	Description
Exhibit 1	Management's Discussion and Analysis
Exhibit 2	Statement of Net Position
Exhibit 3	Statement of Activities
Exhibit 4	Balance Sheet - Governmental Funds
Exhibit 5	Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds
Exhibit 6	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
Exhibit 7	Statement of Net Position—Proprietary Funds
Exhibit 8	Statement of Revenues, Expenses, and Changes in Fund Net Position— Proprietary Funds
Exhibit 9	Statement of Cash Flows—Proprietary Funds
Exhibit 10	Statement of Fiduciary Net Position—Fiduciary Funds
Exhibit 11	Statement of Changes in Fiduciary Net Position—Fiduciary Funds
Exhibit 12	Combining Statement of Net Position—Discretely Presented Component Units

GASB Updates



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APPENDIX C Illustration

Exhibit 1: MD&A Excerpt to the right of Currently Known Fact, Decisions, or Conditions Section

Currently known facts, decisions, or conditions

The City is aware of five developments that will have an impact on the City's finances in the future and were therefore incorporated into next year's budget:

- (1) Public safety employee unions' new contract
- (2) Amendments to the City budget
- (3) Recent economic reports
- (4) Adoption of the State budget
- (5) Pension plan changes.

Public safety employee unions' new contract

The collective bargaining agreement for uniformed police officers and firefighters expired at the end of fiscal year 20X5. On September 15, 20X5, the members of the public safety employee unions ratified a new four-year contract that is retroactive to the start of fiscal year 20X6. The key features of the contract are annual increases in base pay of 3.5 percent; increases in rank pay, shift premiums, and other add-ons averaging 2.5 percent; and a series of nonpensionable bonuses at the end of each calendar year. The contract also changes certain staffing rules that will allow the City more flexibility in deploying its uniformed employees and, as a result, is expected to reduce overtime spending. The City's Labor Relations Division budgeted an annual increase of \$4.1 million of expenses to the public safety function, net of reduced overtime costs, as a result of the contract.

Amendments to the City budget

The first mid-year amendment to the City's operating budget addresses budgetary variances that are found in the actual results for the first quarter ending September 30, 20X5. The additional public safety expenses resulting from the new contract were a prominent aspect of the amendment, which was adopted by the City Council on November 1, 20X5. Use tax revenues for the first quarter were 4.6 percent below budget. Extrapolated for the full year, use taxes would fall short of the budget by \$1.9 million. The City Council decided to monitor ongoing tax receipts for further deterioration and to postpone consideration of a rate increase until the second mid-year modification. To potentially buffer the lost revenue, the City Council identified certain positions that are vacant or expected to become vacant that could be filled more slowly than originally planned and adjusted the department budgets accordingly.

GASB Updates



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APPENDIX C Illustration

Exhibit 1: MD&A Excerpt to the right of Currently Known Fact, Decisions, or Conditions Section

GASB Updates

Recent economic reports

The unemployment rate for the City has increased slightly for five consecutive months through September 20X5 (the most recent month for which data were available at the time this report was issued). Unemployment in May 20X5 was 2.7 percent. By September 20X5, unemployment had reached 3.4 percent.

Building permit applications were assumed in the adopted budget for fiscal year 20X6 to increase approximately 2.0 percent, a lower level than the average annual increase of 4.1 percent since 20V7. However, through the first quarter of fiscal year 20X6, applications were flat compared with the same period last year.

Adoption of the State budget

In May 20X5, the State adopted its operating budget for the fiscal year ending June 30, 20X6. The City's finances are affected by many parts of the State budget, though two provisions in particular may have a negative impact on the City's finances. First, the adopted State budget includes a plan to retain a quarter of a percentage point from the local-option sales tax imposed by counties and municipalities beginning in calendar year 20X6. The loss of that 0.25 percent from the City's sales tax is expected to reduce the City's revenue by approximately \$11.0 million in City fiscal year 20X6 and \$23.5 million in City fiscal year 20X7.

The other State budget provision is the winding down of a Department of Transportation grant program that provides resources for transportation and mass transit capital projects and subsequent maintenance. The City's Capital Improvement Plan anticipated that program would be a funding source for parts of the city-wide highway and street improvement program and the conversion of the Army base to a public works and transportation garage and headquarters. In total, the City budgeted \$28.7 million from that grant program through 20X9 based on the published long-term capital plan. The City still is budgeting to receive that amount through the end of the grant period.

Pension plan changes

The City provides pension benefits to its nonuniformed employees through the Municipal Employee Pension Plan, a cost-sharing defined benefit plan administered by the State of Example Retirement System. In April 20X5, the System announced that it was revising certain assumptions that factor into the measurement of the total pension liability for all participating governments in the plan, including lowering the long-term expected rate of return on plan investments (and, thereby, the discount rate) from 6.50 to 6.25 percent and utilizing updated mortality tables with longer life expectancies. The changes would be effective for State fiscal year 20X6.

It is expected that the change in the discount rate will increase the City's contractually required contribution for the fiscal year beginning July 1, 20X6. This amount is not yet determinable.

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APPENDIX C Illustration

Exhibit 8: Updated format of Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds

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Exhibit 8

Sample City Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Funds for the Year Ended June 30, 20X5 (amounts expressed in thousands)					
	Enterprise Funds			Internal Service Funds	
	Public Utility	Transit Authority	Golf Courses	Total	
OPERATING REVENUES					
Charges for services	\$ 41,003	\$ 16,636	\$ 2,561	\$ 62,200	\$ 42,823
Miscellaneous	283	33	104	420	78
Total operating revenues	41,286	16,669	2,665	62,620	42,901
OPERATING EXPENSES					
Personnel services	13,991	-	-	13,991	5,786
Contractual services	13,952	16,456	4,893	35,251	4,117
Insurance claims and expenses	-	-	-	-	26,388
Depreciation	11,767	8,972	2,378	23,114	415
Other	1,067	-	166	1,233	7,834
Total operating expenses	40,777	25,378	7,433	73,588	44,540
Operating income (loss)	509	(8,709)	(4,768)	(10,968)	(11,639)
NONCAPITAL SUBSIDIES					
Intergovernmental revenue	-	-	-	-	891
Transfers in	-	2,090	110	2,200	300
Transfers out	(1,880)	-	-	(1,880)	-
Total noncapital subsidies	(1,880)	2,090	110	220	1,191
Operating income (loss) and noncapital subsidies	(1,471)	(6,619)	(4,658)	(10,748)	(758)
OTHER NONOPERATING REVENUES (EXPENSES)					
Investment earnings	1,496	75	103	1,674	446
Gain from the sale of capital assets	-	-	-	-	3
Interest expense	(1,910)	(448)	(963)	(3,321)	-
Capital contributions	2,938	-	-	2,938	-
Transfers in—restricted for capital assets	1,032	15,360	2,384	18,776	1,216
Total other nonoperating revenue (expenses)	3,656	14,987	1,624	20,267	1,664
Increase (decrease) in fund net position	2,085	10,368	(3,134)	9,319	906
Fund net position—beginning of period	331,657	177,997	29,423	539,077	12,387
Fund net position—end of period	\$ 333,742	\$ 188,365	\$ 26,289	\$ 548,396	\$ 13,293

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APPENDIX C Illustration

Exhibit 12: Combining Statement of Net Position - Discretely Presented Component Units

- ❖ Alternate presentation (use of a combining statement) to not reduce the readability of the government-wide statement of net position show in Exhibit 2)

Exhibit 12

Sample City
Combining Statement of Net Position
Discretely Presented Component Units
June 30, 20X5
(amounts expressed in thousands)

This is an alternate presentation using a combining statement in order not to reduce the readability of Exhibit 2.

	Energy Authority	Airport	Nonmajor Component Units	Total (See Exhibit 2)
ASSETS				
Cash and cash equivalents	\$ 10,928	\$ 31,968	\$ 17,247	\$ 60,133
Investments	9,487	27,744	14,972	52,203
Receivables, net	2,946	6,486	24,827	34,259
Trademarks	-	1,517	765	2,282
Other assets	-	407	992	1,399
Capital assets:				
Nondepreciable capital assets	171	147,234	14,985	162,390
Depreciable capital assets, net	7,657	252,813	45,262	305,732
Total assets	31,392	468,159	119,250	618,801
DEFERRED OUTFLOWS OF RESOURCES				
Pension-related items	514	2,404	1,397	4,615
OPEB-related items	42	-	36	78
Debt refundings	-	9,185	267	9,452
Total deferred outflows of resources	556	11,589	1,700	14,145
LIABILITIES				
Accounts payable and accrued expenses	1,963	6,299	3,463	11,725
Advances	-	529	93	622
Long-term liabilities:				
Short-term portion	-	-	-	-
Bonds payable	-	8,441	970	9,411
Other	255	276	114	645
Long-term portion	-	-	-	-
Bonds payable	-	162,164	6,195	168,359
Net pension liability	5,656	19,308	12,317	37,281
Net OPEB liability	57	1,837	187	2,081
Other	11	367	37	415
Total liabilities	7,687	189,221	23,378	220,286
DEFERRED INFLOWS OF RESOURCES				
Pension-related items	246	670	1,780	2,696
OPEB-related items	19	-	17	35
Total deferred inflows of resources	264	670	1,797	2,731
NET POSITION				
Net investment in capital assets	8,016	260,554	54,412	322,982
Restricted for:				
Debt service	-	9,733	3,244	12,977
Capital projects	-	1,812	8,832	9,644
Other purposes	-	-	21,927	21,927
Unrestricted	18,223	7,726	7,965	31,743
Total net position	\$ 24,039	\$ 278,827	\$ 85,577	\$ 388,473

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APPENDIX C Illustration

Exhibit 13: Combining Statement of Activities - Discretely Presented Component Units

- ❖ Alternate presentation (use of a combining statement) to not reduce the readability of the government-wide statement of activities shown in Exhibit 3)

Exhibit 13

Sample City
Combining Statement of Activities
Discretely Presented Component Units
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

This is an alternate presentation using a combining statement in order not to reduce the readability of Exhibit 3.

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Energy Authority	Airport	Nonmajor Component Units	Total
Functions/Programs								
Component units:								
Energy authority	\$ 26,925	\$ 26,723	\$ -	\$ -	\$ (202)			\$ (202)
Airport	51,306	34,520	9,237	10,168		\$ 2,619		2,619
Nonmajor component units	32,787	11,748	7,266	2,734			\$ (11,039)	(11,039)
Total component units	\$ 111,018	\$ 72,991	\$ 16,503	\$ 12,902	(202)	2,619	(11,039)	(8,822)
General revenues:								
Taxes:								
Sales taxes	-	-	-	-	-	-	8,340	8,340
Property taxes	-	-	-	-	-	-	3,153	3,153
Investment earnings	-	-	-	-	854	1,523	957	3,034
Total general revenues	-	-	-	-	854	1,523	10,450	12,827
Change in net position	-	-	-	-	352	4,142	(599)	3,905
Net position—beginning of period	-	-	-	-	23,687	275,719	96,166	395,568
Net position—end of period	-	-	-	-	\$ 24,039	\$ 279,867	\$ 95,577	\$ 399,473

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APPENDIX C Illustration

Exhibit 15: Budgetary Comparison Schedule Example Shown for the General Fund

- ❖ Shows addition of variance columns to presentation of Schedules
- ❖ Also includes presentation for Unusual or Infrequent item related to flood damage

