

# GASB Update 2024

The Latest and the Greatest from the Accounting Standard Setters!!!



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# Introductions

Moderator: Betsy Allen, CPA  
- Principal, Miller, Cooper & Co., Ltd



Speaker: Matt Geerdes, CPA  
- Accounting Advisory Senior Manager, Crowe LLP



Speaker: Lindsey Fish, CPA  
- Partner, Sikich LLP



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# Presentation Agenda

- New Standards Released – 2024 Impacts and Beyond
- GASB Projects and Exposure Drafts – What's in the Pipeline?
- GASB 87 and GASB 96 – Leases and SBITAs – Day 2 Considerations



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# New Standards Released - 2024

## 2024 Implementations

GASB 99 – Omnibus 2022 (paragraphs 4-10) – FY24

GASB 100 – Accounting Changes and Error Corrections – FY24

GASB Implementation Guide No. 2023-1 – Implementation Guide Update 2023 – FY24

## Long Term Implementations

GASB 101 – Compensated Absences – FY25

GASB 102 – Certain Risk Disclosures – FY25

GASB 103 – Financial Reporting Model Improvements – FY26 – *Release Pending April 2024*



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# GASB Statement No. 99 – Omnibus 2022

- Issued in April 2022
- Similar to other Omnibus standards (last one being GASB 92) – a “potpourri” draft
  - Remeasurement of Certain Assets and Liabilities
  - Effect of a Purchase Option on Contract Terms and Measurement of Liability
  - Derivative Instruments that are neither Hedges or Investments – FY24
  - Exchange Financial Guarantees – FY24
  - Other Technical Corrections



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# GASB Statement No. 100 - Accounting Changes and Error Corrections

Issued in June 2022

## Accounting Changes - Definitions

- Change in accounting principle
  - Change from one GAAP principle to another that is justified based the newly adopted principle is preferable based on qualitative characteristics of financial reporting
  - Implementation of new pronouncements – **COMMON**
- Change in accounting estimate
  - Amounts subject to measurement uncertainty that are currently recognized in the financial statements
  - Outputs determined based on inputs such as data, assumptions, and measurement methodologies
    - Change in circumstance, new information or more experience
    - Needs to be justified based on new methodology is preferable based on qualitative characteristics of financial reporting



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# GASB Statement No. 100 - Accounting Changes and Error Corrections

## Accounting Changes - Definitions

- Change to or within the financial reporting entity
  - Addition/removal of a fund or blended component units
  - Major vs nonmajor fund
  - Change of component that may be discretely presented or blended

## Correction of An Error – OOPS!!

- Math errors, incorrect application of accounting principles, oversight or misuse of fact that existed at the time the financial statements were issued about conditions that existed as of the financial statement date
  - Could have been reasonably expected to have been obtained and taken into account
  - Change from non GAAP to GAAP



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# GASB Statement No. 100 - Accounting Changes and Error Corrections

Type	Financial Reporting Requirement
Change in accounting principle	<ul style="list-style-type: none"> <li>• Reported retrospectively by restating prior periods presented, if applicable</li> <li>• If not practicable, restate beginning balances of current period</li> </ul>
Change in accounting estimate	<ul style="list-style-type: none"> <li>• Reported prospectively</li> <li>• Recognized in current-prior flows</li> </ul>
Change to/within the reporting entity	Adjusting current period beginning balances
Error Correction	Reported retrospectively by restating prior periods presented

## Disclosures

- Common items included:
  - Nature of the change or error and its correction
  - Reason for the change
  - Effects on beginning net position, fund balance of fund net position, as applicable, presented in a tabular format



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# GASB Statement No. 100 - Accounting Changes and Error Corrections

