

# MaherDuessel

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# GASB Update

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PARTNER

December 15, 2022

# Pending Pronouncements

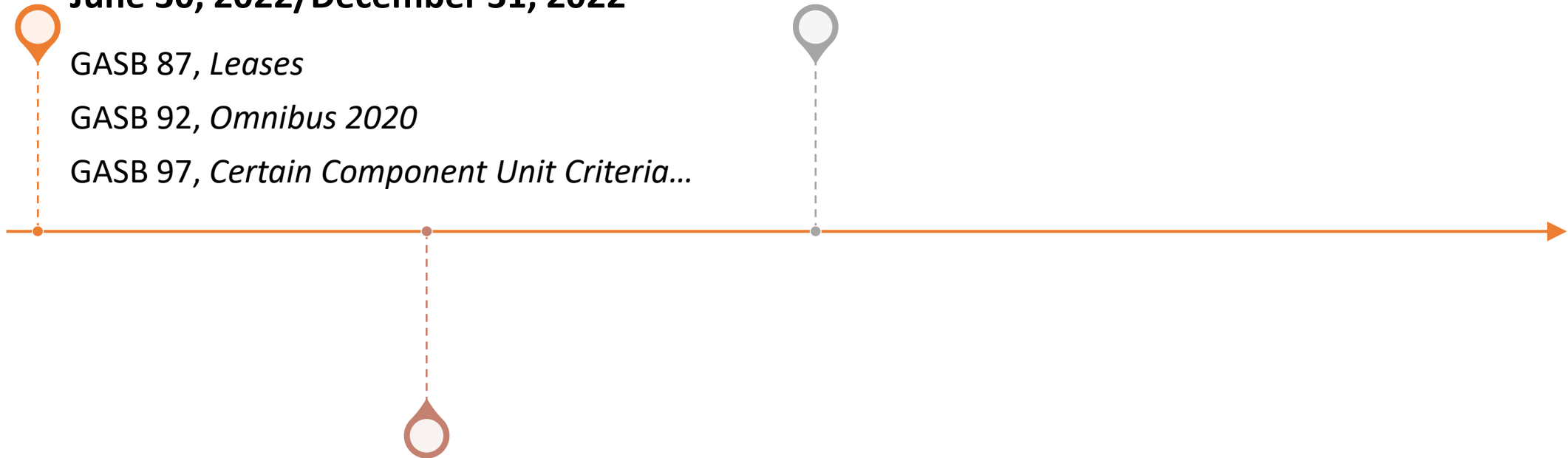
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**June 30, 2022/December 31, 2022**

GASB 87, *Leases*

GASB 92, *Omnibus 2020*

GASB 97, *Certain Component Unit Criteria...*



# GASB 87

*Addresses accounting  
and financial reporting  
for leases*

- A lease is a **contract** that **conveys control of the right** to use another entity's nonfinancial asset (the **underlying asset**) as specified in the contract for a **period of time** in an **exchange or exchange-like transaction**

# Lease Term

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- The period during which a lessee has a noncancelable right to use an underlying asset, plus:
  - Periods covered by a lessee's or lessor's option to extend the lease if it is reasonably certain
  - Periods covered by a lessee's or lessor's option to terminate the lease if it is reasonably certain
  - Period for which both the lessee and lessor have an option to terminate without permission from the other party (or if both have to agree to extend) are cancelable periods and are excluded from the lease term (rolling month-to-month lease)

# Lessee Reporting

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## INITIAL

- ❑ Record an **intangible lease asset** for the value of lease liability plus prepayments and initial direct costs incurred to place asset in use
- ❑ Record a **liability** equal to the present value of future lease payments

## SUBSEQUENT

- ❑ **Amortize** the intangible lease asset for the useful life or lease term, whichever is shorter
- ❑ **Reduce** the liability by lease principal payments

# Lessor Reporting

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## INITIAL

- ❑ Record a **lease receivable** which generally includes same items as lessee's liability
- ❑ Record a **deferred inflow** equal to the lease receivable plus any cash received up front that relates to future period

## SUBSEQUENT

- ❑ **Depreciate** leased asset unless indefinite life or asset is required to be returned in its original or enhanced condition
- ❑ **Recognize revenue** over the lease term in a systematic and rational manner

