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GASB 2023 Update: New Statements, Implementation Guides, & Projects

January 2023

Public Sector

Meet the Presenters

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Agenda

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- Introductions
- Effective Dates
- Final Standards & Implementation Guides
- Current Projects & Research

Standard-Setting Activity

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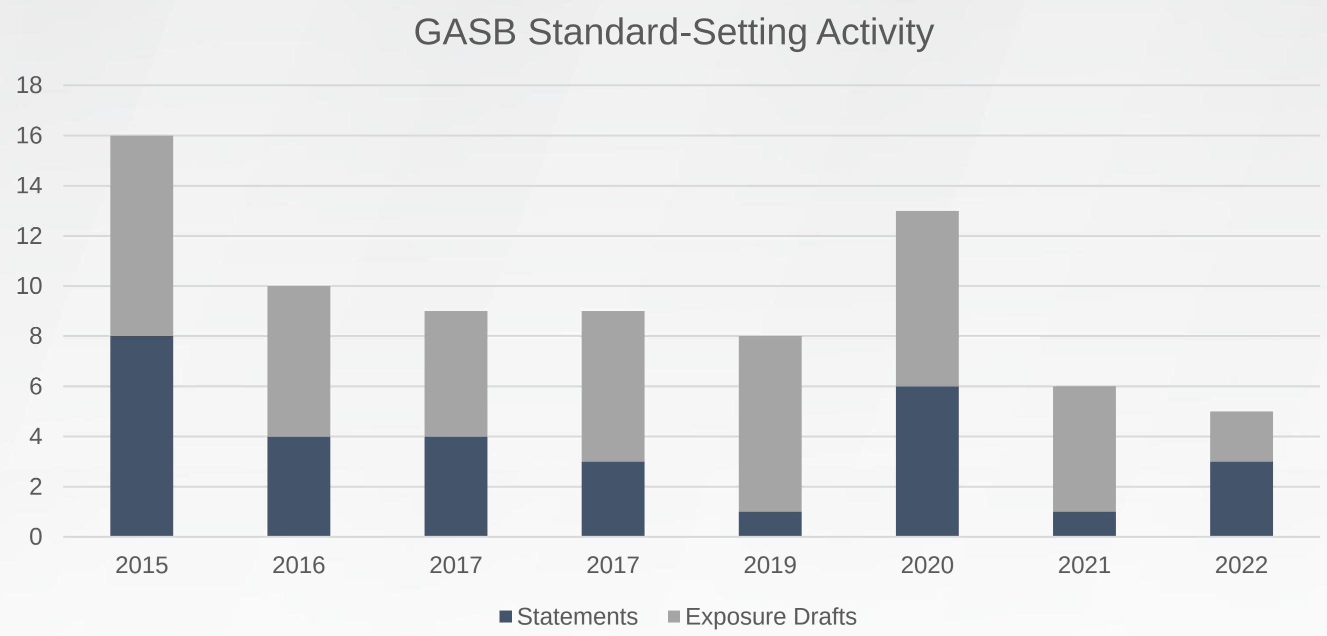
- GASB standard setting is finally slowing down!



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Upcoming Effective Dates

- Reporting Periods Beginning After (early adoption is allowed)

- December 15, 2021
  - No. 91, Conduit Debt
  - No. 98, Annual Comprehensive Report
- June 15, 2022
  - No. 94, Public Private Partnerships
  - No. 96, Subscription-Based Information Technology Arrangements
  - No. 99, Omnibus 2022 (partial)
  - Implementation Guide 2021-1 (partial)
- June 15, 2023
  - No. 100, Error Corrections
- December 13, 2023
  - No. 101, Compensated Absences

ESG – Analogize to Existing Literature

Most ESG reporting frameworks developed to date focus on the private sector

On May 31, 2022, GASB issued a paper highlighting the intersection of ESG topics with existing GASB standards, notably

