



# **GASB'S LATEST STANDARDS**

2025 SD DLA IPA Conference | May 12, 2025

## DISCLAIMER

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# PRESENTER



**Gerry Boaz**, CPA, CGMA, CGFM

Director of Government National Strategy, Government Advisory Services  
Nashville, TN and Boise, Idaho

# TODAY'S AGENDA FOR GASBs 101-104 WITH SOME ADDED BONUSES

Understand the purpose and scope of the Statements

Enhance financial reporting and accountability

Identify the key changes and requirements

Assess the impact on the financial statements

Provide practical implementation guidance

Bonus Round: Subsequent Events (i.e., forthcoming GASB 105)

Lingering issues with GASBs 96 & 99; IGU 2021-01 Q.#5.1; & GASB 100 (Q&A)

# JUNE 30, 2025-2028 'HEAT MAP'

GASB Statement # (in order)	June 30, 2025	June 30, 2026	June 30, 2027	June 30, 2028
101	<i>Depends – may be RED</i>			
102				
103	Getting ready			
104 (Disclosure of Certain Capital Assets)				
Implementation Guide Update 2025 *	Final – Q2 '25; Certain Q&As	Certain Q&As on GASB-101, 103, 5.1-5.2 if approved)		
Subsequent Events * (likely GASB 105)	Final – Q4 '25			

*\*Unclear on Infrastructure, Going Concern and Severe Financial Stress, and Revenue and Expense Recognition (RER); RER will be RED (complex and time consuming for analyses)*



# **GASB 101 — COMPENSATED ABSENCES**

**EFFECTIVE:** FISCAL YEARS BEGINNING AFTER DECEMBER 15, 2023  
(12/31/24, 6/30/25, 9/30/25)

**LEVEL OF EFFORT: *MEDIUM***

# GASB STATEMENT NO. 101, COMPENSATED ABSENCES

One of the oldest still in use GASB standards (nearly 30 years) (GASB-16).

Inconsistent GAAP due to two allowable methods to calculate liability.

No guidance for types of PTO such as unlimited, sabbaticals, floating days, leave banks.

We all know that the note disclosure is fudged! (beginning balance is decreases, ending balance is increases).

# WHAT ARE THE KEY DIFFERENCES FROM STATEMENT 16?

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There is no distinction between vacation and sick leave.

There are no options for accruing a sick leave liability.

Likelihood for accrual has been lowered from probable to more likely than not ( $> 50\%$ ).

No more “vesting” accounting for sick leave.



## WHAT DO I CONSIDER A COMPENSATED ABSENCE?

- Leave for which employees receive:
  - Cash when the employee uses the leave.
  - Cash upon termination.
  - Non-cash settlements.
- Examples include:
  - Vacation and sick leave.
  - Paid time off.
  - Holidays.
  - Types of sabbatical leave.



# HOW WILL LIABILITY BE RECOGNIZED? 3 CRITERIA FOR UNUSED LEAVE



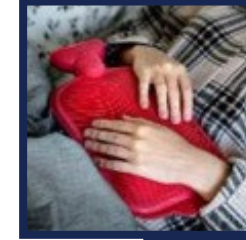
## Accumulate

- Leave balance carried forward from prior period to current period or CY to next FY.
- Settled in future period.



## Attribute

- Liability related to services rendered by employee (earned).
- Measure at period end
- **Caution – NOT FUTURE SERVICES!**



## Settlement

- Leave is *more likely than not* (MLTN) to be paid (>50%), used, or settled (**old GAAP is probable!**).
- Recognize liability until paid (unless converted to pension or OPEB).

# **1 RECOGNITION OF A LIABILITY (PRIOR SLIDE)**

- Leave that is attributable to services rendered, AND
- Leave accumulates, AND
- More likely than not to be used, paid, or settled.

# **2 ARE THERE EXCEPTIONS? OF COURSE THERE ARE!**

Don't recognize a liability until leave commences for (1) sporadic events (2) unlimited leave (3) holiday leave not at employee's discretion.

# **3 WHAT ELSE DO I NEED TO KNOW ABOUT RECOGNITION?**

- Leave that has been used, and
- Leave that has not yet been paid or settled;
- Include applicable salary related payments.

# MEASURING THE LIABILITY FOR COMPENSATED ABSENCES

Use the employee's payrate as of the date of the financials.

Leave that is MLTN to be paid at a different rate from the employee's payrate then use the different rate.

If not attributable to a specific employee (shared pool) measure using an estimated pay rate representative of the eligible employees.

If MLTN to be settled by noncash means (other than to DB or OPEB) should be based on the amount is MLTN to be settled.

Gather Accumulated Leave meeting recognition criteria (unless MLTN settled thru other means)

1



Multiply leave hours X current pay rate as of F/S date, unless MLTN paid at different rate at time payment made

2



Add Salary related payments directly / incrementally related

3



Comp Absences Liability



# MAJOR EXCEPTION – LEAVE THAT IS SPORADIC

- Impacts small population, cannot be calculated with regularity.
- Includes:
  - Parental leave
  - Jury Duty
  - Military leave
  - Unlimited leave
  - Unscheduled shutdowns (natural disasters etc.)
- Recognize when event has occurred.



# OTHER ELEMENTS OF GASB-101



Leave sharing pools – **use estimated pay rate of employees that participate.**



Leave paid by noncash means *other than pension / OPEB conversions* – use amount more likely than not to be settled.

# WHAT ARE THE DISCLOSURE REQUIREMENTS?

- LONG-TERM LIABILITY FOOTNOTE:
  - Beginning and ending balances of compensated absences at year-end.
  - Changes in the liability as either (1) separate increases and decreases or (2) the net increase or decrease as long as it is disclosed as “net”.
  - The portion of the ending balance due within one year.
- Disclosure of which funds will be used to liquidate the compensated absence is **NO LONGER** required.



# FAQS

What about “use it or lose it?”

- Since no accumulation as of fiscal year-end, no recognition until MLTN to be used.

What about indefinite carryforward of leave (aka Golden Handcuffs)?

- Must be accrued as paid at termination – use existing policy at reporting date to calculate liability.

Which Pay Rate Should I use?

- Use the pay rate in effect AS OF GOVERNMENT’S YEAR END (not W-2 Year)!

What about unlimited PTO?

- Recognize at current rate when used.



# FAQS

What about partial use / lose (does not carryover and is not paid at termination)?

- Since no accumulation, no recognition as liability as it is forfeited at end of year.

What if partial use / lose but on a calendar year basis?

- If fiscal year does not = calendar year, then accumulate liability. Estimate MLTN to be used before forfeit as liability.

What about vacation leave granted first day of year in advance and earned throughout year?

- At beginning of year, leave not attributable to services rendered, no liability. Compensated absences liability should be evaluated as of the entity's fiscal year end.

What about comp time due to overtime paid on termination?

- Attributable to services rendered. All leave MLTN to be paid. Calculate liability.

FMLA / Parental leave?

- Only recognize when leave starts for entire leave due.

# CHEAT SHEET FOR YOU

When to Recognize Unused Leave Liability and Salary Related Payments for Compensated Absences?	... For Which Types of Leave?
When the leave is <b>EARNED</b> (Accumulates for services already rendered)	If more likely than not to be paid <i>unless settled to a pension / OPEB plan.</i>
<b>Do NOT recognize</b>	Leave settled to a pension / OPEB plan.
<b>When leave starts</b>	Military leave, jury duty, FMLA but not sick or unrestricted sabbatical leave.
<b>When leave is taken</b>	Unlimited leave and holidays (even if holidays float).



# KEYS TO SUCCESS IN IMPLEMENTING GASB-101

1. Gather existing policies and procedures relating to compensated absences.
2. Align policies and procedures to current contracts, laws, regulations, ordinances.
3. Fill data gaps to make key decisions:
  - More likely than not policy determination.
  - Rate of pay for sick leave pools.
4. For large employee bases, *consider* (not required) for year of implementation:
  - Actuary;
  - Data analytics contractor; or
  - Both.
5. Document exceptions.
6. Recognize liability.
7. Draft note disclosure.

# COMPENSATED ABSENCES ARE A BUDGET ISSUE TOO!

- Compensated absences that will ultimately be paid out as cash rather than taken as leave can have a significant budgetary impact on local governments when not properly planned for:
  - Common practice to use salary savings from vacancies to offset some or all cash payments.
  - Not always a realistic strategy with long-term employees that have large balances.
  - Can create a mid-year need for supplemental appropriations and/or create budget challenges.
  - Ultimately reduces budgetary flexibility.
- Consider setting aside resources on an ongoing, regular basis to offset an appropriate portion of your compensated absences liability:
  - Methodology will likely be unique to your agency's circumstances.
  - Consider building this methodology into your governing body-approved policy library.
  - If this is something new to your budget process, educate executive leadership and elected officials on the importance of setting aside resources.
  - Addressing this issue will mitigate unanticipated budget impacts from retirements and separations.