# Adjustment to the Lease Liability

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- ❑ Change in the lease term
- ❑ Likelihood of purchase option being exercised has changed
- ❑ Change in the estimated amount of payments
- ❑ Change in variable payments that were contingent on the performance or use of the asset become fixed

# Adjustment to the Lease Liability (Continued)

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- ❑ Change in discount rate
  - Change in interest rate charged by lessor
  - Change in the index or rate used to determine variable payments that significantly affects the amount of the liability
  - Not required to remeasure for change in incremental borrowing rate



# Things to Consider

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- ❑ Lease incentives
- ❑ Contracts with multiple components
- ❑ Lease modifications
- ❑ Lease termination

# Implementation

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- ❑ Implemented retroactively by restatement, if practical for all periods presented
- ❑ Do not apply to immaterial items
- ❑ Gather information for all outstanding leases and evaluate the terms and conditions and identify:
  - Length of lease
  - Interest rate to apply
  - Useful life of the asset

# GASB 92

*Addresses a variety of topics*

- Omnibus addresses several issues:
  - Effective date of Lease standard (superseded by GASB 95)
  - Various postemployment benefit issues
  - ARO measurement issue
  - Public entity risk pools issue
  - Nonrecurring fair value measurements issue
  - Terminology for derivative instruments

# GASB 97

*Updates guidance for  
Section 457 plans*

- ❑ Adoption of GASB Statement No. 84, *Fiduciary Activities*
- ❑ *Implementation Guide No. 2019-2, Fiduciary Activities*
- ❑ Some governments would have had to record Section 457 plans that had never been recorded.

# GASB 97 (cont.)

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- ❑ Clarified board appointment
- ❑ Clarified financial burden

# GASB 97 (cont.)

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- ❑ If a pension plan, then report as a pension plan
  - Definition:
    - Implies an employer contribution or guarantee
    - Assets dedicated are accumulated and managed
    - Benefits are paid as they come due
- ❑ If not, then report as an other employee benefit plan
- ❑ Apply GASB 84 reporting, as amended

# Pending Pronouncements (cont.)

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**December 31, 2022**  
*GASB 91, Conduit Debt Obligations*

*GASB 94, Public-Private and Public-Public Partnerships  
and Availability Payment Arrangements*

*GASB 96, Subscription-Based Information Technology  
Arrangements*

**June 30, 2023**

# GASB 91

*Addresses reporting of  
conduit debt obligations*

- ❑ 3 parties involved
  - Issuer
  - Third-party obligor
  - Debt holder/trustee
- ❑ Lease accounting does not apply to capital assets “leased” as part of a conduit debt obligation
- ❑ Issuer does not record a liability unless they provide an additional/voluntary commitment to support debt service



## GASB 91 (cont.)

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- ❑ Some examples of additional commitments by an issuer to support debt service payments are:
  - Extending a moral obligation pledge
  - Extending an appropriation pledge
  - Extending a financial guarantee
  - Pledging its own property, revenue, or other assets as security

# GASB 94

*Addresses public-private  
and public-public  
partnerships and  
availability payment  
arrangements*

- ❑ A PPP is an arrangement in which a government (the transferor) **contracts** with an operator (a governmental or nongovernmental entity) to provide public services by **conveying control of the right** to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the **underlying PPP asset**), for a **period of time** in an **exchange or exchange-like transaction**
  - Some PPPs are SCAs (Service Concession Arrangements)
- ❑ An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction
- ❑ If a PPP meets the definition of a lease, it should follow GASB 87

# GASB 94 (cont.)

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- New or Improved underlying PPP assets
  - Transferor
    - SCA- recognize an asset at acquisition value when placed in service and at the commencement of the PPP term, a receivable for installment payments if any and a deferred inflow of resources
    - Not SCA- recognize receivable at operator's estimated carrying value at date of future transfer and a receivable for installment payments if any and a deferred inflow of resources
  - Operator
    - SCA- recognize a liability for installment payments, if any, to be made in relation to the PPP and a right-to-use asset
    - Not SCA- recognize a liability of the underlying PPP asset to be transferred, if applicable, a liability for installment payments and a deferred outflow of resources for the underlying PPP asset to be transferred