- Asset Retirement Obligations
- Landfill Closures
- Pollution Remediation Obligations

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No. 91, Conduit Debt

Effective Date
Statement No. 91,
Conduit Debt Obligations

Reporting periods beginning after December 15, 2021

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Definition

A conduit debt obligation is a debt instrument issued in the name of the government (issuer) that is for the benefit of a third party (obligor) that has ALL the following characteristics

- At least three parties involved: issuer, third-party obligor, & debt holder
- The issuer & third-party obligor are not within the same financial reporting entity
- The third-party obligor (or its agent) receives the debt issuance proceeds
- The third-party obligor is primarily obligated for debt service payments
- The debt obligation is not a parity bond of the issuer or cross-collateralized with the issuer's other debt

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Limited, Additional, & Voluntary Commitments Extended by Issuers

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

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

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

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

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Issuer Recognition

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

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Arrangements & Capital Assets

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

Attributes include all of the following

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

*Often characterized as “leases”

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Arrangements & Capital Assets Issuer Accounting

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

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Arrangements & Capital Assets

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

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Disclosures by Type of Commitment

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A general description of the issuer's conduit debt obligations	• Description of limited commitments • Description of additional commitments (legal authority & limits; length; arrangements for recovering payments from third-party obligors, if any) • Aggregate outstanding principal amount
If the issuer recognizes a related liability	• Description of timing of recognition & measurement of the liability • Beginning balances, increases, decreases, ending balances • Cumulative payments that have been made • Amounts expected to be recovered, if any, for those payments

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No. 94, Public-Private & Public-Public Partnerships & Availability Payment Arrangements

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Statement 94 Effective Date → Reporting periods beginning after June 15, 2022

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Definition – P3

Public-private partnerships & **public-public partnerships (P3s)** are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying P3 asset), for a period of time in an exchange or exchange-like transaction"

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Definition – Availability Payment Arrangement (APA)

APA

1. **Entity receives payments from the government based on the asset's availability for use**
2. **Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures**
3. **May include design, finance, construction, or service components**