# SUMMARY OF GASB-101 YOU CAN USE

- GASB-101 changes liability recognition that has been in place for over 30 years.
- Requires liability for:
  - Leave that has not been used; *and*
  - Leave that has been used, but not yet paid in cash or settled through noncash means (such as credit to DB plans).
- Leave liability results from:
  - Services rendered to date of fiscal year end;
  - Leave that accumulates; and
  - More likely than not to be used for time off or otherwise paid in cash or settled through noncash means.
- GASB-101 includes guidance for sporadic leave (FMLA, Military, Jury Duty).
- Each employee's pay rate used for calculations is as of the fiscal year end. Include salary – related payments.
- Note disclosure will update.
- Effective for fiscal years **beginning** after December 15, 2023, and all periods thereafter (January 1 or July 1, 2024).



# **GASB 102 — CERTAIN RISK DISCLOSURES**

**EFFECTIVE:** FISCAL YEARS BEGINNING AFTER JUNE 15, 2024 (12/31/25,  
6/30/25, 9/30/25)

**LEVEL OF EFFORT: *SMALL***

# CONSIDERATIONS IN ADDING TO THE TECHNICAL AGENDA

- Stakeholders asked GASB to address the issue.
- GASB considered FASB's ASC Topic 275, Risks and Uncertainties, which address the nature of operations, use of estimates, and certain concentrations.



# PROJECT DEVELOPMENTS

A government may be vulnerable to risks based on certain concentrations and constraints that limit its ability to acquire resources or to control spending.

## Certain Concentrations:

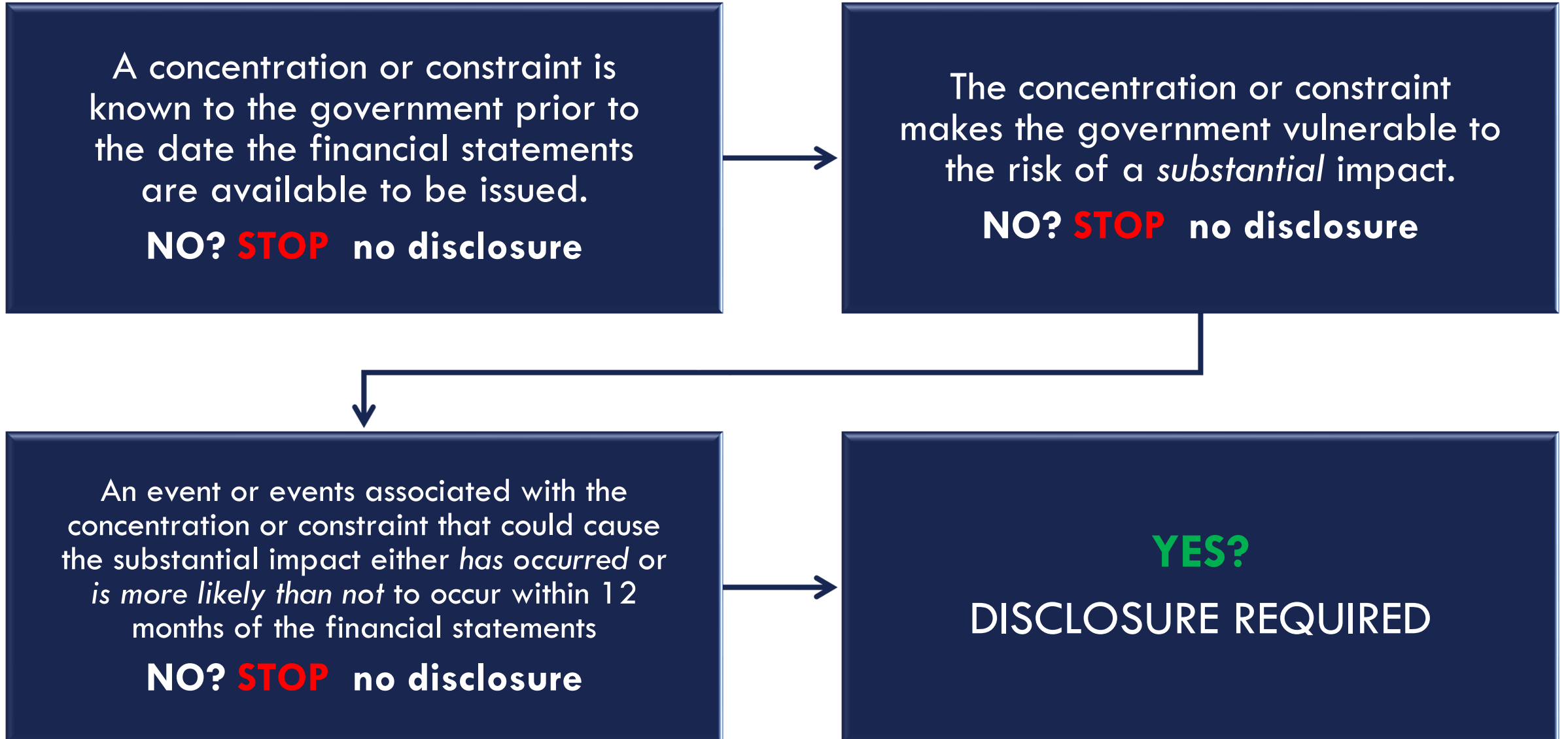
- A lack of diversity related to an aspect of a significant revenue source or expense.
- Examples include industries, revenue providers, revenue types, workforce covered by a collective bargaining agreement, suppliers.

## Certain Constraints:

- Imposed externally or by formal action of a government's highest level of decision-making authority.
- Examples include limits on raising revenue, limits on spending or on incurrence of debt and mandated spending.



# DISCLOSURE CRITERIA – ALL MUST BE MET



# DISCLOSURE REQUIREMENTS

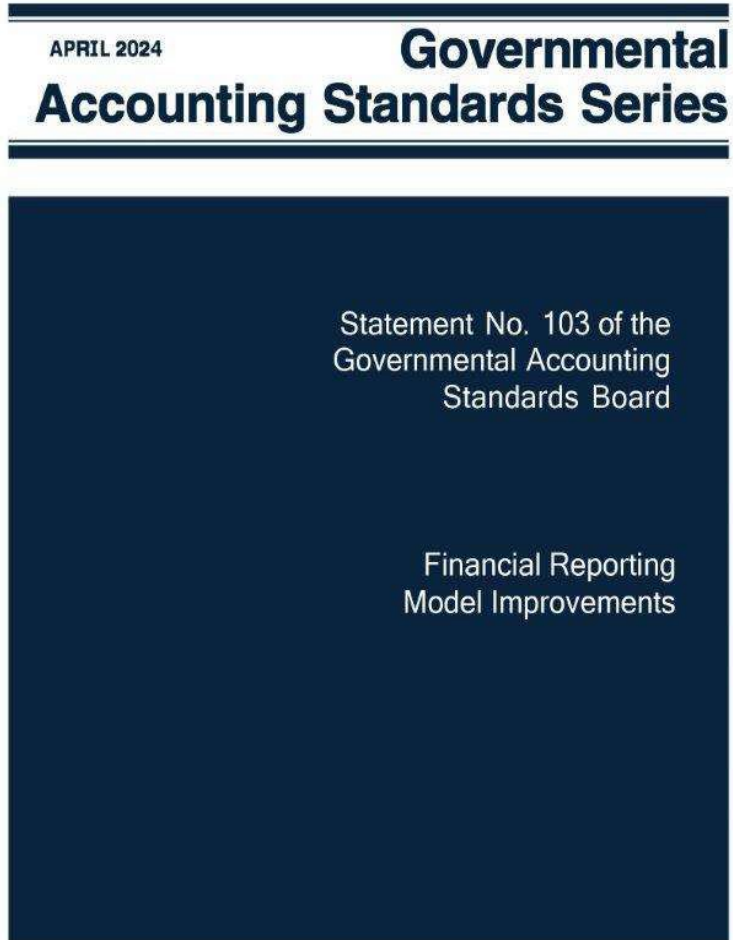
- For each concentration and constraint meeting ALL of the criteria, disclose the following:
  - A description of the concentration or constraint and other information in sufficient detail to enable users to understand their nature and the government's vulnerability to the risk of a substantial impact.
- If the event or events associated with the concentration or constraint occurred before the financial statements are available to be issued, also disclose the following:
  - A description of each event associated with the concentration or constraint that could cause a substantial impact.
  - A description of actions taken by the government to mitigate the substantial effect.



## POTENTIAL RELATIONSHIP WITH OTHER REQUIRED DISCLOSURES

- Certain disclosures that may result from this statement may supplement or overlap with other required disclosures.
- If this occurs, the information required to be disclosed by this Statement may be combined or included as part of those other disclosures.
- Note disclosure requirements of other Statements may be met by the note disclosures required by this Statement.

# ***GASB 103, FINANCIAL REPORTING MODEL IMPROVEMENTS***



**GOVERNMENTAL ACCOUNTING STANDARDS BOARD**  
OF THE FINANCIAL ACCOUNTING FOUNDATION



# ORIGINAL OVERVIEW OF THE PROPOSALS

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Measurement focus and basis of accounting for the governmental funds.

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Format of governmental funds financial statements.

---

Clarification of operating and nonoperating in proprietary funds.