Exhibit 15

Required Supplementary Information Sample City Budgetary Comparison Schedule General Fund for the Year Ended June 30, 2016 (amounts expressed in thousands)					
	Budgeted Amounts		Variance with Original Budget— over (under)	Actual Amounts Budgetary (and GAAP)	Variance with Real Budget— over (under)
	Original	Final			
BUDGETARY REVENUES					
Taxes	\$ 157,715	\$ 157,715	\$ -	\$ 161,885	\$ 4,170
Payments in lieu of taxes	16,218	15,853	(365)	16,737	(116)
Intergovernmental	1,863	2,052	442	1,997	(465)
Charges for services	13,299	13,299	-	13,905	606
Licenses, permits, and fees	2,712	3,220	508	3,832	312
Fines and forfeitures	8,262	8,262	-	7,853	(409)
Investment earnings	5,100	5,100	-	6,792	1,692
Miscellaneous	3,313	3,313	-	2,075	(1,238)
Total budgetary revenues	208,179	208,764	585	213,376	4,612
BUDGETARY EXPENDITURES					
Current					
General government	23,786	26,138	(648)	29,097	(411)
Public safety	152,479	129,893	(22,586)	129,775	(183)
Public works	3,297	3,293	(4)	1,882	(1,381)
Culture and recreation	22,086	22,076	(10)	21,354	(721)
Social and economic development	12,095	12,038	(57)	11,614	(424)
Debt service	-	-	-	-	-
Principal	1,276	1,276	-	1,262	(13)
Interest and other charges	41	41	-	54	13
Capital outlay	1,108	1,105	(3)	1,103	(3)
Total budgetary expenditures	202,761	198,689	(4,072)	195,136	(2,752)
Budgetary excess of revenues over expenditures	5,018	9,675	3,367	17,240	7,364
BUDGETARY OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	-	-	-	275	275
Transfers in	2,630	2,630	-	2,630	-
Transfers out	(1,871)	(2,713)	(842)	(662)	2,051
Total budgetary other financing sources (uses)	759	(83)	(842)	2,243	2,326
UNUSUAL OR INFREQUENT ITEM—FLOOD DAMAGE					
Grant revenues	-	2,500	2,500	2,500	-
Grants	-	(10,000)	(10,000)	(10,000)	-
Total	-	(7,500)	(7,500)	(7,500)	-
Net change in fund balances	5,774	2,293	(4,481)	11,983	9,990
Budgetary fund balance—beginning of period	\$5,009	\$5,009	-	\$5,009	-
Budgetary fund balance—end of period	\$ 6,782	\$ 7,302	\$ (4,481)	\$6,992	\$ 9,990
RECONCILIATION TO GAAP BASIS					
Total fund balance (GAAP basis)				\$ 66,992	

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APPENDIX C Illustration

Exhibit 17: Notes to Budgetary Comparison Schedule

- ❖ This example is shown in tabular format to explain significant differences
- ❖ The information is required to be included in the notes, but the format is not required
 - Paragraph style could be used for the notes

Exhibit 17

Required Supplementary Information Note to Budgetary Comparison Schedules (amounts expressed in thousands)		
Note A—Actual Budget Results		
	General Fund over (under)	Public Safety and Transportation Fund over (under)
BUDGETARY REVENUES		
Differences—final budget to actual:		
The City experienced an increase in revenue for taxes from budgeted amounts primarily due to the opening of the new shopping center 3 months earlier than expected.	\$ 4,170	\$ 1,617
Actual amounts of interest revenue exceeded budgeted amounts as the City saw higher interest rates than expected.	1,692	395
BUDGETARY EXPENDITURES		
Differences—original budget to final budget:		
The original budget was amended for public safety as the new police station #453 was completed 7 months behind schedule. The original budget included salaries and benefits for new officers and administrative staff, in addition to noncapital building expenditures. Station #453 will be opening in the next fiscal year, and these expenditures have been included in the next year's budget.	\$ (2,526)	\$ -
UNUSUAL OR INFREQUENT ITEM		
Differences—original budget to final budget:		
The City experienced flood damage during the current fiscal year. During the year, the City increased the original budget to account for the State grants received to address the flood damage.	\$ 2,500	\$ -
During the year, the City increased the original budget to account for the spending required to address the flood damage.	(10,000)	-
Note: This explanation of significant differences is shown in a tabular format. Governments can show this information in other styles such as paragraph form if they choose.		

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Implementation Considerations

Key Talking Points



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How the Changes will Improve Financial Reporting

- ❖ MD&A requirements will:
 - improve the quality of the analysis of changes from the prior year
 - enhance the relevance of that information
 - provide clarity regarding what information should be presented in MD&A
- ❖ Separate presentation of unusual or infrequent items will provide clarity regarding which items should be reported separately from other inflows and outflows of resources
- ❖ Definitions of operating revenues and expenses and of nonoperating revenues and expenses will replace accounting policies that vary from government to government, thereby improving comparability

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How the Changes will Improve Financial Reporting

- ❖ The addition of a subtotal for operating income (loss) and noncapital subsidies will improve the relevance of information provided in the proprietary fund statement of revenues, expenses, and changes in fund net position
- ❖ The requirement for presentation of major component unit information will improve comparability
- ❖ The requirement that budgetary comparison information be presented as RSI will improve comparability, and the inclusion of the specified variances and the explanations of significant variances will provide more useful information for making decisions and assessing accountability

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Client Consideration for Implementation

MD&A

- ❖ Review to ensure explanations for why amounts have changed are included throughout
- ❖ Remove content that does not relate to the five required sections
- ❖ Remove and avoid boilerplate language and duplication

Proprietary Fund Financial Statements

- ❖ Considerations re: operating vs non-operating revenues
- ❖ Formatting updates to Statement of Revenues, Expenses, and Changes in Net Position

Unusual or Infrequent Items

- ❖ If applicable, review presentation requirements for these items in the financial statements

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Client Consideration for Implementation

Major Component Unit Information

- ❖ For governments with major component units that were shown in a condensed form in the notes to the financial statements, updating financial statements to show individually on the face or adding combining financial statements following the fund financial statements

Budgetary Comparison Schedules

- ❖ May need to move location – required to be presented as RSI
- ❖ Updates to presentation of Schedules – new columns for variances between original-to- final budget and final budget-to-actual results

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Current Technical Agenda Projects