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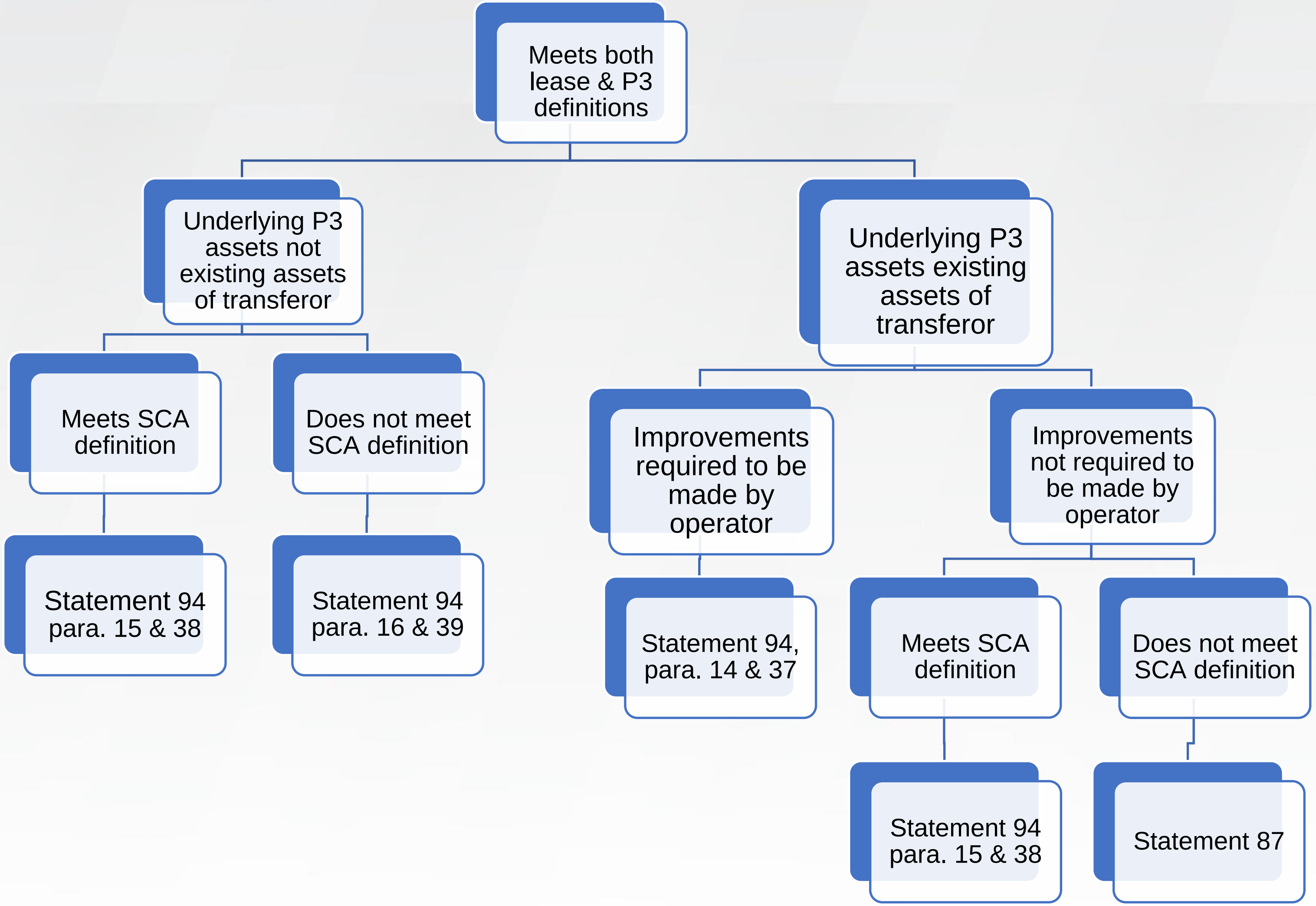
Recognition & Measurement



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APA Provisions

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

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

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P3 Transferor Reporting

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For all P3s, recognize	If underlying P3 asset is a new asset or an existing asset that has been improved …
• Receivable for installment payments to be received, if any • Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term	• … & the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation • … & the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

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Operator Reporting

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

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No. 96, Subscription-Based Information Technology Arrangements

Statement 96 Effective Date

Fiscal years beginning after June 15, 2022

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Definition – SBITA

A subscription-based information technology arrangement (SBITA) "is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction"

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

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

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Scope Exclusions

- Statement 96 does not apply to
  - Contracts that convey control of the right to use another party’s combination of IT software & tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset
  - Governments that provide the right to use their IT software & associated tangible capital assets to other entities through SBITAs
  - Contracts that meet the definition of a P3 in Statement 94
  - Licensing arrangements that provide a **perpetual** license to governments to use a vendor’s computer software, which are subject to Statement 51

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Recognition & Measurement

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

- Relationship between Leases & SBITAs
  - All SBITAs meet definition of lease
  - Depends on what the underlying asset is
    - Tangible capital assets alone – Statement 87
    - IT software alone – Statement 96
    - IT software in combination with tangible capital assets
      - Software component is insignificant compared to cost of underlying tangible capital asset – Statement 87
      - Otherwise – Statement 96

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Accounting for Related Costs

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

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No. 99, Omnibus 2022

Statement 99 Effective Date → Multiple

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Omnibus Items – Effective 2023

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Statement 53, Derivative Instruments

As currently written, Statement 53 requires a derivative within its scope to be reported as either an investment or hedging derivative instrument. Some derivatives may not meet either definition, *e.g.*, a derivative that is no longer effective at reducing financial risk. Whether such an instrument is held primarily for income or profit is subject to debate