---

Presentation of proprietary funds statement of revenues, expenses, and changes in net position.

---

Management's discussion and analysis.

---

Budgetary comparisons.

---

Major component unit presentations.

---

Unusual or infrequent items.

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# PROJECT ACTIVITIES

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- Pre-agenda research:
  - Roundtables
  - Surveys
  - Literature Review
  - Archival
  - Interviews
- Invitation to Comment, *Financial Reporting Model Improvements Governmental Funds*, issued December 2016.
- Preliminary Views, *Financial Reporting Model Improvements*, issued September 2018.
- Exposure Draft, *Financial Reporting Model Improvements*, issued June 2020.
- Public hearings and user forums March-April 2021.



A stylized, light blue illustration of the U.S. Capitol dome is positioned on the left side of the slide. The dome is depicted with a series of vertical lines representing columns and a small flame on top. Surrounding the dome are several five-pointed stars of varying sizes, some of which are partially obscured by the dome. The background is a dark blue gradient with a subtle texture.

# **CONCERNS WITH GOVERNMENTAL FUND FINANCIALS**

- Lack of effectiveness of governmental fund information.
- Lack of conceptual consistency.
- Lack of guidance for complex transactions.
- Lack of consistency in applying the current financial resources measurement focus and modified accrual basis of accounting.

# GOVERNMENTAL FUND FINANCIAL STATEMENTS TENTATIVE DECISIONS

- June 2023 the Board tentatively decided to REMOVE governmental funds from the scope of the project.
- A conceptually pure model (without exceptions) would provide less meaningful information.
- Would present fund balance that does not reflect all the accruals that the Board believes should be recognized.
- Board questioned the ability of the proposed model to produce comparable results due to potential difficulty applying new concepts.





# OVERVIEW OF THE PROPOSALS ORIGINAL

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~~Measurement focus and basis of accounting for the governmental funds~~

---

~~Format of governmental funds financial statements~~

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Clarification of operating and nonoperating in proprietary funds.

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Budgetary comparisons.

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Major component unit presentations.

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Unusual or infrequent items.

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# OVERVIEW

Management's  
Discussion and  
Analysis.

Clarification of  
operating and  
nonoperating in  
proprietary funds.

Presentation of  
proprietary funds  
statement of revenues,  
expenses, and changes  
in net position.

Budgetary  
comparisons.

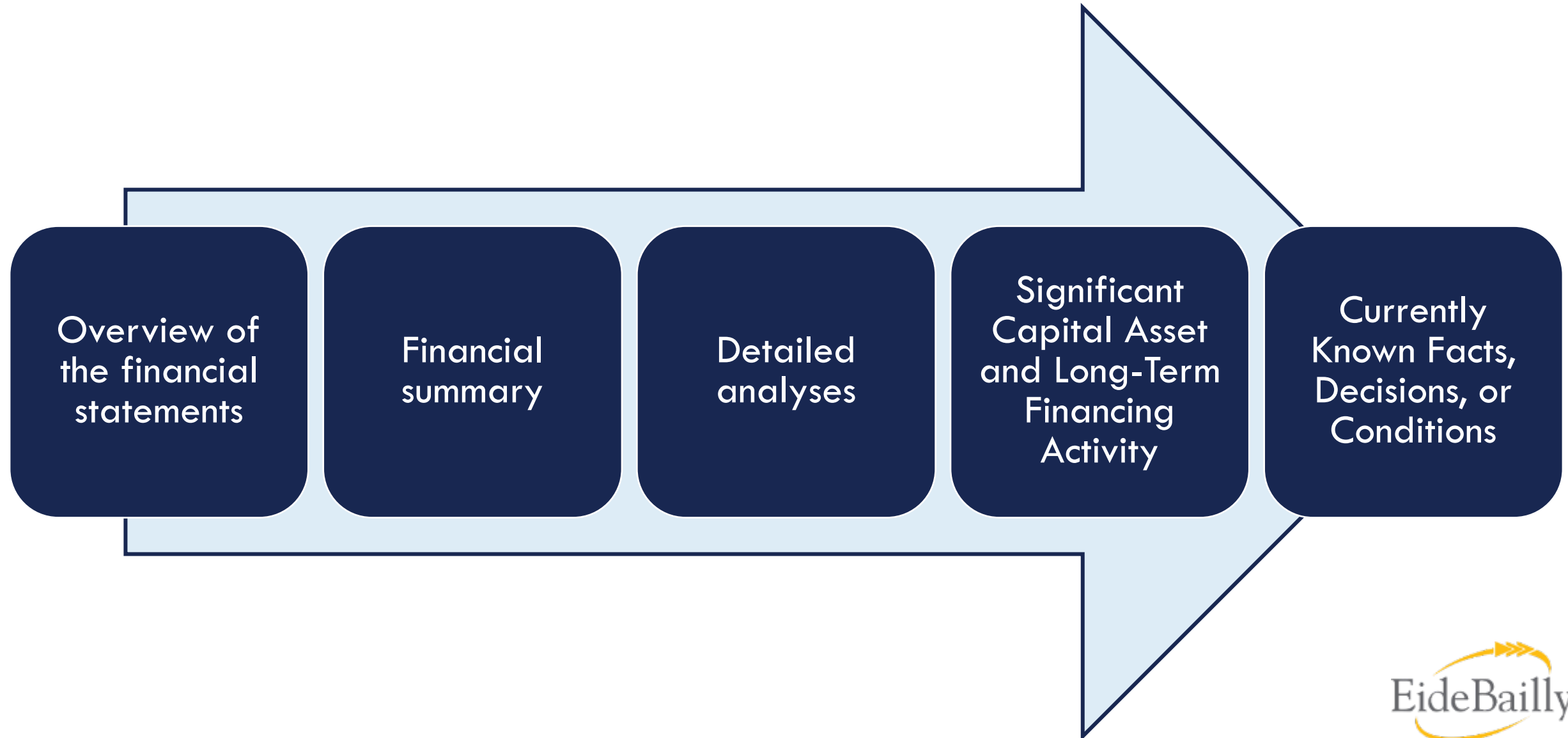
Major component  
unit presentations.

Unusual or  
infrequent items.

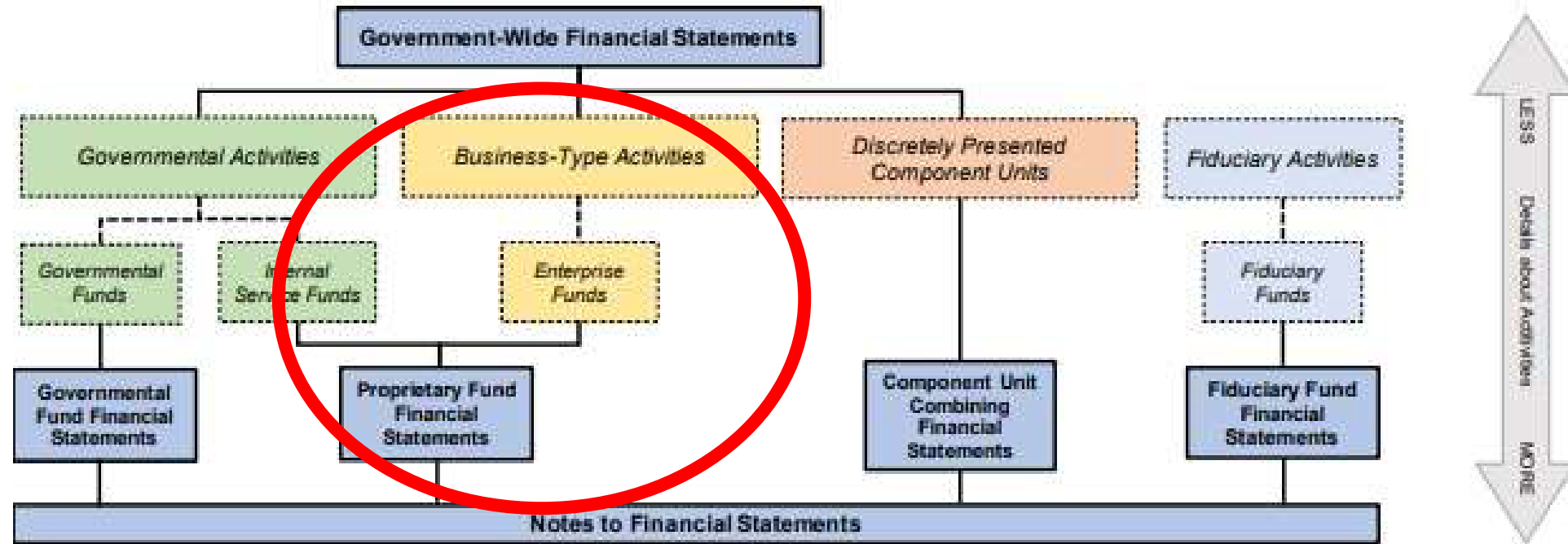
# MD&A OVERARCHING GUIDANCE

- Users of MD&A “have different levels of knowledge and sophistication about governmental accounting and finance,” “may not have a detailed knowledge of accounting principles”.
- Analysis of current-year balances and activity to explain why balance and results changed from prior year.
- Avoid unnecessary duplication, avoid “boilerplate” language.
- Focus on primary government, discussion of discretely presented component units is a matter of professional judgment.