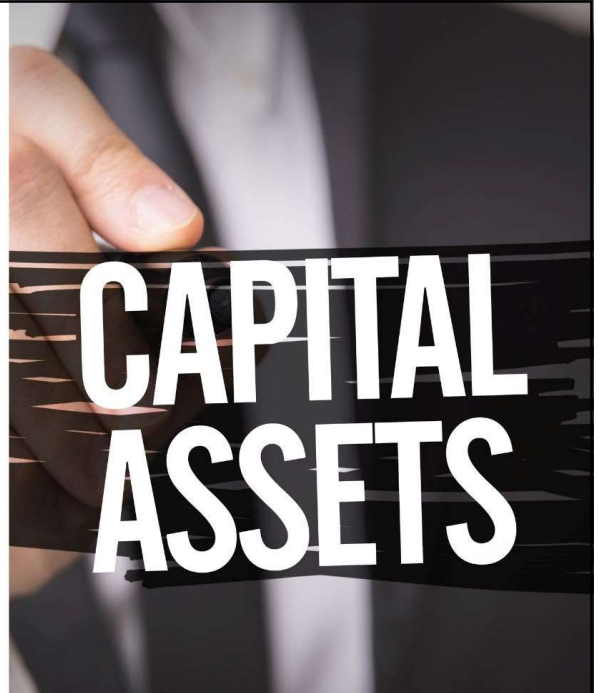
- Disclosure and Classification of Certain Capital Assets
- Going Concern Uncertainties and Severe Financial Stress: Reexamination of Statement 56
- Revenue and Expense Recognition
- Infrastructure Assets
- Subsequent Events

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Disclosure and Classification of Certain Capital Assets



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Classification of Nonfinancial Assets

WHAT?

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

WHY?

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

WHEN?

An Exposure Draft was issued in September 2023.

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Exposure Draft: Disclosure and Classification of Certain Capital Assets

Certain capital assets would be required to be disclosed separately in the capital asset note disclosures required by Statement 34:

Asset	Disclose Separately?
Capital assets held for sale	By major class of asset
Intangible owned capital assets	By major class(es) of asset
Intangible lease assets (Stmnt 87)	By major class(es) of underlying asset
Intangible subscription assets (Stmnt 96)	Separate from other capital assets
Other assets representing right to use intangible assets	No but do not report with owned intangible assets

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Exposure Draft: Capital Assets Held for Sale

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

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Project Timeline

Pre-Agenda Research Started

August 2020

Added to Current Technical Agenda

December 2021

Deliberations Began

July 2022

Exposure Draft Issued

September 2023

Comment Deadline

January 5, 2024

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July 31, 2024 Tentative Decisions

For capital assets held for sale, the final Statement should require disclosure of the carrying amount of debt for which capital assets held for sale are pledged as collateral.

The final Statement should be effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

The requirements to be included in the final Statement should be applied retroactively.

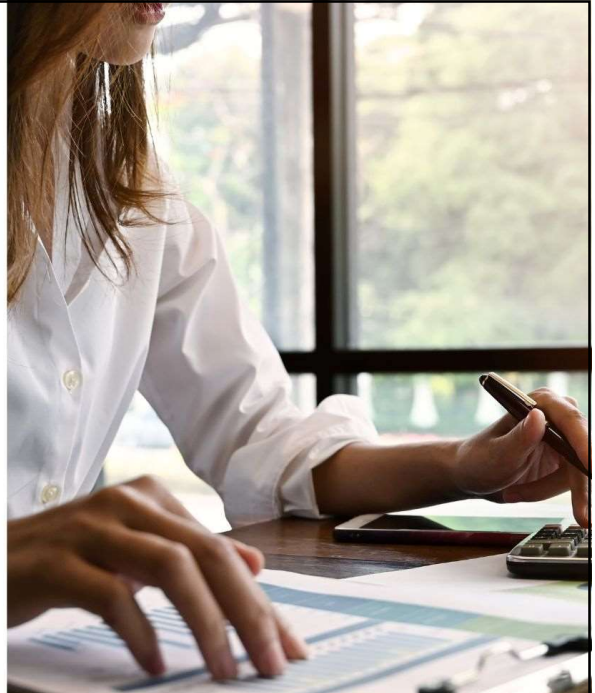
The expected benefits associated with the requirements to be included in the final Statement would justify the perceived costs of implementation and ongoing compliance.

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



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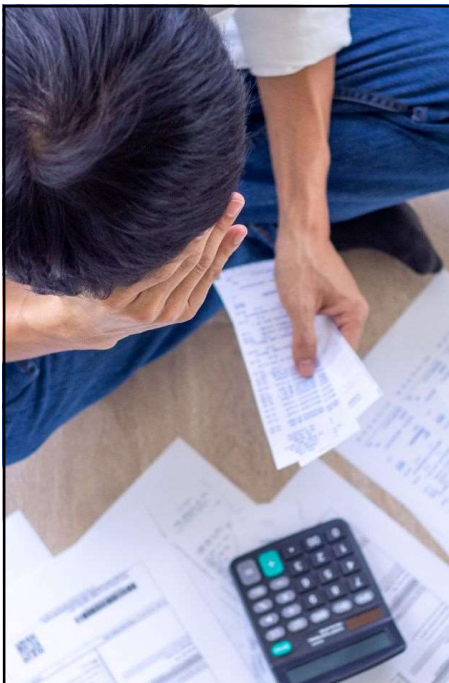
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Topics to Be Considered

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

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

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



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Major Tentative Board Decisions

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

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

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

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Major Tentative Board Decisions

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

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

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

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Major Tentative Board Decisions

Severe financial stress is a range of conditions.

A government should make severe financial stress disclosures when it is experiencing financial difficulties at such a degree that it is near or at the point of insolvency.