# GASB 96

*Addresses subscription-  
based information  
technology  
arrangements*

- A SBITA is defined as:
  - A **contract** that **conveys control of the right** to use another party's information technology (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**

## GASB 96 (cont.)

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- ❑ A government generally should recognize a right-to-use subscription asset and a corresponding subscription liability
- ❑ Accounting for SBITAs is based on the accounting for Leases under GASB 87

## GASB 96 (cont.)

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- ❑ Subscription term = the period during which a governmental unit has a noncancellable right to use the underlying IT assets
  - Includes periods covered by an option to extend (*if reasonably expected to exercise that option*)
  - Includes periods covered by an option to terminate (*if reasonably certain **not** to exercise that option*)

# GASB 96 (cont.)

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## □ Three Stages

### 1. Preliminary Project Stage

- Evaluating alternatives, determining needed technology, selecting a vendor
- Expensed as incurred

### 2. Initial Implementation Stage

- All ancillary charges necessary to place the subscription asset into service
- Generally, capitalized

### 3. Operation and Additional Implementation Stage

- Subsequent implementation activities, maintenance, and other activities
- Generally expensed unless they meet specific capitalization criteria

## GASB 96 (cont.)

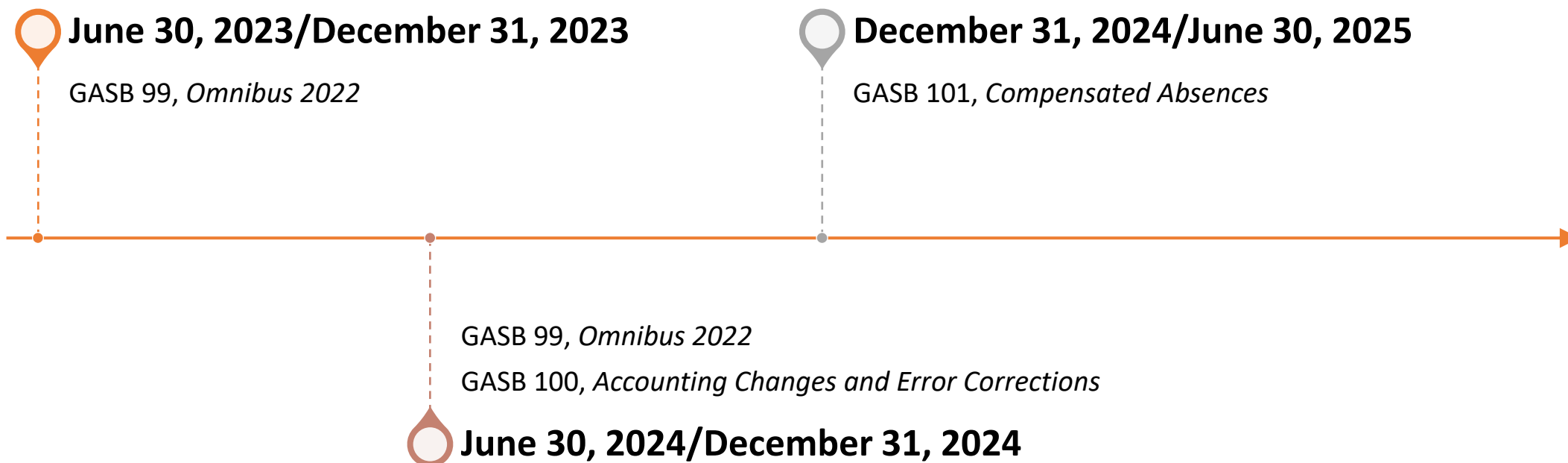
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- ❑ A lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction
- ❑ A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction
- ❑ A SBITA is a contract that conveys control of the right to use another party's information technology (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



# Pending Pronouncements

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# GASB 99

*Addresses a variety of topics*

- ❑ 2022 Omnibus addresses several issues:
  - Financial guarantees
  - Derivative instruments
  - Leases
  - PPP's
  - SBITA's
  - Transition from LIBOR
  - SNAP
  - Nonmonetary transactions disclosures
  - Pledges of future revenues
  - Focus of government-wide financial statements
  - Terminology updates