# MD&A – FIVE SECTIONS



# MD&A – OVERVIEW OF THE FINANCIAL STATEMENTS



Financial summary—condensed financial statements

# MD&A — DETAILED ANALYSIS

- Detailed analyses:
  - Primary government's financial position and results of operations—both governmental and business-type activities:
    - In addition to amounts/percent of change, explain why change occurred.
  - Fund balance or net position and results of operations of each major fund (nonmajor funds excluded):
    - In addition to amounts/percent of change, explain why change occurred.



# MD&A – SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

## Capital asset activity

- Include intangible capital assets.
- Discussion of significant additions and disposals.
- Discussion of significant policy changes and economic factors.
- Avoid duplication between the analyses and this component.

## Long-term financing activity

- Includes debt, leases, PPPs, and SBITAs.
- Discuss new agreements, changes to credit rating, debt limit.
- Discussion of significant policy changes and economic factors.
- Avoid duplication between the analyses and this component.

# MD&A – CURRENTLY KNOWN FACTS, DECISIONS, AND CONDITIONS

- Include a description of currently known facts, decisions, and conditions that are expected to have a significant effect on financial position or results of operations in the subsequent year. Examples could include:
  - Trends in relevant economic and demographic data.
  - Factors used to develop the subsequent year's budget:
    - Those affecting revenues available for appropriation, e.g., changes in rates and bases of activity.
    - Those affecting planned spending, e.g. inflation, labor contracts, changes in programs.
  - Expected changes in budgetary net position or fund balance.
  - Actions government has taken related to PEB, capital plans, leases, PPPs, SBITAs (long-term items).
  - Actions other parties have taken, such as new laws or regulations.



# PROPRIETARY FUNDS – OPERATING AND NONOPERATING

- Separate presentation of operating and nonoperating revenues and expenses.

## Operating

- Activities other than nonoperating activities.

## Nonoperating

- Subsidies received and provided.
- Revenues and expenses of financing.
- Resources from the disposal of capital assets and inventory.
- Investment income and expenses.
- Contributions to permanent and term endowments.

# PROPRIETARY FUNDS – SUBSIDIES

- Add a new subtotal for operating income (loss) and noncapital subsidies.

## Subsidies

- Resources received from another party or fund (1) for which the proprietary fund does not provide goods and services to the other party or fund and (2) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise.
- Resources provided to another party or fund (1) for which the other party or fund does not provide goods and services to the proprietary fund and (2) that are recoverable through the proprietary fund's current or future pricing policies.
- All other transfers.

# UNUSUAL OR INFREQUENT ITEMS – DEFINITIONS

## Unusual or Infrequent Items

- Unusual in nature – the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates. (GASB 62 par. 46a)
- Infrequency of occurrence – the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates. (GASB 62 par. 46b)
- Further details in GASB 62 (par. 47 & 48).

# UNUSUAL OR INFREQUENT ITEMS

## Unusual or Infrequent Items

- Separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence (replacing extraordinary and special items).
- Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management.

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)

See Exhibit 21 for an illustration of an optional combining statement of internal service funds.

	Enterprise Funds				Internal Service Funds
	Public Utility	Transit Authority	Golf Courses	Total	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 41,003	\$ 18,636	\$ 2,561	\$ 62,200	\$ 42,523
Miscellaneous	283	33	104	420	78
Total operating revenues	41,286	18,669	2,665	62,620	42,601
<b>OPERATING EXPENSES</b>					
Personnel services	13,991	-	-	13,991	5,786
Contractual services	13,952	16,406	4,893	35,251	4,117
Insurance claims and expenses	-	-	-	-	26,388
Depreciation	11,767	8,972	2,375	23,114	415
Other	1,067	-	165	1,232	7,834
Total operating expenses	40,777	25,378	7,433	73,588	44,540
Operating income (loss)	509	(6,709)	(4,768)	(10,968)	(1,939)
<b>NONCAPITAL SUBSIDIES</b>					
Intergovernmental revenue	-	-	-	-	881
Transfers in	-	2,090	110	2,200	300
Transfers out	(1,980)	-	-	(1,980)	-
Total noncapital subsidies	(1,980)	2,090	110	220	1,181
Operating income (loss) and noncapital subsidies	(1,471)	(4,619)	(4,658)	(10,748)	(758)
<b>OTHER NONOPERATING REVENUES (EXPENSES)</b>					
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	1,215
Total other nonoperating revenue (expenses)	3,556	14,987	1,524	20,067	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



# EFFECTIVE DATE AND TRANSITION

- Effective for fiscal years beginning after June 15, 2025:
  - All reporting periods thereafter.
  - Earlier application is encouraged.
  - Changes adopted at transition – change in accounting principle (Statement 100).
  - All component units should implement the provisions in the same year as the primary government.



# ***GASB 104, DISCLOSURE OF CERTAIN CAPITAL ASSETS***

September 2024

## **Governmental Accounting Standards Series**

Statement No. 104 of the  
Governmental Accounting  
Standards Board

### **Disclosure of Certain Capital Assets**



# CLASSIFICATION OF NONFINANCIAL ASSETS

- 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 (ending balances only)
Intangible capital assets	By major class(es) of asset
Lease assets (GASB 87)	By major class(es) of underlying asset
Right to use assets recognized by governmental	By major class(es) of underlying asset operators (GASB 94)
Subscription assets (GASB 96)	Separate from other capital assets

# CAPITAL ASSETS HELD FOR SALE

Capital assets to be classified as held for sale if:

- The government has decided to pursue the sale of 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.

# PROJECT TIMELINE

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- Pre-Agenda Research Started – August 2020
- Added to Current Technical Agenda – December 2021
- Deliberations Began – July 2022
- Exposure Draft Issued – September 2023
- Final Standard issued – September 2024
- Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2025 (i.e., **June 30, 2026**), and all reporting periods thereafter. Earlier application is encouraged.

# GASB 104 ILLUSTRATION 1 – APPENDIX C

## Illustration 1—Capital Assets Note Disclosure

This illustration provides an example of the governmental activities capital assets note disclosure for a hypothetical government. The example illustrates some of the requirements in paragraph 4 of this Statement. Other presentations also may satisfy those requirements.

Capital asset activity for the year ended June 30, 20X2, was as follows (in thousands):

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 29,484	\$ 2,020	\$ (4,358)	\$ 27,146
Construction in progress	2,915	13,220	(14,846)	1,289
Total capital assets not being depreciated	32,399	15,240	(19,204)	28,435
Capital assets being depreciated:				
Buildings and improvements	40,861	334	-	41,195
Equipment	32,110	1,544	(1,514)	32,140
Road network	72,885	10,219	-	83,104
Bridge network	18,775	4,627	-	23,402
Software	2,100	548	(650)	1,998
Lease assets:				
Buildings	25,821	209	-	26,030
Equipment	20,389	2,312	(2,456)	20,245
Subscription assets	5,490	687	(743)	5,434
Total capital assets being depreciated	218,431	20,480	(5,363)	233,548
Less accumulated depreciation for:				
Buildings and improvements	(10,358)	(691)	-	(11,049)
Equipment	(9,247)	(2,676)	1,040	(10,883)
Road network	(12,405)	(823)	-	(13,228)
Bridge network	(2,896)	(197)	-	(3,093)
Software	(543)	(110)	25	(628)
Lease assets:				
Buildings	(7,456)	(596)	-	(8,052)
Equipment	(5,864)	(1,782)	823	(6,823)
Subscription assets	(1,009)	(450)	209	(1,250)
Total accumulated depreciation	(49,778)	(7,325)	2,097	(55,006)
Governmental activities capital assets, net	\$ 201,052	\$ 28,395	\$ (22,470)	\$ 206,977

# **GASB 104 ILLUSTRATION 1 – APPENDIX C**

## **Illustration 2—Capital Assets Held for Sale Disclosure**

Included in capital assets are buildings that are capital assets held for sale. Those buildings are reported in governmental activities. They have a total historical cost of \$8.0 million and an accumulated depreciation of \$5.0 million, and they are pledged as collateral for debt with a balance of \$1.5 million.



# **SUBSEQUENT EVENTS**

**EXPOSURE DRAFT — LIKELY TO RESULT IN  
GASB 105 (Q4 '25)**

## What

- The GASB is evaluating existing guidance related to subsequent events and the usefulness of information reported by governments.

## Why

- Existing guidance is based on other literature dating back to 1972 and generally has not been reevaluated.

## When

- The Board added the project to its technical agenda in August 2023.