	12/31/20X1 As Previously Reported	Change to or within the Financial Reporting Entity (A)	Change to or within the Financial Reporting Entity (B)	Error Correction (C)	12/31/20X1 As Restated
<b>Government-Wide</b>					
Governmental Activities	\$ 768,033	\$ -	\$ -	\$ 71,312	\$ 839,345
Business-Type Activities	543,163	(2,184)	-	-	540,979
<b>Total Primary Government</b>	<b>\$ 1,311,196</b>	<b>\$ (2,184)</b>	<b>\$ -</b>	<b>\$ 71,312</b>	<b>\$ 1,380,324</b>
<b>Governmental Funds</b>					
Major Funds:					
General Fund	\$ 631,607	\$ -	\$ -	\$ -	\$ 631,607
Fund A	100,922	-	-	-	100,922
Nonmajor Funds	40,486	-	-	-	40,486
<b>Total Governmental Funds</b>	<b>\$ 773,015</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 773,015</b>
<b>Proprietary Funds</b>					
Major Funds:					
Enterprise Fund C	\$ 418,910	\$ -	\$ -	\$ -	\$ 418,910
Enterprise Fund D	74,831	(2,184)	-	-	72,647
Nonmajor Funds	49,422	-	-	-	49,422
<b>Total Proprietary Funds</b>	<b>\$ 543,163</b>	<b>\$ (2,184)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 540,979</b>
<b>Fiduciary Funds</b>					
Pension and Other Employee Benefit Trust Funds	\$ 3,071,227	\$ -	\$ -	\$ -	\$ 3,071,227
<b>Discretely Presented Component Units</b>					
ABC Authority	\$ 1,696	\$ -	\$ -	\$ -	\$ 1,696
QRS Foundation	-	2,184	-	-	2,184
XYZ Foundation	-	-	1,500	-	1,500
Nonmajor Component Units	2,730	-	-	-	2,730
<b>Total Discretely Presented Component Units</b>	<b>\$ 4,426</b>	<b>\$ 2,184</b>	<b>\$ 1,500</b>	<b>\$ -</b>	<b>\$ 8,110</b>

# GASB Implementation Guide No. 2023-1 – Implementation Guide Update 2023

- Issued in July 2023
- Includes 10 new questions and answers and amends a previously issued question and answer
- Leases, SBITAs, and accounting changes and error corrections
- Questions related to leases and SBITAs take effect for FY24 while question related to accounting changes and error corrections should be applied simultaneously with the requirements of GASB Statement No. 100 (also FY24 for Illinois Districts)
- Short-term lease assessment:
  - Conditional and unconditional right to terminate a lease
  - Maximum possible lease term
  - Two circumstances in which a lease modification results in a short-term lease.
- Lessee scenarios
  - Interest expense recognition
  - Currency in which lease payments are made
- Lease revenue within a business-type activity or enterprise fund
  - Operating or nonoperating classification



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# GASB Implementation Guide No. 2023-1 – Implementation Guide Update 2023

- SBITAs
  - Difference between a licensing agreement that automatically renews and a perpetual license
  - Cloud computing arrangement may be a SBITA, depending on the circumstances
  - Distinction between the term of a contract and a subscription term.
- Closing out a major fund
  - A change to or within the financial reporting entity or interfund activity?



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# GASB Statement No. 101 – Compensated Absences

- Issued June 2022 and required for FY25
- Recognition and measurement guidance for compensated absences + related financial statement disclosures
- Definition of a compensated absence – cash payments for leave, other cash payments (unused leave upon termination), noncash settlement (conversion of leave into defined benefit postemployment benefits)
- Calculation of the liability – rate of pay as of the financial statement date X hours of accumulated leave

## Common compensated absences

- Vacation leave
  - Sick leave
- Paid time off (PTO)
  - Holidays
- Parental leave
- Bereavement leave
- Certain types of sabbatical leave



# GASB Statement No. 102 – Certain Risk Disclosures

- Issued January 2024 and required for FY25
- Required disclosures of risks for state and local governments
- Designed to provide users of the financial statements with information about risks related to a government’s vulnerabilities due to certain concentrations or constraints
  - Better information with which to understand and anticipate certain risks to a government’s financial condition
- Assessment of the disclosure criteria – District-wide level (no need to get granular into the individual funds)
- Concentration - lack of diversity related to an aspect of a significant inflow or outflow of resources
- Constraint - limitation that is imposed by an external party or by formal action of a government’s highest level of decision-making authority



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# GASB Statement No. 102 – Certain Risk Disclosures

## Disclosure Triggers

- A concentration or a constraint is known to the government prior to the issuance of the financial statements
- Concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact
- 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.