# GASB 100

*Addresses accounting changes and error corrections*

- ❑ Removes prior period adjustments from GAAP
- ❑ Clarifies, expands, and distinguishes among three classifications of accounting changes and error corrections
- ❑ Provides guidance on presentation of RSI, SI, and OI when changes or corrections are made

# GASB 100 (cont.)

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- ❑ Defines the following categories:
  - Changes in accounting principles
  - Changes in accounting estimates
  - Changes to or within the financial reporting entity
  - Corrections of errors in previously issued financial statements

# GASB 100 (cont.)

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- ❑ Requires the following:
  - Changes in accounting principles and error corrections be reported retroactively by restating prior periods.
  - Changes in accounting estimates be reported prospectively by recognizing the change in the current period.
  - Changes to and within the financial reporting entity be reported by adjusting beginning balances of the current period.

# GASB 101

*Addresses compensated absences recognition and refines related disclosure requirements*

- ❑ Updates recognition and measurement guidance for compensated absences
- ❑ Aligns guidance under unified model
- ❑ Amends certain previously required disclosures

# GASB 101 (cont.)

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- ❑ Recognize compensated absence liability for leave that:
  - Accumulates
  - Compensation for services already rendered
  - More likely than not to be used or settled
- ❑ Measure liability for leave based upon applicable pay rates in effect at end of reporting period
- ❑ Amends existing disclose guidance:
  - Now requires only net change in the liability
  - No longer required to disclosure which governmental funds used to liquidate liability

# IMPLEMENTATION GUIDE 2020-1

*Provisions are effective  
in various reporting  
periods, depending on  
each question*

- ❑ 21 new questions
  - The Financial Reporting Entity (2)
  - Investments/External Investment Pools (1)
  - Fiduciary Activities (2)
  - Leases (12)
  - Statement No. 83 (1)
  - Statement No. 91 (3)
  
- ❑ 5 updated questions
  - Pensions (2)
  - Investments/External Investment Pools (1)
  - OPEBS (2)



# IMPLEMENTATION GUIDE 2021-1

*Provisions are effective  
in various reporting  
periods, depending on  
each question*

- 23 new questions
  - Accounting and Financial Reporting for Derivative Instruments (1)
  - Fiduciary Activities (2)
  - Leases (19)
  - Statement No. 33 (1)
  
- 4 updated questions
  - Capitalization policy (1)
  - Reporting of fines revenue (1)
  - Fund reporting (1)
  - Statement No. 48 (1)

## 4.23: Nonexchange Transactions

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### **Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions**

4.23. Q—If a program that gives rise to a nonexchange transaction requires entering into one or more contractual agreements (for example, a grant agreement, a certification of acceptance, acceptance of terms and conditions, or project worksheets), can those agreements be considered nonsubstantive eligibility requirements such that revenue would be recognized before the agreement is executed if allowable costs are incurred?

A—No. Contractual agreements are not eligibility requirements. Rather, contractual agreements provide evidence of the resource recipient's acceptance of the terms and conditions of the provider's program, including eligibility requirements in that program. If an executed contractual agreement is required, the incurrence of allowable costs is not sufficient to fulfill recognition criteria in the absence of such executed agreement in accordance with the grantor's legal requirements. That is the case even if the contractual agreement includes provisions to reimburse allowable costs that are incurred prior to its execution.

# 5.1: Capitalization Policy

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## ***Question 7.9.8 in Implementation Guide 2015-1***

5.1. Q—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?

A—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.

# Definition of a Lease

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4.4. Q—A city owns a fleet of equipment. The pieces of equipment are capital assets reported in an internal service fund. The internal service fund is used to report fleet management activity that provides other departments of the city (within the same legal entity) with the right to use the equipment on a cost-reimbursement basis. In the city's basic financial statements, should the agreements between the city's departments be reported as leases?

A—No. The definition of a lease in paragraph 4 of Statement 87, in part, requires conveyance of control of the right to use another entity's underlying asset. In this circumstance, control is not conveyed to another legal entity; therefore, the agreements should not be reported as leases in the city's basic financial statements.