Changes in fair value of a derivative that is neither an investment nor hedging derivative instrument should be reported separately from investment revenue on the resource flows statement & segregated in financial note disclosures. Statement 99 also includes an update for the treatment upon termination of hedge accounting

Effective Date: Fiscal years beginning after June 15, 2023

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Omnibus Items – Effective 2023

Statement 70, Nonexchange Financial Guarantees

The exchange or exchange-like financial guarantee definition is similar to the nonexchange financial guarantee definition in Statement 70, except for the consideration paid

Consideration should not result in different recognition & measurement requirements for the two types of guarantees. Statement 99 establishes the recognition threshold for liabilities related to exchange & exchange-like financial guarantees when a payment is more likely than not to occur. The measurement of financial guarantees should also be the same. The financial statement note disclosures for exchange financial guarantees should follow Statement 70's more specific requirements

This does not apply to guarantees related to special assessments covered by Statement 6, financial guarantee contracts covered by Statement 53; or guarantees related to conduit debt obligations within the scope of Statement 91

Effective Date: Fiscal years beginning after June 15, 2023

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Implementation Guide 2021-01

Effective Date

Multiple

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Implementation Guide – Effective 2022

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Statement 53, Derivative Instruments

Forward delivery bonds that are nonparticipating contracts under Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, should not be accounted for as a derivative contract even if the contract meets the derivative definition under Statement 53, since the contract does not have the ability to capture market changes

Effective Date: Fiscal years beginning after June 15, 2022

Inter-Entity Transfer of Assets – Update to Previous Question

The previous example of a building transfer to a pension fund has been updated to include a reference to Statement 92, Omnibus

Effective Date: Fiscal years beginning after June 15, 2022

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Implementation Guide – Effective 2022

Revenue Classification – Update to Previous Question

The use of revenue from fees, fines, & charges does not affect the classification as a program revenue. For nontax revenue, a government can only consider the function from which the revenue is derived

Effective Date: Fiscal years beginning after June 15, 2022

Major Funds – Update to Previous Question

A particular fund may be reported as a major fund for only one or two years. However, a government can choose to report a fund as a major fund even if it does not meet the percentage criteria in the interest of consistency. This update clarifies the answer applies broadly to all fund types, not just capital funds

Effective Date: Fiscal years beginning after June 15, 2022

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Implementation Guide – Effective 2023

Capitalization Policies – Update to Previous Question

A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture, & library books are examples of asset types that may not meet a capitalization policy on an individual basis but could be significant collectively. In the example provided, a government purchases 100 computers costing $1,500 each & has a $5,000 capitalization threshold. Because the aggregate amount ($150,000) is significant, the government should capitalize the computers

Effective Date: Fiscal years beginning after June 15, 2023

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No. 100, Accounting Changes & Error Corrections

Statement 100 Effective Date

Reporting periods beginning after June 15, 2023

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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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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

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Accounting Estimates

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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, & measurement methodologies

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Change in Accounting Estimate

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A change in accounting estimate occurs when inputs change

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

A change in measurement methodology should be justified on the basis that the new methodology is preferable, based on the 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, & transfers of operations, & Statement 90 component units)
- Change in presentation (blended or discrete) of a component unit

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Correction of an Error

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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 & 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

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Accounting

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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

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

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Disclosures

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

- The nature of the change or error & 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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Required Supplemental Information (RSI) & Supplemental Information (SI)

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The Statement addresses how to present in RSI & 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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No. 101, Compensated Absences

Statement 101 Effective Date	Reporting periods beginning after December 15, 2023

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New Definition

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Definition – Compensated Absence	
Statement 16	**Statement 101**
Absences for which employees will be paid, such as vacation, sick leave, & sabbatical leave	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 which includes voluntary resignation or retirement • Noncash settlements, such as conversion to defined benefit postemployment benefits

Examples include: Vacation & sick leave

Paid time off (PTO)