Insolvency should be described as a circumstance in which a government generally is not paying its liabilities as they come due or is unable to pay its liabilities as they come due

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Project Timeline

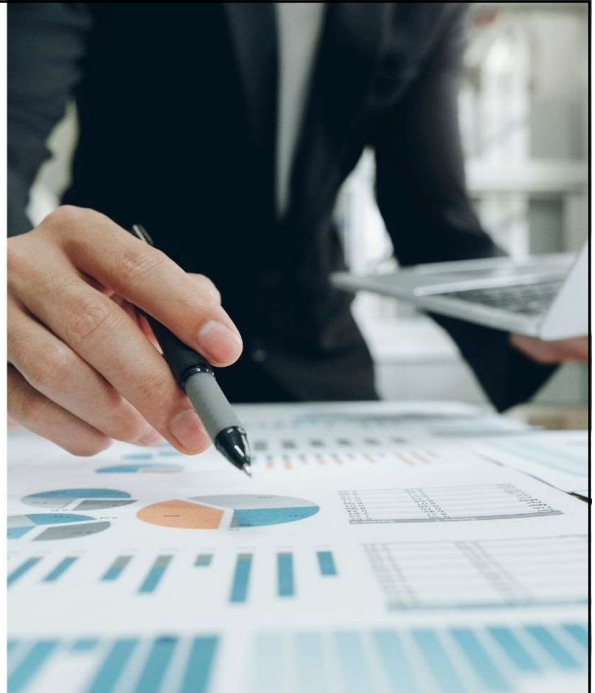
Pre-Agenda Research Started	April 2015
Added to Current Technical Agenda	December 2021
Deliberations Begin	July 2022
Preliminary Views Scheduled to Be Considered for Issuance	December 2024
Exposure Draft Scheduled to Be Considered for Issuance	June 2026

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Revenue and Expense Recognition Project



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Broad Project Objective

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

- development of guidance applicable to topics for which existing guidance is limited,
- improvement of existing guidance that has been identified as challenging to apply,
- consideration of including a performance obligation approach in the GASB's authoritative literature, and
- assessment of existing and proposed guidance based on the conceptual framework.



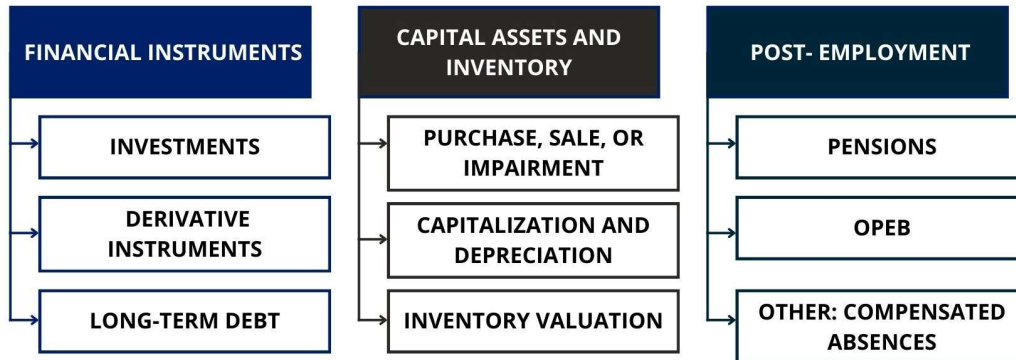
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Scope of the Project

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

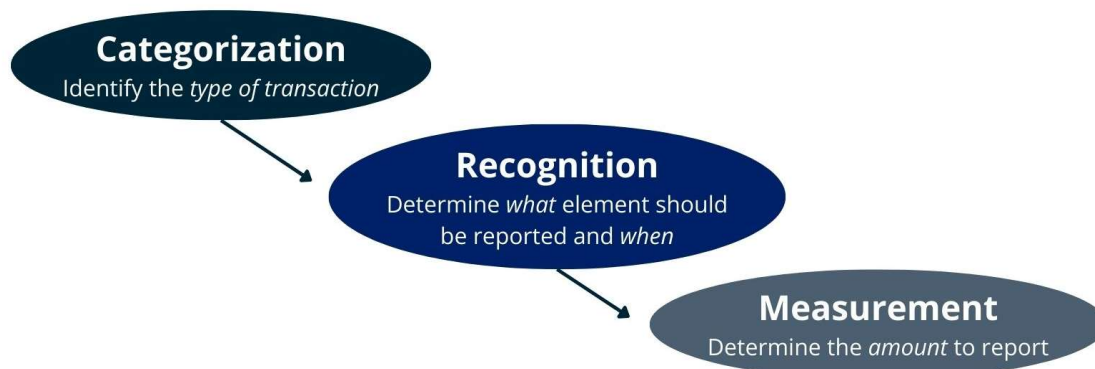


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Proposed Recognition Model Components



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Categorization

The proposed categorization methodology would move away from the traditional determination of whether a transaction is exchange, exchange-like, or nonexchange based on an assessment of equal value. The proposed categorization methodology would apply to both revenue and expense transactions and would take the form of a sequential assessment of four characteristics to determine the type of transaction:

1. Whether there is a binding arrangement, such as a contract, a grant agreement, a memorandum of understanding, or legislation
2. Whether the parties to the transaction have approved the terms and conditions of the binding arrangement (there is mutual assent between parties of capacity)
3. Whether the parties to the transaction have substantive rights and obligations
4. Whether the substantive rights and obligations are interdependent.

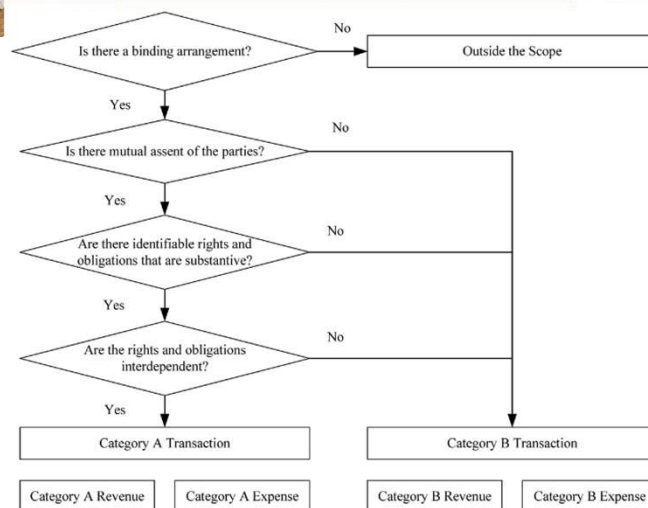
If a transaction does not include a binding arrangement, the transaction would be excluded from the scope of this project. If a transaction has all four of the characteristics, it contains a performance obligation and would be identified as a Category A transaction. Otherwise, it would be identified as a Category B transaction.

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Decision Tree



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Recognition of Category A Transactions

The recognition proposals are based on the type of transaction, as identified using the categorization methodology.