## Disclosure Requirements

- Description of concentration or constraint
- Description of each event associated with the concentration or constraint that could cause a substantial impact if the event has occurred or has begun to occur prior to the issuance of the financial statements
- Description of actions taken by the government prior to the issuance of the financial statements to mitigate the risk



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# GASB Statement No. 103 – Financial Reporting Model Improvements

To be issued April 2024 and effective for FY26

## Improvement Impacts

- Management's Discussion and Analysis
- Unusual or Infrequent Items
- Presentation of Proprietary Funds Statements of Revenues, Expenses and Changes in Fund Net Position
- Definition of Operating Revenues and Expenses and Description of Nonoperating Revenues and Expenses
- Major Component Unit Presentation
- Budgetary Comparisons – Required Supplementary Information
- Statistical Section – Financial Trends Information

## Dropped from the final standard

- Measurement focus and basis of accounting for governmental funds
- Format of governmental funds financial statements



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# GASB S-87/96 - Day 2 Considerations



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# GASB S-87/96 - Day 2 Considerations

- GASB S-87 (Leases) and GASB S-96 (Subscription Based IT Arrangements) implementation is in our rearview mirror, but that doesn't mean we can just forget about them
- Day 2 Considerations
  - Scope/Recap
  - Reporting Changes
  - Examples
  - Lessons Learned



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# GASB S-87: Scope

- Applied to any contract that meets the definition of a lease: “A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”
  - The right-to-use asset is that “specified in the contract”
  - Control is manifested by (1) the right to obtain present service capacity from use of the underlying asset and (2) the right to determine the nature and manner of use of the underlying asset
- Leases are financings of the right to use an underlying asset
  - Therefore, single approach applied to accounting for leases with some exceptions, such as short-term leases



# GASB S-87: Scope

- No classification of leases into operating/capital or other categories
- Underlying assumption that leases are financings
- Exceptions (lessors and lessees)
  - Short-term leases
  - Leases that transfer ownership and do not contain termination options
- Exceptions for lessors
  - Leases of assets that are investments
  - Certain regulated leases (e.g., airport-airline agreements)



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# GASB S-87: Short Term

Definition	At beginning of lease, <i>maximum possible term</i> under the contract is 12 months or less
Lessee accounting	<ul style="list-style-type: none"><li>• Recognize expenses/expenditures based on the terms of the contract</li><li>• Do not recognize assets or liabilities associated with the right to use the underlying asset</li></ul>
Lessor accounting	<ul style="list-style-type: none"><li>• Recognize lease payments as revenue based on the payment provisions of the contract</li><li>• Do not recognize receivables or deferred inflows</li></ul>



# GASB S-87: Initial Accrual Reporting

	Assets	Liability	Deferred Inflow
<b>Lessee</b>	Intangible lease asset (right to use underlying asset)— value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
<b>Lessor</b>	<ul style="list-style-type: none"> <li>• Lease receivable (generally includes same items as lessee’s liability)</li> <li>• Continue to report the leased asset</li> </ul>	NA	Equal to lease receivable plus any cash received up front that relates to a future period



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# GASB S-87: Subsequent Accrual Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	<ul style="list-style-type: none"> <li>• Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition)</li> <li>• Reduce receivable by lease payments (less amount needed to cover accrued interest)</li> </ul>	NA	Recognize revenue over the lease term in a systematic and rational manner



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# GASB S-87: Reporting

- Operating and capital leases have historically been reported differently on the AFR prior to issuance of new standard
  - Operating leases were typically listed in Educational & Operations and Maintenance Fund while Capital leases were transferred to Debt Service and listed on the Short-Term/Long Term Debt schedule within the AFR
- With S-87, there is no longer a distinction between the two, costs for principal and interest for all leases should be transferred to the Debt Service Fund and listed on the Short-Term/Long-Term Debt schedule within the AFR



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# GASB S-87: Examples

- Most common leases noted:
  - Buses
  - Copiers/Printers
  - Vehicles
  - Equipment
- Other Considerations: Lessor Transactions
  - Examples
    - Land
    - Cell Towers
  - Treatment
    - Unlike your lease liabilities, the lease receivable is recorded in the fund which receives the money



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# GASB S-87: Lease Term Reassessment

- Lease term should be reassessed if only one or more of the following occur:
  - Lessee or lessor elects to exercise an option even though previously determined that it was reasonably certain they would not exercise that option.
  - Lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain they would exercise that option.
  - Event specified in the lease contract that requires an extension or termination takes place.