# DEFINITIONS

- Subsequent events are transactions or other events that occur after the date of the financial statements but **before the date the financial statements are available to be issued** (the subsequent events time frame).
- Recognized events are a subsequent event that (a) is indicative of conditions existing at the financial statement date and (b) informs the inputs to an accounting estimate measured as of the financial statement date.
- Nonrecognized events are a subsequent event that has a significant effect (favorable or unfavorable) on the basic financial statements in the reporting period in which the event occurs and is one of the following:

# NONRECOGNIZED EVENTS – DEFINITION (CONT.)

- A debt-related transaction.
- A government combination or a disposal of government operations.
- A change to the legally separate entities that compose the financial reporting entity.
- The application of an enacted tax rate different from the tax rate previously in effect.
- A transaction or other event of such a nature that the information items in paragraph 9 (i.e., note disclosure) are essential to a user's analysis for making decisions or assessing accountability.

# NONRECOGNIZED EVENTS – NOTE DISCLOSURES

- By reporting unit:
  - A description of the nonrecognized event.
  - An estimate of the effect that the nonrecognized event has on the basic financial statements for the reporting period in which the event occurs, or the reason why an estimate cannot be made.





# EFFECTIVE DATE

- For subsequent events associated with fiscal years beginning after June 15, 2026.
- Applied prospectively at transition.



**GASB-100, ACCOUNTING  
CHANGES AND ERROR  
CORRECTIONS — IT'S PAST  
GO TIME!**

# WHY DID GASB HIT THE CENTURY MARK?

- You've been using 50-year-old GAAP for Accounting Changes and Error Corrections!
  - Most of us have messed them up.
  - No provisions for RSI errors.
  - Hard to distinguish types of corrections and errors:
    - Even harder for comparative statements.



# WHERE GASB-100 CHANGES THINGS — CHANGE IN ACCOUNTING PRINCIPLE

## What is it?

- Change from one GAAP principle to another when the new one is preferable (but both acceptable).
- **Implementing a new GASB standard.**



## Determining Preferable — Must be More:

- Reliable
- Relevant
- Timely
- Consistent
- Comparable
- Understandable



# TYPES OF CHANGES IN ACCOUNTING PRINCIPLE (BUT NOT NEW GASB)

- Change in definition of cash equivalents but still acceptable under GAAP.
- Change in interest rate risk disclosure for debt investments and investment derivative instruments:
  - Segmented time distribution
  - Specific identification
  - Weighted average maturity
  - Duration
  - Simulation model
- Change in depreciation method (straight-line vs. something else).
- Change in infrastructure approaches (historical vs. modified approach).
- Others...?

## WHERE GASB-100 CHANGES THINGS — CHANGE IN ACCOUNTING PRINCIPLE

- What Isn't It?
  - First time a transaction occurs.
  - Where a transaction was immaterial to now material.
  - Going from a non-GAAP transaction to a GAAP transaction:
    - That's an error!





# WHERE GASB-100 CHANGES THINGS – CHANGE IN ACCOUNTING ESTIMATE

- What is it?
  - Estimates are throughout your basic financial statements.
  - **Have uncertainty.**
  - Require data, assumptions, measurement methods.
- **New data occurs.**
- **More experience.**
- **New Methods are preferable to old methods, but both acceptable.**

# WHERE GASB-100 CHANGES THINGS – CHANGE TO OR WITHIN FINANCIAL REPORTING ENTITY



- What is it?
  - Adding / shutting down a component unit.
  - Adding / removing a fund **but for continuing operations within the government.**
  - Change from major to nonmajor funds (or nonmajor to major).
  - Change from blended to discrete CU (or discrete to blended).

**Be careful on mergers, acquisitions, majority equity interests**

A close-up photograph of a person's hand holding a pen and writing on a notepad. The person is wearing a white long-sleeved shirt. The background is blurred, showing a desk and some papers. The lighting is warm and focused on the hand and pen.

## EXAMPLE FROM 2023

### *IMPLEMENTATION GUIDE UPDATE*

- Government closes out a major capital projects fund and moves remaining resources back to General Fund – change in financial reporting entity?
  - No! – Removal of a fund does not result in a movement of continuing operations.
  - Report as interfund activity.



A red eraser is positioned diagonally across a sheet of white paper with blue horizontal lines. The word "ERRORS" is written in large, bold, black capital letters across the top of the page, partially overlapping the eraser. The eraser is a solid red color and has a slightly irregular, rectangular shape. The paper shows some signs of use, including small red marks and a smudge near the top right of the word "ERRORS".

# ERRORS

## WHERE GASB-100 CHANGES THINGS – CORRECTION OF AN ERROR

- What is it?
  - You messed up.
  - Math errors.
  - GAAP not implemented properly.
  - Facts not considered in subsequent events.

# DUE TO THE DIFFERENT TYPES OF CHANGES / ERRORS, DIFFERENT ACCOUNTING AND FINANCIAL REPORTING

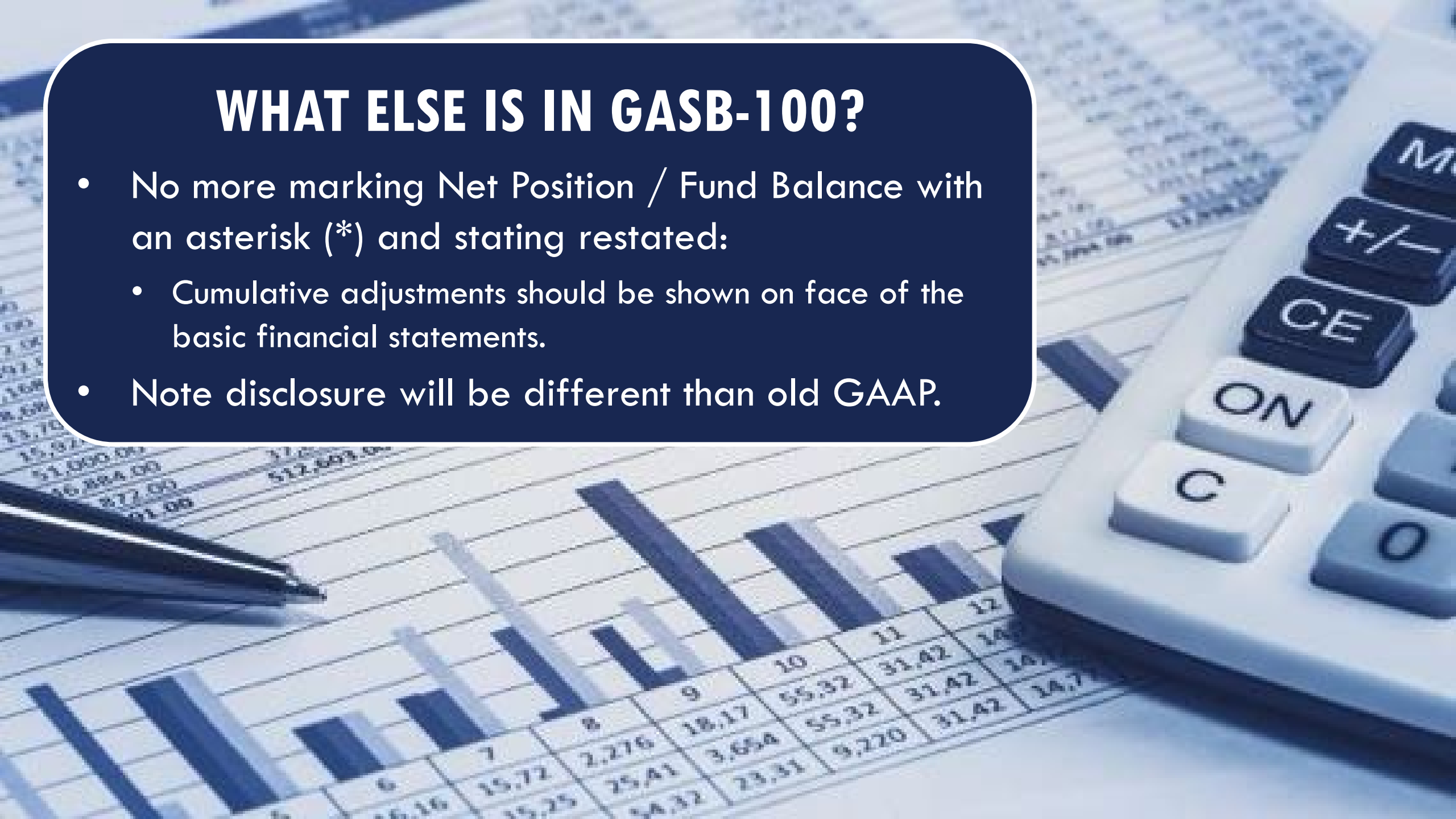
Type of Change / Error	GAAP Per GASB-100
Change in Accounting Principle	Restate beginning balances for cumulative effect.
Change in Accounting Estimate	Report prospectively (forward) but recognize change in current period (unless GASB tells otherwise).
Change to / Within Financial Reporting Entity	Adjust current period beginning balance as if change occurred at the beginning of year.
Error Correction	Restate beginning balances for cumulative effect.

**Comparative Statements – go to earliest period presented**



# WHAT ELSE IS IN GASB-100?

- No more marking Net Position / Fund Balance with an asterisk (\*) and stating restated:
  - Cumulative adjustments should be shown on face of the basic financial statements.
- Note disclosure will be different than old GAAP.