For **Category A** transactions, revenues and expenses would be recognized based on the satisfaction of a performance obligation. A government would determine each performance obligation in the binding arrangement by identifying distinct goods or services. The recognition of revenues and expenses occurs upon the satisfaction of those performance obligations. A performance obligation is satisfied when (or as) one of the parties transfers control of a resource (the distinct good or service) to the other party. A performance obligation may be satisfied over time or at a point in time.

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Recognition of Category B Transactions

The recognition approach for Category B transactions would be based on five subcategories of transactions: (1) derived revenue, (2) imposed revenue, (3) contractual binding arrangement, (4) general aid to governments, and (5) shared revenue. The first two subcategories are revenue-only transactions. The other three involve both revenue and expense transactions.

- Recognition for **derived revenue** transactions would be based on when the underlying transaction occurs. For example, a sales tax receivable and sales tax revenue would be recognized when there is a sale subject to taxation.

- Recognition for **imposed revenue** transactions would be based on the imposition date or the date of the omission or commission of an act. For example, a property tax receivable would be recognized when a governing body imposes the tax; property tax revenue would be recognized based on the period for which it is imposed.

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Recognition of Category B Transactions (Continued)

- Recognition for revenues and expenses in **contractual binding arrangement** transactions would be based on the terms and conditions specified in the agreement. For example, a receivable and revenue would be recognized when a pledge agreement that does not contain time requirements is executed.
- Recognition for revenues and expenses in **general aid to governments and shared revenue** transactions would be based on the existence of a provider government's appropriation, the commencement of the appropriation period, and the provider government's intent to provide resources. For example, a general aid receivable and general aid revenue would be recognized by a school district when the state appropriates the general aid and has demonstrated its intent to provide the resources, and the payment is due.

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Measurement

The measurement proposals in this Preliminary Views are limited to a foundational principle and two application topics. Consistent with existing guidance, the proposed principle is that assets and liabilities would be measured directly, and revenues and expenses would be measured by relying on their related asset or related liability.

The first application topic is that revenue would be recognized **net of amounts probable of being refunded**; that is, governments would recognize a liability for revenue transactions that include a right of refund when that refund is probable. The second application topic is that revenue would be recognized net of amounts probable of becoming uncollectible with a corresponding allowance for doubtful accounts.

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Proposed Revenue Recognition Principles – Category A and B

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

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

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Property Taxes - Example

A city levies a property tax on real property the first day of its fiscal year, at which time it has an enforceable legal claim.

Exchange/Nonexchange Model A3. The city would classify this transaction as nonexchange because the value provided by the taxpayers would not equal the value of the services they receive from the government. Recognition of revenue would be based on the provisions of Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, as amended, for imposed nonexchange revenues. This classification and recognition would be consistent with existing recognition requirements.

Performance Obligation/No Performance Obligation Model A4. The city would classify this transaction as not containing a performance obligation because it does not meet multiple aspects of the definition of a performance obligation. The beneficiary is not specific, the services provided with property tax resources are not distinct, and the rights and obligations do not articulate in equivalent terms. Generally, property taxes are used to provide broad governmental services to the citizenry and are calculated on the value of the property; for these reasons, property taxes would be classified as not containing a performance obligation. As with the exchange/nonexchange model, recognition of revenue would be based on the provisions of Statement 33, as amended, for imposed nonexchange revenues.

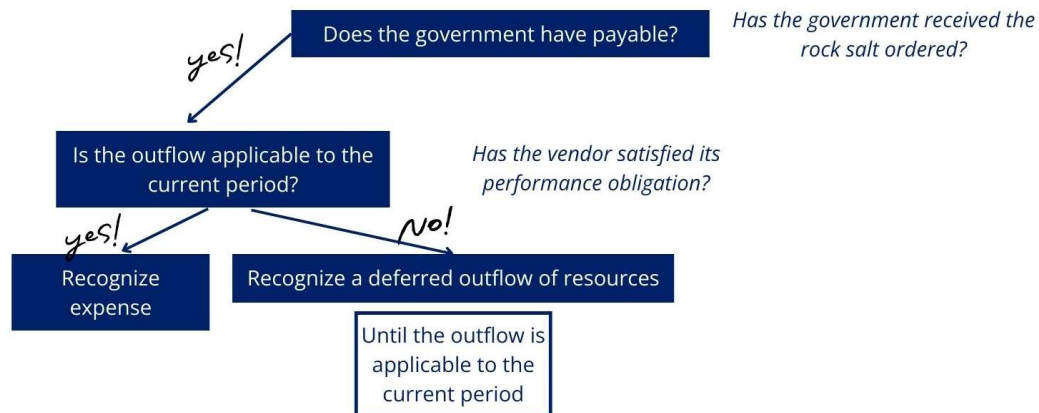
Therefore, recognition of revenue would be consistent with existing standards

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Supplies Purchase Example Part I

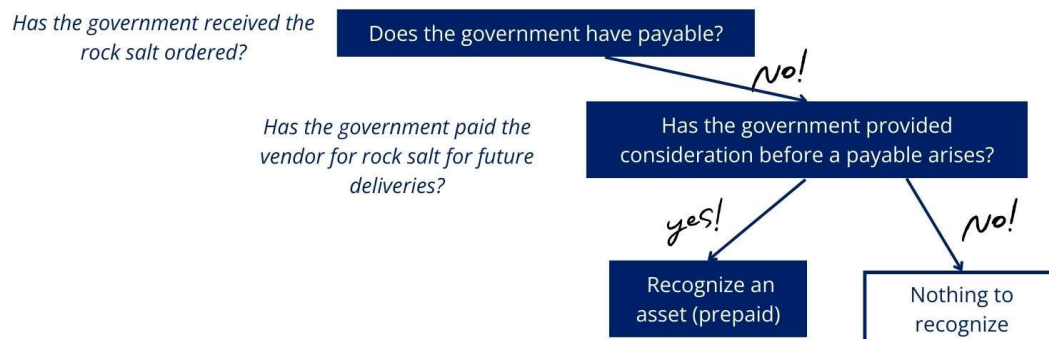


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Supplies Purchase Example Part II



