2023 Governmental GAAP Update

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Meet the Presenter

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Session Outline

- Newly effective standards
  - *GASB 87*
- Upcoming standards
  - *GASB 96*
  - *GASB 94*
  - *GASB 101*
- Exposure drafts and concept statements

CPE Prompt 1 of 6

Newly Effective Standards

GASB Pronouncements effective in 2022:

No.	Title	Effective
87	Leases	06/15/2022*
91	Conduit Debt Obligations	12/15/2022*
92	Omnibus 2020	06/15/2022*
93	Replacement of Interbank Offered Rates	06/15/2022
97	Certain CU Criteria and IRC Section 457 DC Plans	06/15/2022

Newly Issued Standards

GASB Pronouncements effective soon:

No.	Title	Effective
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	06/15/2023
96	Subscription-Based Information Technology Arrangements	06/15/2023
101	Compensated absences	12/15/2024

GASB 87: *Leases*

GASB Statement 87
Leases

Summary

- Defines "leases" as financings of the right to use an underlying asset
- Establishes a single model for all leases (no more operating vs. capital)
- Record lease assets and lease liabilities
- Effective 06/15/2022*

GASB Statement 87
Leases

Lease definition

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

GASB Statement 87
Leases

Control of the right to use

- The right to obtain the present service capacity from use of the underlying asset as specified in the contract; *and*
- The right to determine the nature and manner of use of the underlying asset as specified in the contract

GASB Statement 87
Leases

Nonfinancial assets

- Assets that are not “financial assets”, as defined by GASB 72, *Fair Value*
- Examples: land, buildings, vehicles, and equipment

GASB Statement 87
Leases

Lease definition

- Includes contracts not explicitly defined as “leases” but that otherwise meet the definition
- Excludes contracts for services (except those contracts that contain *both* a lease component and a service component)

GASB Statement 87
Leases

Excluded from the scope of this statement

- Leases of intangible assets (e.g., mineral rights, movie rights, computer software licenses*)
- Leases of biological assets (e.g., timber, animals)
- Leases of inventory
- Service concession arrangements
- Conduit debt arrangements
- Supply contracts (e.g., purchased power)

* See GASB 96: SBITA

GASB Statement 87
Leases

Excluded from the scope of this statement

- Short-term leases
- Contracts that transfer ownership

GASB Statement 87
Leases

Short-term leases

- If the *maximum possible* lease term is 12 months or less at inception:
  - Recognize expense (lessees) or revenue (lessors) in accordance with lease contract
  - No intangible lease asset or lease liability
- For rolling (month-to-month/year-to-year) leases, the maximum possible lease term is the noncancelable portion (including notice period)

GASB Statement 87
Leases

Contracts that transfer ownership

- Transfer ownership of the underlying asset to the lessee at or before the end of the contract; *and*
- Do not contain termination options (other than fiscal funding or cancelation clauses not reasonably certain of being exercised)
- Report as a financed purchase, rather than as a lease

GASB Statement 87
Leases

Contracts that transfer ownership

"At the end of such term LESSEE shall acquire legal title to the Vehicles and terminate this Lease with respect thereto by paying to LESSOR all amounts that are due and unpaid hereunder and the remaining principal balance with respect to such Vehicles as shown on the Schedule relating thereto."

3. TERM AND RENT: The Lease term shall commence as of the date that the Vehicles are delivered to LESSEE, or LESSEE's Agent (the "Commencement Date") and shall continue for the term shown on the attached Schedule relating thereto, unless Lessee notifies LESSOR that an Event of Non-appropriation (described below) has occurred or LESSEE exercises its option under Section 18. At the end of such term LESSEE shall acquire legal title to the Vehicles and terminate this Lease with respect thereto by paying to LESSOR all amounts then due and unpaid hereunder and the remaining principal balance with respect to such Vehicles as shown on the Schedule relating thereto. In lieu of such payment LESSOR hereby grants LESSEE the option to renew this Lease with respect to such Vehicles for the additional period as shown on the Schedule relating thereto, provided that the rate of interest applicable to such additional period shall be mutually agreed upon by LESSOR and LESSEE. LESSEE shall give written notice to LESSOR at least ninety (90) days prior to the end of the Lease term as to whether it will terminate this Lease and acquire the Vehicles or exercise its option to renew in accordance with this Section 3. LESSOR shall endeavor to give written notice to LESSEE at least sixty (60) days prior to the end of the Lease term if no such notice has been received from LESSEE. The rent under this Lease shall be payable in lawful money of the United States of America, from any and all legally available funds, and at the times and in the amounts as indicated on each attached Schedule. In lieu of cash, LESSOR will accept payment by check or wire transfer of immediately available funds only. Each payment will consist of a principal and interest component.