Parental leave

Certain types of sabbatical leave

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Recognition

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Statement 101 provides recognition criteria for both of the following situations

- Leave used but not paid or settled
- Unused leave

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Recognition – Leave Used but Not Paid

A liability should be reported when leave is used for time off but has not yet been paid in cash or settled through noncash means – including unlimited leave & date-specific holiday leave. The liability should be measured at the amount of the cash payment or noncash settlement to be made for the use of the leave

- **Pay Rate**
  - Generally the employee’s pay rate at financial reporting date
  - Exception: More likely than not to be paid at a different rate
- **Salary-Related Payments**
  - Directly & 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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Recognition – Unused Leave

A liability should be recognized for leave that has not been used if all of the following criteria are met

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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Project Timeline

- 2023
  - Nonfinancial Assets (August ED)
  - Risk & Uncertainties (June Final)
  - Implementation Guide 2023 (August Final)
- 2024
  - Nonfinancial Assets (June Final)
  - Financial Reporting Model (March Final)
  - Going Concern (August Preliminary Views)
  - Conceptual Framework Recognition (March Final)
- 2025
  - Revenue & Expense Recognition (March ED)
- 2026
  - Going Concern (March ED)
- 2027
  - Revenue & Expense Recognition (June Final)
  - Going Concern (April Final)

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Nonfinancial Asset Classification

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Topic	Project Description	Schedule (Subject to Change)
Nonfinancial Assets Classification **Added to Agenda in August 2021** **Initial Deliberations**	This project would reconsider the existing classification of nonfinancial assets & other related subclassifications, *i.e.*, capital assets or intangible assets, to ensure that assets are classified to provide the most relevant financial information & to ensure the classification definitions are understandable. The project will not re-examine the recognition or measurement of nonfinancial assets Tentative Decisions to date • Scope is limited to the classification of nonfinancial assets & related presentation & disclosure issues • Assets consumable in lieu of cash & receivables of nonfinancial assets should be considered in this project • Tangible capital assets held for sale should be classified separately from tangible capital assets used for service by requiring them to be reported as a major class of capital asset • Intangible capital assets should be classified separately from tangible capital assets by requiring them to be reported by major classes separate from major classes of tangible capital assets • Intangible lease assets should be classified separately from tangible owned capital assets by requiring them to be reported by major classes separate from major classes of tangible capital assets • Right-to-use assets recognized for subscription-based information technology arrangements should be classified separately from other capital assets • RTU intangible underlying assets, other than SBITAs, should not be classified separately from assets representing the right to use tangible underlying assets • RTU intangible underlying assets should be classified separately from owned intangible assets • Nonfinancial investments should not be classified separately from financial investments on the face of the financial statements or require any new disclosures • Receivables for nonfinancial assets should not be classified separately from other receivables	Exposure Draft: August 2023 Final Statement: June 2024

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Risk & Uncertainties

Topics	Description	Status (Subject to Change)
Risks & Uncertainties Disclosures **Issued June 20, 2022** **Related Resource: GASB Wants More Details on Risk**	Governments would be required to disclose information about certain risks that could affect services provided or the ability to meet obligations as they become due. Disclosure would be required for a government's vulnerabilities to certain concentrations & constraints common in the governmental environment	Final Statement: August 2023 48 comment letters were received. Full support from S&P rating agency & investors; very limited support from governments & auditors

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[Perspectives: GASB Updates – December 2022]

[Ready For GASB's New Conduit Debt Obligation Rules?]
[GASB Renames the Annual Financial Report]
[Ready for GASB 94, Public-Private Partnerships?]
[GASB 96 – What You Need to Know]
[GASB Updates Rules on Accounting Changes & Error Corrections]
[GASB Updates Compensated Absences Guidance]

[2021 GASB Implementation Guide Issued]

[GASB Issues 2022 Technical Accounting Updates]

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Thank you!

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