# NOTE DISCLOSURE REQUIREMENTS

## All Changes and Error Corrections

- Nature and amount of change, including identification of line items affected.

## Changes in Financial Reporting Entity

- Reasons for changes (except major / nonmajor changes).
- Impact on beginning balances in a table format.

## Error Corrections

- Impacted line items (and periods impacted).
- Impact on beginning balances in a table format.

# NOTE DISCLOSURE REQUIREMENTS

## Changes in Accounting Principle, Changes in Accounting Estimates

- Impacted line items.
- Reasons for changes (for accounting estimates, only discuss measurement method changes).
- Why change is preferable.
- Reason it was not practicable to restate (Changes in Principle only).
- Impact on beginning balances in a table format (Changes in Principle only).



# WHAT ABOUT RECLASSIFICATIONS THAT RESULT FROM CHANGES / ERRORS?

## Error Corrections – Disclose

- Nature of change.
- Line items and periods impacted.
- Effect on PY change in net position / fund balance had the error not happened and the effect on beginning net position / fund balance (par. 27b / 28)

## Changes In Accounting Principle – Disclose

- Nature of change.
- Line items that are impacted.
- Why change occurred.
- Why change is preferable.
- Why not practicable to restate.

*No more boilerplate – “Certain amounts were reclassified from prior year presentation to conform to current year’s presentation...”*

# WHAT ABOUT RSI / SI?

- New GAAP on Changes in Accounting Principle, to / within Financial Reporting entity and Error Corrections could impact Required Supplementary Information (RSI) and Supplementary Information (SI):
  - MD&A.
  - 10 Year schedules for Pensions / OPEB.
  - Budget schedules.
  - Modified Approach for infrastructure.
  - Claims development information for risk pools.
- GASB Defined SI includes (in ACFRs):
  - Introductory and statistical sections.
  - Appropriate combining and fund schedules.

# WHAT ABOUT RSI / SI?

## Changes in Accounting Principle and Changes in Financial Reporting Entity

Current  
period(s)  
should be  
consistent with  
basic financial  
statements

*Earlier periods  
do not restate  
for changes*

If still  
inconsistent,  
explain in  
footnote to RSI /  
SI, refer to  
footnote in  
MD&A

## Error Corrections

Current  
period(s) –  
make  
consistent with  
basic financial  
statements

*If error impacts  
prior periods –  
restate all  
impacted periods  
if practicable*

If cannot  
restate,  
footnote and  
explain why

# GASB-100 – ILLUSTRATION 1

	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-100 – ILLUSTRATION 1 – ALTERNATIVE

## Adjustments to and Restatements of Beginning Balances

During fiscal year 20X2, changes to or within the financial reporting entity and an error correction resulted in adjustments to and restatements of beginning net position and fund net position, as follows (amounts in thousands):

	Reporting Units Affected by Adjustments to and Restatements of Beginning Balances				
	Funds	Government-Wide		Component Units	
	Enterprise Fund D	Governmental Activities	Business-Type Activities	QRS Foundation	XYZ Foundation
12/31/X1, as previously reported	\$ 74,831	\$ 768,033	\$ 543,163	\$ -	\$ -
Change from blended to discrete presentation	(2,184)	-	(2,184)	2,184	-
Addition of discretely presented component unit	-	-	-	-	1,500
Error correction	-	71,312	-	-	-
12/31/X1, as restated	<u>\$ 72,647</u>	<u>\$ 839,345</u>	<u>\$ 540,979</u>	<u>\$ 2,184</u>	<u>\$ 1,500</u>



# SUMMARY YOU CAN USE – GASB-100

- **Changes in Accounting Principle:**

- *When Do You Use It?*

- *Change from one method of current GAAP to another.*
    - *Implement a new GASB standard.*

- **DO NOT USE:**

- *Change from non-GAAP to GAAP [Special Purpose Framework (Cash, Tax, OCBOA) to GASB].*

- **Accounting and Disclosure:**

- Restate all periods in basic financial statements (comparative go back to when new standard to be implemented or two years) – cumulative effect adjusts beginning net position / fund balance / fund net position.
    - Restate MD&A, RSI, SI, Statistical Section as applicable.
    - Notes include:
      - Lines / elements of financial statements changed.
      - Reasons for change, why preferable or new GAAP.
      - Impact of change in beginning net position / fund balance / fund net position by reporting unit.

# SUMMARY YOU CAN USE – GASB-100

- **Changes in Accounting Estimates:**

- *When Do You Use It?*

- *New acceptable method gives better results.*
    - *Change in inputs, experience, circumstances.*

- **DO NOT USE:**

- *Change due to currently known facts, circumstances, decisions as of prior financial statement date.*

- **Accounting and Disclosure:**

- No restatement!
    - Notes include:
      - Lines / elements of financial statements changed / nature of estimate.
      - Reasons for change, why preferable.

# SUMMARY YOU CAN USE – GASB-100

- **Changes in Reporting Entity:**

- *When Do You Use It?*

- *Change in presentation of component unit(s) (blended <=> discrete) (or add / remove C/U).*
    - *Change in presentation of major funds.*
    - *Move current fund operations to existing fund.*

- **DO NOT USE:**

- *Create new fund due to new programs, services.*
    - *Closing of fund / end of operations.*
    - *Acquire / dispose C/U.*

- **Accounting and Disclosure:**

- *Restatement if comparative, but not to prior period if event did not occur! Include cumulative effect as of the first day of FY.*
    - *Notes include:*
      - *Nature / reason of change, unless going from major to nonmajor fund (or vice versa).*
      - *Impact on beginning net position, fund balance, fund net position.*

# SUMMARY YOU CAN USE – GASB-100

- **Error Correction:**
  - *When Do You Use It?*
    - *Mistakes.*
    - *Change from non-GAAP to GAAP.*
    - *Change due to estimation error because of facts management should have known (errors).*
  - **DO NOT USE:**
    - *Immaterial corrections.*
  - Accounting and Disclosure:
    - Restate all periods, cumulative impact on periods prior to earliest statements, restatement of beginning net position, fund balance, fund net position.
    - Notes include:
      - Nature / reason of error, line items impacted.
      - Impact on beginning net position, fund balance, fund net position (remember MD&A, RSI, SI, Statistical Section).
      - Affect of the error correction on the prior years change in net position (similar to the affect of the change in net income of the prior year)

# SUMMARY OF RSI, MD&A / SI CHANGES

Accounting Principle	Accounting Estimate	Reporting Entity	Error Correction
Restate for all periods where financial statements presented	No need to change <u>prior</u> RSI, SI	Align to changes in basic financial statements	Restate for all periods where financial statements presented
No need to restate prior to comparative periods			If error impacts periods before comparative financial statements, restate RSI, SI from error forward

# REMINDER OF GASB-100 RELATED QUESTIONS IN *PROPOSED IMPLEMENTATION GUIDE UPDATE*

- **Important** – Change in Capitalization Threshold – change in accounting principle??
- Individual adjustment / restatement of beginning net position / fund balance displayed separately from remaining aggregate adjustments?
- Change from major to nonmajor display (aka ‘ghost column’ display).
- Change from major to nonmajor as a result of movement of continuing operations.



# **GASB'S CAPITAL ASSET GUIDANCE (IGU 2021 QUESTION 5.1) — JUST FYI**

# **OFTEN CHANGED QUESTION (IN ORIGINAL GASB-34 *IMPLEMENTATION GUIDE*)**

## **(CODIFIED AS GASBIG 2015-1 Q. 7.98)**

### **Original Question:**

- Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?