CPE Prompt 2 of 6

GASB Statement 87
Leases

Old types

- Operating lease
- Capital lease

New types

- Short-term lease
  - *just expense*
- Financed purchase
  - *capital asset/long-term debt*
- Lease
  - *record lease asset/liability*

GASB Statement 87
Leases

Valuing a lease asset / liability (lessees) and lease receivable / deferred inflow (lessors)

- Present value of payments expected to be made for the lease term

GASB Statement 87
Leases

Lease term

- Period during which a lessee has a noncancelable right to use an underlying asset
- Plus:
  - Periods covered by either the lessee's or lessor's option to extend (if reasonably certain to be exercised)
  - Periods covered by either the lessee's or lessor's option to terminate (if reasonably certain *not* to be exercised)

GASB Statement 87
Leases

Lease term

- Periods for which both the lessee *and* the lessor have an option to terminate the lease (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term
  - Examples: rolling month-to-month leases

GASB Statement 87
Leases

Lease term

- Fiscal funding or cancelation clauses only should affect the lease term when it is reasonably certain they will be exercised

GASB Statement 87
Leases

Lease term

- At the beginning of a lease, the lessor and the lessee should assess all factors relevant to the likelihood that the lessee or the lessor will exercise options
  - Examples: economic incentives/disincentives; lessee's history of exercising similar options; how essential the underlying asset is to the provision of governmental services

GASB Statement 87
Leases

Lease term

- Reassess the term only if:
  - Lessee or lessor exercises an option not expected
  - Lessee or lessor fails to exercise an option expected
  - An event specified in the contract that requires an extension or termination of the lease actually occurs

GASB Statement 87
Leases

- Lessee recognition and measurement
  - Lease liability
  - Intangible right-to-use asset ("lease asset")
- Lessor recognition and measurement
  - Lease receivable
  - Deferred inflow of resources

GASB Statement 87
Leases

Lease liability (lessee)

- Present value of payments expected to be made for the lease term
  - Fixed payments
  - Variable payments (dependent on index/rate) using current rates at inception
  - Amounts that are reasonably certain of being paid (e.g., residual value guarantees, purchase options, termination penalties)

GASB Statement 87
Leases

Lease liability (lessee)

- Present value of payments expected to be made for the lease term
  - Discounted at the rate the lessor charges the lessee (implicit rate), or the lessee’s incremental borrowing rate (if the implicit rate is not readily determinable)
  - In future periods, recognize an outflow (e.g., interest expense) for the amortization of the discount

GASB Statement 87
Leases

Remeasuring the lease liability (lessee)

- If one or more factors are expected to significantly affect the liability:
  - Change in lease term
  - Options have changed from being reasonably certain to not reasonably certain (or vice versa)
  - Change in the rate charged
  - Amounts previously contingent become reasonably certain

GASB Statement 87
Leases

Remeasuring the lease liability (lessee)

- If remeasuring for another reason (as required on the prior slide), then also update for any variable components
- A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments

GASB Statement 87
Leases

Remeasuring the lease liability (lessee)

- If remeasuring for another reason (as required on the prior slide), then also update the discount rate if one or both factors are expected to significantly affect the liability:
  - There is a change in the lease term
  - Options have changed from being reasonably certain to not reasonably certain (or vice versa)
  - *A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the lessee's incremental borrowing rate*

GASB Statement 87
Leases

Lease asset (lessee)

- Initially measured the same as the lease liability
- Add: lease payments made to lessor at or before the beginning of the lease term; initial direct costs necessary to place the lease asset into service
- Deduct: lease incentives received from the lessor

GASB Statement 87
Leases

Lease asset (lessee)

- Amortized (i.e., depreciated) in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset
  - If the lease includes a purchase option that is reasonably certain of being exercised, then amortize over the useful life of the asset (unless the underlying asset is nondepreciable, then do not amortize)

GASB Statement 87
Leases

Remeasuring the lease asset (lessee)

- Lease assets should generally be adjusted by the same amount as lease liabilities when they are remeasured
  - Do not reduce the lease asset below zero (recognize a gain)

GASB Statement 87
Leases

Lease asset impairments (lessee)

- If the underlying asset is impaired (see GASB 42), then the lease asset should be adjusted accordingly
  - First offset against any changes in the lease liability
  - Then recognize an impairment

GASB Statement 87
Leases

Accounting in governmental funds (lessee)

- Inception: debit expenditure (capital outlay); credit other financing source (proceeds from long-term debt)
- Lease payments: debit expenditure (debt service); credit cash