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Category A Expense Recognition Examples

CITY ORDERS SUPPLIES Expense is recognized as the city receives the supplies

SCHOOL DISTRICT HIRES CPA Expense is recognized as the CPA firm carries out the expected work, such as an audit

PUBLIC UTILITY EMPLOYEES Expenses for wages are recognized as the employees perform services over time

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Category B Proposed Revenue Recognition Principles

RECEIVABLE Recognized when a legally enforceable claim arises

LIABILITY Resources received prior to the establishment of a legally enforceable claim

DEFERRED INFLOW OF RESOURCES If the transaction includes a time requirement, assess the recognition of a deferred inflow of resources

REVENUE Recognized at the same time as the receivable, unless there are time requirements

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Grant Recognition Update

Statement 33	Preliminary Views	Redeliberations
<ul style="list-style-type: none"> • Eligibility Requirements • Recipient • Time Requirements • Reimbursements • Contingency • Purpose Restrictions 	<ul style="list-style-type: none"> • Eligibility Requirements <ul style="list-style-type: none"> • Performance Obligations - Costs • Time Requirements • Purpose Restrictions 	<ul style="list-style-type: none"> • <i>Qualifying Requirements</i> <ul style="list-style-type: none"> • <i>Qualifying Costs</i> • <i>Other Qualifying Requirements</i> • Time Requirements • Purpose Restrictions

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Project Timeline

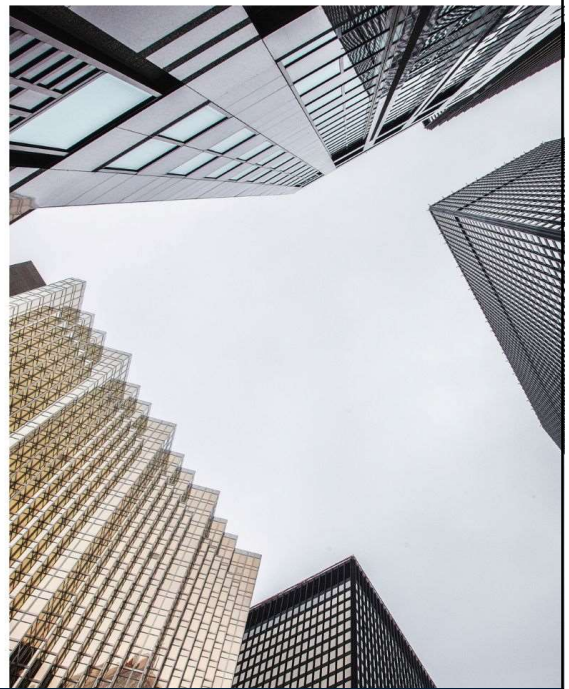
Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Preliminary Views Approved	June 2020
Redeliberations Began	May 2021
Exposure Draft Scheduled to Be Considered for Issuance	March 2025

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Infrastructure Assets



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Infrastructure Assets

WHAT?

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

WHY?

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

WHEN?

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

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Topics to Be Considered

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

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

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Major Tentative Decisions

Infrastructure assets should continue to be recognized and measured in financial statements using historical cost depreciation, except those governments that elect to use the modified approach


Requirements for use of the modified approach as described in Statement 34 generally should continue to apply

Maintenance and preservation costs that have been pushed to future periods ("deferred maintenance") should not be recognized as a liability in financial statements

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Project Timeline

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

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Subsequent Events



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Topics to be Considered

Whether and, if so, how should the existing definitions of recognized subsequent events and nonrecognized subsequent events be modified?

What information should be provided about subsequent events?

Which communication method is best suited for this information?

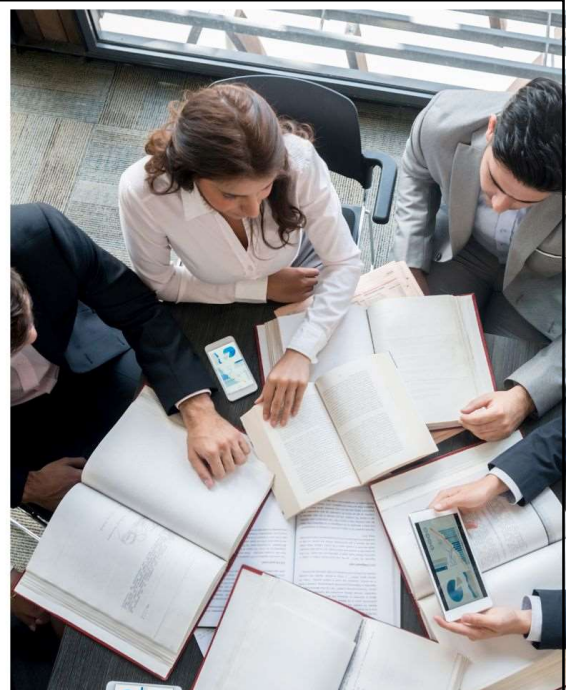
Interaction between any requirements resulting from this project and other GASB standards related to transactions or other events that occur subsequent to the date of the financial statements.

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Pre-Agenda Research and Other Research Activities



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GAAP Structure



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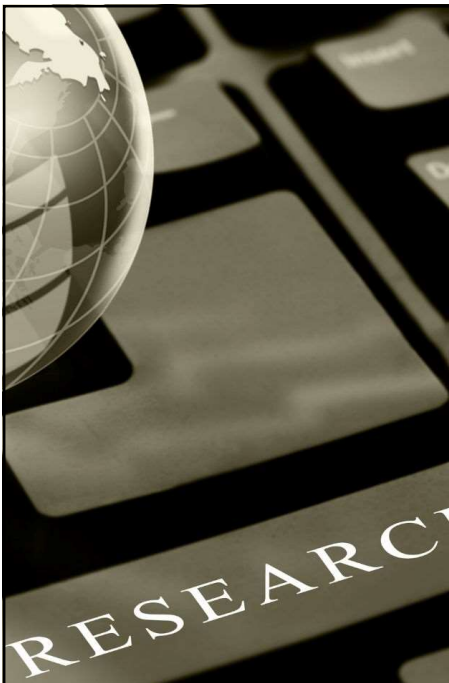
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Research Objective

The initial research activities, which would be aimed at evaluating the efficacy of a dual-authority GAAP structure, include:

- Outreach with stakeholders to assess how they interact with the GASB's literature, including which aspects they find valuable and which they find challenging with respect to the current GAAP structure.
- An assessment of internal procedures, processes, and resources necessary to maintain a dual authority structure.