### **Original Answer:**

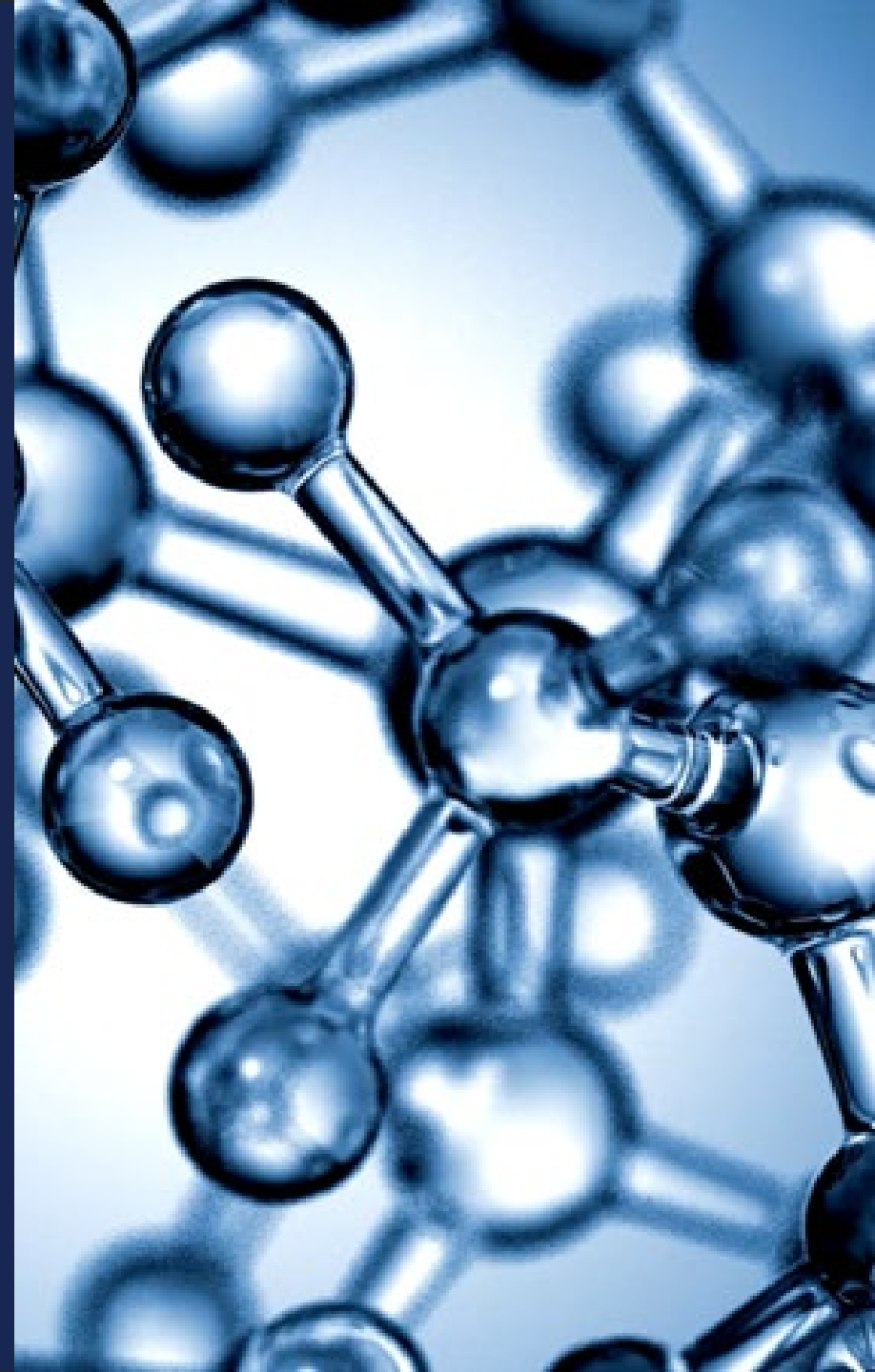
- Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of record keeping for capital assets. It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. Computers, classroom furniture, and library books are assets that may not meet the capitalization policy on an individual basis, yet might be considered material collectively.



# OFTEN CHANGED QUESTION (IN ORIGINAL GASB-34 *IMPLEMENTATION GUIDE*) (CODIFIED AS GASBIG 2015-1 Q. 7.98)

## Updated Answer:

- Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. 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, and library books are examples of asset types that may not meet a capitalization policy on an individual basis, yet could be significant collectively. In this example, if the \$150,000 aggregate amount (100 computers costing \$1,500 each) is significant, the government should capitalize the computers.



# IMPACT

- Could result in policies and procedures changes:
  - Perhaps *MAY* change in the future anyway due to **APPROVED** *Uniform Guidance* threshold of \$10,000 for equipment (beyond the scope of today).
- Could result in beginning balance adjustment.
- Consider a % of budgeted expenditures (1-2%) as the threshold for defining what is considered to be significant.



# CHANGE IN CAPITALIZATION THRESHOLD A CHANGE IN ACCOUNTING PRINCIPLE?



**No!**

- Capitalization threshold is application of materiality to an asset class.

# HOW ABOUT INDIVIDUAL ADJUSTMENT TO OR RESTATEMENT OF FUND BALANCES OR NET POSITION – DISPLAY SEPARATELY?

- **No!**
  - GASB-100 requires display in aggregate:
    - All adjustments and restatements.
    - Only exception is if your government has displayed in the financial statements the impact of *all* accounting changes or error corrections by *reporting unit*.



# WHAT ABOUT A CHANGE FROM MAJOR TO NONMAJOR – HOW DOES THE GHOST COLUMN LOOK?

- Column presented in the Statement of Revenues, Expenditures / Expenses and Changes in Fund Balances / Net Position includes:
  - **Major Fund:**
    - Beginning fund balance / net position as previously reported; and
    - Adjustment to the balance.
    - **No Other Activity!**
  - **Nonmajor Funds In Aggregate:**
    - Adjustment to beginning balance.

# MAJOR TO NONMAJOR

City of Government  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 20X2

	General Fund	Recreation Fund	Formerly Major Fund Private Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Total revenues	\$ 139,610,043	\$ 41,194,613		\$ 34,070,858	\$ 214,875,514
EXPENDITURES					
Total expenditures	142,780,234	39,082,987		24,699,492	206,562,713
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,170,191)	2,111,626		9,371,366	8,312,801
OTHER FINANCING SOURCES (USES)					
Total other financing sources (uses)	6,192,157	2,016,236		(5,926,715)	2,281,678
NET CHANGE IN FUND BALANCES	3,021,966	4,127,862		3,444,651	10,594,479
FUND BALANCES, 6/30/X1, as previously presented	27,094,293	6,646,703	2,587,439	9,705,268	46,033,703
Change within financial reporting entity (major to nonmajor fund)	-	-	(2,587,439)	2,587,439	-
Change to financial reporting entity (discrete to blended CU)				169,402	169,402
Error correction	194,216	-		-	194,216
FUND BALANCES, 6/30/X1, as adjusted or restated	27,288,509	6,646,703		12,462,109	46,397,321
FUND BALANCES, 6/30/X2	\$ 30,310,475	\$ 10,774,565		\$ 15,906,760	\$ 56,991,800

Source: GFOA



# OPPOSITE – NONMAJOR TO MAJOR!

City of Government  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 20X2

	General Fund	Recreation Fund	Private Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Total revenues	\$ 139,610,043	\$ 41,194,613	\$ 900,050	\$ 25,601,808	\$ 207,306,514
EXPENDITURES					
Total expenditures	142,780,234	39,082,987	800,000	23,698,442	206,361,663
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,170,191)	2,111,626	100,050	1,903,366	944,851
OTHER FINANCING SOURCES (USES)					
Total other financing sources (uses)	6,192,157	2,016,236	-	(300,715)	7,907,678
NET CHANGE IN FUND BALANCES	3,021,966	4,127,862	100,050	1,602,651	8,852,529
FUND BALANCES, 6/30/X1, as previously presented	27,094,293	6,646,703	-	12,462,109	46,203,105
Change within financial reporting entity (nonmajor to major fund)	-	-	2,587,439	(2,587,439)	-
Change to financial reporting entity (blended to discrete)				(169,402)	(169,402)
Error correction	194,216	-	-	-	194,216
FUND BALANCES, 6/30/X1, as adjusted or restated	27,288,509	6,646,703	2,587,439	9,705,268	46,227,919
FUND BALANCES, 6/30/X2	\$ 54,577,018	\$ 13,293,406	\$ 5,174,878	\$ 19,410,536	\$ 92,455,838

Source: GFOA



# WHAT IF MAJOR FUND NO LONGER EXISTS – BUT CONTINUING OPERATIONS?

- Could occur with major fund reported now part of General Fund.
- ‘Ghost Column’?
  - Column continues to be presented in the statement of revenues, expenditures / expenses and changes in fund balance / net position (as applicable):
    - Displays beginning balance as previously reported.
    - Adjustment to that balance.
    - **No Other Activity.**
  - General Fund presents adjustment to beginning balance.







# **RECAP OF GASB-96 (YEAR 2) AND WHAT IS LEFT FOR GASB-99?**



# **GASB-96 (YEAR 2) — DID WE GET IT RIGHT THE FIRST TIME?**

- *Subscription-Based Information Technology Arrangements (SBITAs)*



# WHAT IS A SBITA?

## Paragraph 6

- “...a SBITA is defined as a contract that **conveys control** of the **right to use** another party’s **IT software\***, alone or in combination with tangible capital assets...as specified in the contract for a **period of time** in an **exchange or exchange-like** transaction.”
- \*Common examples include SaaS products, IaaS (Infrastructure as a Service), and PaaS (Platform as a Service).
- **Yes – the definition of a SBITA nearly mirrors the definition of a lease under GASB 87.**

# WHAT IS A SBITA?

- Period Of Time Has Been Key.
- Some contracts have no time (other than monthly or annual renewals until canceled).
- If contract has a cancellation provision:
  - It may be a short-term contract. Don't just throw it away, inventory it to include with disclosures.
  - Will not be a perpetual license (purchase of SBITA also unlikely)!







## WHAT ABOUT 'CLOUD-BASED' STORAGE?

- Pervasive Issue: cloud-based systems may or may not be SBITAs!
- Models provide a right-to-use combination of IT Hardware and Software.
- Key Question – *Is There Control* of the storage space?
  - *If Yes* – SBITA
  - *If No* – Not a SBITA

# GASB 96 AND GASB 87 ARE DIFFERENT!

- GASB 96 solely provides guidance for Users of IT software.
- GASB 96 does Not apply when the IT software component is *insignificant* compared to the costs of the tangible capital asset.
- SBITAs effectively meet the definition of a lease per **GASB 87**.
- Whether a SBITA is in scope for **GASB 96** depends on the underlying assets involved:
  - IT software only – **GASB 96**.
  - Tangible IT asset only – **GASB 87**.
  - Combination of IT software and tangible IT asset:
    - If the software component is insignificant compared to the tangible IT asset – **GASB 87**.
    - If not – **GASB 96**.