GASB Statement 87
Leases

Notes to financial statements (lessee)

- Disclose:
  - General description (basis, terms, conditions)
  - Total lease assets and accumulated depreciation (separate from other capital assets)
  - Amount of lease assets by major class of underlying assets (separate from other capital assets)
  - Any current year outflows (expenses) for variable payments not previously included in the lease liability

GASB Statement 87
Leases

Notes to financial statements (lessee)

Disclose:

- Any current year outflows (expenses) for other payments not previously included in the lease liability
- Principal and interest requirements to maturity (presented separately) for the lease liability for the first 5 years and in 5-year increments thereafter
- Commitments under leases that have not yet begun
- Components of any current year impairment loss

GASB Statement 87
Leases

Lessor

- The lease receivable should be measured at the present value of lease payments expected to be received during the lease term.
- The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

GASB Statement 87
Leases

Lessor

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

GASB Statement 87
Leases

Notes to financial statements (Lessor)

Disclose:

- A description of leasing arrangements.
- The total amount of inflows (principal and interest from the PV calculation) of resources recognized from leases.

GASB Statement 87
Developing a Plan for Implementation

Potential for prior period restatements

- Existing capital leases with automatic transfers of ownership:
  - No change
- Existing capital leases without automatic transfers of ownership:
  - Lease liability may not change, but lease asset likely will
  - If the government expects to exercise a purchase option, that will increase the lease liability and change the amortization period

GASB Statement 87

Other Observations

Never forget the 12 most important words of any GASB Statement:

The provisions of this Statement need not be applied to immaterial items.

Capitalization thresholds could (should?) be set and applied to leases, as well

GASB Statement 87
Other Observations

- Negotiating lease terms
  - Consider making the terms more obvious/explicit in the lease contract
    - Length of agreement
    - Interest rate applied
    - Think about multi-year implications.

GASB Statement 87
Other Observations

Consider impact on capitalization policy

Consider effects of reporting lease liabilities on:

- Debt limitations
- Bond covenants
- Grant agreements

CPE Prompt 3 of 6

GASB 96: *Subscription-Based Information Technology Agreements*

Session Outline

Why a new GASB Standard

What is a Subscription-Based Information Technology Agreement (SBITA)?

The Subscription Term

Measuring the Subscription Asset & Liability

Contract Modifications and Terminations

Financial Statement Disclosures

Other Observations

Why a new standard on subscription technology?

FASB Subtopic ASC 350-40, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contact*

Once the FASB issued their standard it was only a matter of time before the GASB would take on the issue.

GASB Statement 96
Subscription-Based Information Technology Agreements

Summary

- Defines Subscription-Based Technology Agreements or "SBITA's"
- Establishes standards for recording subscription assets and subscription liabilities that result from SBITA's
- Provides capitalization criteria for outlays other than subscription payments including implementation costs.
- Establishes requirements for Footnote Disclosures
- Effective for periods beginning after 06/15/2023

GASB Statement 96
Subscription-Based Information Technology Agreements

SBITA Definition

Defines “SBITA’s” as a “contact that conveys control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction.

GASB Statement 96
Subscription-Based Information Technology Agreements

Control of the right to use

- The right to obtain the present service capacity from use of the underlying IT asset as specified in the contract; *and*
- The right to determine the nature and manner of use of the underlying IT asset as specified in the contract

GASB Statement 96
Subscription-Based Information Technology Agreements

Component contracts:

- Includes contracts that provide both IT support services and a right-to-use IT asset component and an IT support services component.
- *The GASB provides some discussion of support service arrangements and specific circumstances in the implementation guides and appendices to the Standard.*

GASB Statement 96
Subscription-Based Information Technology Agreements

Excluded from the scope of this statement

- Excludes contracts already defined as “leases” under GASB 87, *Leases.*
- Excludes contracts that are solely to provide IT support services.
- Excludes governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITA’s.
- Excludes contracts that fall under GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.*
- Excludes licensing arrangements that provide perpetual license to governments to use a vendor’s computer software, which are subject to GASB 51, *Accounting and Financial Reporting for Intangible Assets.*

GASB Statement 96
Subscription-Based Information Technology Agreements

Also excluded from the scope of this statement:

- Short-term SBITA's
  - Short-term SBITA's are contracts where the maximum possible term under the contract, including any options to extend, is less than 12 months.
  - For rolling (month-to-month/year-to-year) contracts, the maximum possible lease term is the noncancelable portion (including notice period)

GASB Statement 96
Subscription-Based Information Technology Agreements

Subscription Term

- Period during which the government has a noncancellable right to use the underlying IT assets (referred to as the non-cancellable period), plus the following periods, if applicable;
- Plus:
  - Periods covered by either the government's or the vendor's option to extend (if reasonably certain to be exercised)
  - Periods covered by either the government's or the vendor's option to terminate (if reasonably certain *not* to be exercised)

GASB Statement 96
Subscription-Based Information Technology Agreements

Subscription Term - *addendum*

Periods for which both the government and the SBITA vendor have an option to terminate without permission from the other party (or if both parties have to agree to extend) are cancellable periods and are excluded from the subscription term.