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# GASB S-87: Lease Modifications

- Lease Modifications:
  - A lease amendment or modification should be accounted for as a separate lease by both the lessee and the lessor if it adds one or more underlying assets that were not included in the original lease contract; and the increase in lease payments for the additional lease asset does not appear to be unreasonable



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# GASB S-87: Lease Terminations

- Lease Terminations – An amendment which results in a decrease of the lessee’s right to use the underlying asset is considered to be a full or partial termination:
  - A lessee should reduce the carrying values of the lease liability and related asset, and recognize a gain or loss for the difference.
  - A lessor should reduce the carrying values of the lease receivable and related deferred inflow of resources, and recognize a gain or loss for the difference



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# GASB S-96: Scope

- A subscription-based information technology arrangement (SBITA) is a
  - Contract that conveys control of the right to use another party's IT software
    - Alone or with tangible capital assets (e.g., hardware)
  - In an exchange or exchange-like transaction
- Right to use the underlying IT asset means the government can
  - Obtain the present service capacity from the use of the underlying IT asset
  - Determine the nature and manner of use of the underlying IT assets
- SBITAs exclude contracts that solely provide IT support services
- SBITAs include contracts that contain both a right to use asset and an IT support services component



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# GASB S-96: Exclusions

- GASB S-96 does not apply to the following:
  - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, *Leases*,
  - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
  - Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
  - Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as amended.



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# GASB S-96: Subscription Term

- The subscription term is the period during which the government has a noncancelable right to use the underlying IT assets
  - An option to extend should be included if it is reasonably certain that the option will be exercised
  - Periods covered by a government's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the government will *not* exercise that option
  - Periods covered by a SBITA vendor's option to extend the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will exercise that option
  - Periods covered by a SBITA vendor's option to terminate the SBITA if it is reasonably certain, based on all relevant factors, that the SBITA vendor will *not* exercise that option
- For a SBITA that has cancellable periods, such as a rolling month-to-month SBITA or a year-to-year SBITA, the maximum possible term of that SBITA is the noncancelable period, including any notice period



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# GASB S-96: Short-Term SBITAs

- A short-term SBITA is a SBITA that, at the commencement of the subscription term, has a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised
  - Periods for which both the government and the SBITA vendor have an option to terminate the SBITA without permission from the other party (or if both parties must agree to extend) are cancellable periods and should be excluded from the maximum possible term.
- Short-term SBITA recognize an outflow of resources based on the payment provision of the contract
  - No intangible asset or subscription liability are recognized



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# GASB S-96: Recognition & Measurement

## Accrual basis/economic resources

- Recognize a subscription liability and an intangible right-to-use asset at the commencement of the subscription term
- The subscription liability should be measured at the present value of subscription payments expected to be made during the subscription term. Measurement of the subscription liability should include the following, if required by a SBITA
  - Fixed payments
  - Variable payments that depend on an index or rate
  - Variable payments that are fixed in-substance
  - Any subscription contract incentives receivable from the SBITA vendor
  - Any other payments to the SBITA vendor associated with the SBITA contract that are reasonably certain of being required based on an assessment of all relevant factors
- The liability should be discounted using the interest rate that the vendor charges the government



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# GASB S-96: Recognition & Measurement (Cont'd)

## Accrual basis/economic resources

- The intangible right-to-use subscription asset should be measured at the commencement of the subscription term as the sum of:
  - The initial measurement of the subscription liability
  - Payments associated with the SBITA made to the vendor at the commencement of the subscription payments term, if any
  - Capitalizable initial implementation costs
- The subscription asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets
  - The amortization of the subscription asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes
  - Amortization should begin at the commencement of the subscription term



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# GASB S-96: Examples

## Common Agreements Noted

- Financial Software
  - HR or Payroll Software
  - Student Information Systems
  - Bus Software
  - Assessment systems
  - Etc
- The key is understanding lease term and sorting through agreements to determine applicability



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# GASB S-87/96: Lessons Learned

- The 'heavy lifting' is done
  - No more 'look back' required
  - Leases/SBITAs reported prospectively going forward
- Lease/SBITA Tracking
  - Formalize a process to track newly executed leases
- Contracts
  - Review contracts in detail to determine if they should be included/excluded



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# Questions and Answers

*We thank you for your time!*



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