# AN EXAMPLE WILL HELP YOU UNDERSTAND

- **Subscription Liability**

*Initially measured at the “present value of payments expected to be made during the subscription term.”*

- **Subscription Asset**

*Initially measured at the lease liability value + capitalizable initial implementation costs.*

## Example Details

- Three-year contract starting 7/1.
- Contract termed as a ‘lease’ (common for SBITAs – be careful!).
- Annual payments of \$5,000.
- Discount rate of 2%.
- Incurred implementation costs of \$2,000.

# AN EXAMPLE WILL HELP YOU UNDERSTAND

- **Subscription Liability**

- Calculated to be \$14,708 using software.

- **Subscription Asset**

- Initially measured at the lease liability value:
  - + capitalizable initial implementation costs...hmmm...

## Example Details

- Three-year contract starting 7/1.
- Contract termed as a 'lease' (common for SBITAs – be careful!).
- Annual payments of \$5,000.
- Discount rate of 2%.
- Incurred implementation costs of \$2,000.



# HOW DID WE CALCULATE THE LIABILITY? IT MAY INCLUDE...

- Fixed payments.
- Variable payments that depend on an index or rate (such as CPI measured at the beginning of the term).
- Variable payments with minimums or maximums.
- Penalties for terminations if exercised due to options, fiscal funding or cancellations.
- SBITA contract receivables from the vendor (offsets liability).
- Any other payments to the vendor if reasonably certain.



# AN EXAMPLE WILL HELP YOU UNDERSTAND

- **Subscription Liability**

- Calculated to be \$14,708 using software.

- **Subscription Asset**

- Calculated as follows:
  - \$14,708 for initial liability +
  - \$2,000 of implementation costs =
  - \$16,708 initial subscription asset value

## Example Details

- Three-year contract starting 7/1.
- Contract termed as a 'lease' (common for SBITAs – be careful!).
- Annual payments of \$5,000.
- Discount rate of 2%.
- Incurred implementation costs of \$2,000.

# WHY THE DIFFERENT ASSET AND LIABILITY?

- SBITAs at conversion were:
  - The amount of the *initial* measurement of the liability.
  - Payments made to the vendor ***at the start of the subscription term.***
  - Capitalizable implementation costs.
- Common with SBITAs:
  - **Many SBITAs are prepaid.**
- *Payments made before the subscription term are prepaid assets.*
- *If any incentives received prior to the term, reduce prepaid.*
- *If prepaid goes to \$0, then liability.*

# WHAT IF YOU HAVE OUTLAYS OTHER THAN SUBSCRIPTION PAYMENTS?

- **PARAGRAPH 29**

- Activities associated with a SBITA—other than a government making subscription payments to the SBITA vendor for the right to use the underlying IT assets—should be grouped into the following stages:
  - Preliminary Project Stage (expensed as incurred).
  - Initial Implementation Stage (capitalized).
  - Operational & Additional Implementation Stage (generally expensed as incurred).



# WHAT ABOUT LARGE PROJECTS THAT ARE SBITAS?

- Enterprise Resource Planning (ERP) systems tend to be:
  - Multiyear implementations
  - Complex
  - Costly
- Reminder – Multiple phases of implementation drive accounting decisions:
  - New modules must add new functionality to be capitalized.



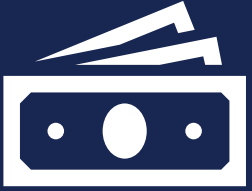
# CHEAT SHEET FOR SBITA STAGES

<b>Preliminary Project Stage (EXPENSE)</b>	<b>Initial Implementation Stage (CAPITALIZE)</b>	<b>Operational and Additional Implementation Stage (EXPENSE)</b>
<b>Requests for Proposals Costs</b>	<b>Configuration</b>	<b>Stabilization</b>
<b>Demonstration Costs</b>	<b>Coding</b>	<b>Training</b>
<b>Project Management Office (PMO) Costs BEFORE selection of final alternatives</b>	<b>Testing, Parallel Processing prior to Go Live and installation</b>	<b>Conversion of unneeded data / archived / legacy data</b>
<b>Legal to review RFP</b>	<b>Initial conversion to get the system to “Go Live”</b>	<b>Outlays after go live that do not increase functionality / efficiency</b>
<b>Prior System Costs</b>	<b>PMO Costs after Go Ahead</b>	
<b>PERIOD TO GO AHEAD</b>	<b>PERIOD TO GO LIVE</b>	<b>AFTER GO LIVE</b>

# BOTTOM LINE ON GASB-87 VS. 96

- Terminology – specific terms to each.
- GASB-87 should be implemented by most governments by now, GASB-96 just starting.
- GASB-87 involves tangible capital assets, results in lease liability and a right-to-use asset for lessees.
- GASB-87 has lessor provisions.
- GASB-96 involves only the end-user, no GASB GAAP for vendors.
- GASB-96 involves a subscription for software, hardware or a combination.
- GASB-96 results in a right-to-use asset and a SBITA liability (unless paid in advance).
- SBITAs have capitalizable implementation costs – but not *all* costs.
- Footnotes are similar, but should be presented separately.
- Accounting is like lessees.

# BOTTOM LINE ON GASB-87 VS. 96



SBITAs may have very different asset and liabilities due to prevalence of payments prior to SBITA term.



SBITAs may be implemented in 'waves' resulting in additional assets.



SBITA assets may be amortized over a short period due to technology obsolescence.



*Lease liability and asset for lessees at inception could be equal unless prepaid amounts or incentives.*



# DEBITS AND CREDITS ON ONE SHEET – SBITAS

	Party	Assets	Liabilities	Deferred Inflow of Resources
Initial Reporting	Subscriber	Intangible subscription asset (SBITA liability + prepayments + capitalizable initial implementation costs)	Present value of future subscription payments (fixed, variable, including guarantees etc.)	None
	Vendor	Beyond the scope of GASB-96	N/A	N/A
Subsequent Reporting	Subscriber	Amortize intangible over shorter of useful life of SBITA or term	Reduce by subscription payments ONLY (effective interest)	None
	Vendor	Beyond the scope of GASB-96	N/A	N/A



**WHAT'S LEFT OF GASB-99?**

# AREAS OF CHANGE IN GASB-99 RELATING TO GASB-87, 94 AND 96 – *SHOULD BE DONE!*



Clarification of contract term calculations



Clarification of short-term calculations if a modification occurs



Recognition and measurement of certain liabilities



Recognition and measurement of certain assets



Identification of incentives



**Caution** – not all elements apply to all standards



**Now** for 87, 94, 96 changes

# RECAPPING ALL THE CHANGES IN GASB-99 RELATING TO GASB-87, 94 AND 96 – *SHOULD ALL BE DONE!*

<b>Implementation NOW</b>	<b><u>GASB-87</u></b>	<b><u>GASB-94</u></b>	<b><u>GASB-96</u></b>
<b>Term calculation – options to terminate or purchase</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Term calculation – short - term</b>	<b>Yes</b>	<b>Not applicable</b>	<b>Yes</b>
<b>Recognition and measurement of liability – index or rate changes</b>	<b>Yes</b>	<b>Yes – as well as deferred outflow of resources for government operators</b>	<b>Yes</b>
<b>Recognition and measurement of receivable – index or rate changes</b>	<b>Yes</b>	<b>Yes – as well as PPP Asset</b>	<b>Not applicable</b>
<b>Incentives</b>	<b>Yes</b>	<b>Not applicable</b>	<b>No change</b>

# WHAT ELSE IS IN GASB-99 THAT SHOULD ALREADY BE IMPLEMENTED?

- Expansion of Guarantees to **Exchange and Exchange – Like Financial Guarantees**:
  - Adopts GASB-70 guidance for exchange and exchange – like transactions.
  - Changes *GASB Codification* to GASB Cod. Sec. F30, (discontinues old GASB cod. Sec. N30).
  - Nearly identical guidance.



# WHAT ELSE IS IN GASB-99 THAT SHOULD ALREADY BE IMPLEMENTED?

- Inserts new type of derivative instrument that is neither an Investment Derivative Instrument, nor a Hedging Derivative Instrument:
  - Instrument was intended to be a hedge but is ineffective.
  - Reporting would be at fair value – changes in fair value separate from other investment revenue.
  - Note disclosure separate from other hedging derivatives:
    - Risk disclosures needed.
  - Termination of hedge accounting entry – closure of deferred outflow of resources or deferred inflow of resources captioned increase (decrease) upon hedge termination.

**QUESTIONS?**



# THANK YOU!

Gerry Boaz, CPA  
Director – Government Advisory Services  
gboaz@eidebailly.com  
208.383.4796



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