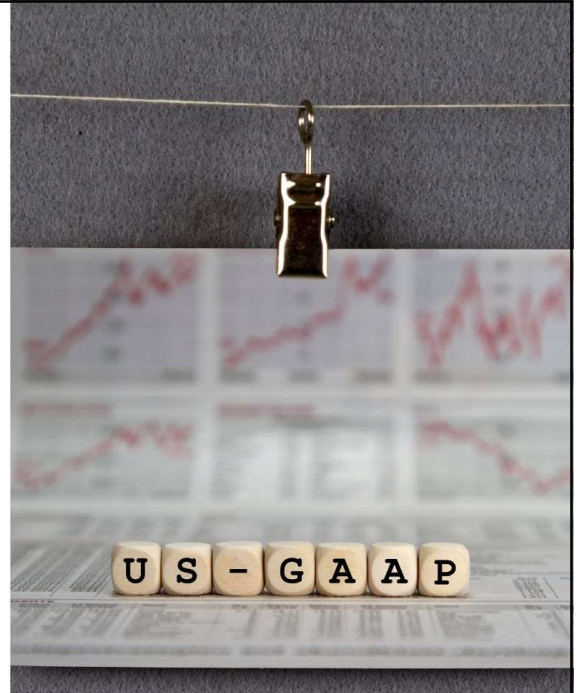


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GAAP Conformity



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GAAP Conformity

WHAT?

The GASB is studying state- level financial reporting requirements for governments and also evaluating the determinants of GAAP choice.

WHY?

To gain an understanding of any shift in financial reporting requirements and determinants of GAAP choice to support EFR and broader impact.

WHEN?

The Board added the research project in December 2023.

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Post-Implementation Review (PIR)



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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

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Why does the GASB conduct PIRs?

To provide general support to stakeholders when implementing significant new pronouncements

To identify and address practice issues that arise

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

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

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How does the GASB involve stakeholders in PIR?

Stakeholders bring potential implementation issues to the GASB's attention



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



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

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Which Statements are under review?

Statement 67—Pension plan reporting

Statement 68—Employer reporting for pensions **Statement 72**—Fair Value measurement & reporting

Statement 75—Employer reporting for other post-employment benefits (OPEB)

Statement 84—Fiduciary activities

Statement 87—Leases

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What is the status of the PIRs?

Pensions	Board is reviewing the summary of the results of the PIR activities.
Fair value	Beginning collection and analysis of fifth-year reports
OPEB	Analysis of prior year, implementation year, and second year of implementation financial reports completed, fifth year of implementation in progress; Collection of implementation effort and cost information completed; All roundtables completed, results are being summarized and analyzed
Fiduciary activities	Collection of implementation effort and cost information completed
Leases	Collection of implementation effort and cost information and pre-implementation year reports has begun

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2024 Yellow Book - Update

When Is It Applicable?

- Effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025
- Performance audits beginning on or after December 15, 2025
- A system of quality management that complies with GAS is required to be designed and implemented by December 15, 2025
- An audit organization should complete its evaluation of the system of quality management by December 15, 2026

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Independence Requirements Related to Nonaudit Services

Applying the conceptual framework for YB independence at the audit organization, engagement team and individual auditor level to:

1. Identify threats to independence (there will always be a threat when an auditor provides nonaudit services)
2. Evaluate the significance of threats identified, both individually and in the aggregate
3. Upon evaluation of the threat it is determined that the threat is not significant then this must be documented. Need to document how this evaluation is supported. No safeguards need to be applied
4. Identify and apply safeguards as necessary to eliminate threats or reduce them to an acceptable level

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Independence Requirements Related to Nonaudit Services (cont.)

Nonaudit services for preparing accounting records and financial statements fall into three categories:

1. Those that automatically **impair independence**
2. Those that are **significant threats**
3. Those that are **threats**

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Preparation of Accounting Records

Yellow Book paragraph 3.87 – Activities that impair independence

Determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval

Authorizing or approving the entity's transactions

Preparing or making changes to source documents without management's approval

You cannot proceed!

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Preparation of Financial Statements

YB para. 3.88 – Auditors should conclude that preparing financial statements in their entirety from a client provided trial balance or underlying accounting records creates a significant threat to auditors' independence

Auditors should document the threats and safeguards applied to eliminate and reduce the significant threat to an acceptable level or decline to perform the service

Rationale for this position:

1. Management is responsible for the preparation and fair presentation of the FS even if the auditor assists with the drafting of the FS
2. Consequently, an auditor that accepts responsibility for the preparation and fair presentation of the FS (no management personnel are assigned to accept responsibility) that they will subsequently audit or that will otherwise be the subject matter of an engagement would impair the auditor's independence
3. Auditor would not be independent and could not proceed

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Other Services

YB para. 3.89 - Identify as threats to independence any other services related to preparing accounting records and financial statements, other than those defined as impairments to independence in para. 3.87 and significant threats in para. 3.88. These services include:

- Recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger
- Preparing certain line items or sections of the financial statements based on information in the trial balance
- Posting entries that an audited entity's management has approved to the entity's trial balance
- Preparing account reconciliations that identify reconciling items for the audited entity management's evaluation

Auditors should evaluate the significance of threats to independence created by providing any of the services in **YB para. 3.89** and should document the evaluation of the significance of such threats.

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Yellow Book Independence Reevaluation

YB para. 3.28 – Auditors should re-evaluate threats to independence, including any safeguards applied, whenever the audit organization or the auditors become aware of new information or changes in facts and circumstances that could affect whether a threat has been eliminated or reduced to an acceptable level.

Documentation of this evaluation should be made throughout the engagement.

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Any Questions?

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