# Short-term Leases

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4.7. Q—A government enters into a three-year contract for the right to use a piece of equipment. Because the government only needs the equipment on a seasonal basis, the contract states that the government only has the right to use the equipment from January through March for each of those three years. Based on the contract, the government has control of the right to use the equipment during those three months each year and does not have an option to extend the right to use the equipment. Is this contract a short-term lease under Statement 87?

A—Yes. According to paragraph 16 of Statement 87, the maximum possible term of a short-term lease is 12 months or less, including any options to extend. If there is interrupted control, the length of the contract is not the maximum possible term. In accordance with paragraph 4 of Statement 87, a contract is required to convey control of the right to use an underlying asset to meet the definition of a lease. Therefore, the maximum possible term should be based on the period during which the government has control of the right to use the piece of equipment. In this example, the maximum possible term is nine months.

# Effective Date and Transition

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4.22. Q—A government implements Statement 87 at the beginning of its fiscal year on July 1, 2021, and does not present prior periods in its financial statements. At that time, the government has a lease in place that started January 1, 2019, and ends December 31, 2021. The lease does not contain any options to extend. At the initial implementation date, should the lease be considered a short-term lease?

A—Yes. Paragraph 94 of Statement 87 states that “leases should be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation. If applied to earlier periods, leases should be recognized and measured using the facts and circumstances that existed at the beginning of the earliest period restated.” For leases that are already in effect at transition, a government should consider the beginning of the period of implementation or the beginning of the earliest period restated, whichever is earlier, as the commencement of the lease term, even if the actual lease started before that date. Therefore, in this example, because prior periods are not presented, the maximum possible term at the commencement of the lease term (that is, the date the Statement is first implemented) is six months, and the lease should be reported as a short-term lease.

# EXPOSURE DRAFTS

*Issued in 2022*

- Certain Risk Disclosures
  - Would require governments to disclose essential information about risks related to:
    - "certain concentrations" and
    - "certain constraints common in the governmental environment."
  - Comment deadline: September 30, 2022

# EXPOSURE DRAFTS

*Issued in 2022*

- Implementation Guidance Update - 2023
  - Ten Q&A's: 9 new and 1 change
    - GASB 97 - Leases (6 new, 1 change)
    - GASB 96 - SBITA (2)
    - GASB 100 (1)
  - Comment deadline: January 20, 2023



# EXPOSURE DRAFTS UPDATE

*Recognition of Elements  
of Financial Statements*

- ❑ July 2020 Exposure Draft (comments were due February 26, 2021):
  - Economic Resources Measurement Focus and Accrual Basis of Accounting
  - Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting
  
- ❑ Tentative Board decisions to date:
  - <https://gasb.org/page/PageContent?pageId=/projects/conceptual-frameworkrecognition.html&fromTA=true>
  - Board will continue to redeliberate issues
  - Board will discuss draft of final concepts December 2023

# EXPOSURE DRAFT UPDATE

## *Financial Reporting Model Improvements*

- July 2020 Exposure Draft (comments were due February 26, 2021):
  - MD&A
  - Unusual or infrequent items
  - Presentation of governmental fund financial statements
  - Short-term financial resources MF/accrual BA application in governmental funds
  - Presentation of governmental fund statement of short-term financial resource flows
  - Presentation of proprietary fund statement of revenues, expenses, and changes in net position
  - Presentation of major component units in basic financial statements
  - Budgetary comparison information
  - Financial trends information
  
- Tentative Board decisions through October 2022:
  - <https://gasb.org/page/PageContent?pageId=/projects/financial-reporting-modelreexamination-of-statements-34-35-37.html&fromTA=true>
  - Board will continue to redeliberate issues
  - Board will discuss draft of final concepts December 2023

# OTHER GASB PROJECTS

- ❑ Going Concern Uncertainties and Severe Financial Stress
  - Current Stage: Initial Deliberation
- ❑ Classification of Nonfinancial Assets
  - Current Stage: Initial Deliberation
- ❑ Pre-Agenda research activities:
  - Capital assets
  - Subsequent events
- ❑ Monitoring:
  - Digital assets
  - Electronic financial reporting
  - Federal stimulus/COVID-related issues

# QUESTIONS?

Contact me!



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