GASB Statement 96
Subscription-Based Information Technology Agreements

Subscription term practical consideration - *reasonably certain*

- Assess the following factors:
  - Significant economic incentives such as contractual terms and market conditions
  - Potential changes in technological developments that significantly affect the technology used
  - Potential significant change in the government’s demand for the SBITA vendor’s IT assets
  - Significant economic disincentives (such as termination costs, costs to obtain a new vendor, etc.)
  - History of exercising options to extend or terminate
  - The extend to which the underlying IT assets in the SBITA are essential to the provision of government services.

GASB Statement 96
Subscription-Based Information Technology Agreements

Subscription term

- Reassess the term only if:
  - Government or vendor exercises an option not expected
  - Government or vendor fails to exercise an option expected
  - An event specified in the contract that requires an extension or termination of the contract actually occurs

GASB Statement 96
Subscription-Based Information Technology Agreements

Subscription liability/asset recognition and measurement

- Subscription liability
- Intangible right-to-use asset (“subscription asset”)

GASB Statement 96
Subscription-Based Information Technology Agreements

Subscription liability

- Present value of payments expected to be made for the SBITA contract term
  - Fixed payments
  - Variable payments that are fixed in substance (dependent on index/rate) using current rates at inception
  - Payments for penalties for terminating the SBITA, if the subscription term reflects the government exercising (1) an option to terminate the SBITA or(2) a fiscal funding or cancellation clause
  - Any subscription contract incentives (as discussed in paragraphs 42 and 43) 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.

GASB Statement 96
Subscription-Based Information Technology Agreements

Subscription liability

- Present value of payments expected to be made for the subscription term
  - The future subscription payments should be discounted using **the interest rate the SBITA vendor charges the government**, which may be the interest rate implicit in the SBITA. In future periods, recognize an outflow (e.g., interest expense) for the amortization of the discount
  - If the interest rate cannot be readily determined by the government, the government's **estimated incremental borrowing rate** (an estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term) should be used

GASB Statement 96
Subscription-Based Information Technology Agreements

Remeasuring the subscription liability

- If one or more factors are expected to significantly affect the liability:
  - Change in subscription term
  - There is a change in the estimated amounts for subscription payments already included in the measurement of the subscription liability
  - There is a change in the interest rate the SBITA vendor charges the government, if used as the initial discount rate.
  - Amounts previously contingent become reasonably certain

GASB Statement 96
Subscription-Based Information Technology Agreements

Remeasuring the subscription liability

- If remeasuring for another reason (as required on the prior slide), then also update the discount rate if one or both factors are expected to significantly affect the liability:
  - There is a change in the subscription term
  - That change is expected to significantly affect the amount of the subscription liability
  - *A subscription liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in a government's incremental borrowing rate.*

GASB Statement 96
Subscription-Based Information Technology Agreements

Subscription Asset

- Initially measured the same as the subscription liability
- Add: Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, if applicable
- Add: Capitalizable initial implementation costs

GASB Statement 96
Subscription-Based Information Technology Agreements

Subscription Asset

A 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.

CPE Prompt 4 of 6

Outlays Other Than Subscription Payments, including Implementation Costs

GASB Statement 96
Subscription-Based Information Technology Agreements

Preliminary Project Stage	Initial Implementation State	Operation and Additional Implementation Stage
➢ Formulate and evaluate alternatives ➢ Determine existence of needed technology ➢ Select amount alternatives	➢ Design, configure, code, install, and test ➢ Convert data needed to make underlying assets operational	➢ Train users ➢ Convert data (other than that needed to make the underlying assets operational) ➢ Maintain software (and hardware)
Accounting Treatment		
➢ Expense as incurred	➢ **Capitalize these costs when incurred:** [1] After completion of the preliminary project stage AND [2] Funding for at lease first year approved	➢ Expense as incurred

SOUND SIMILAR TO ANYTHING??

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

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FASB Home >> Reference Library >> Superseded Standards >> Summary of Statement No. 86

SUMMARY OF STATEMENT NO. 86

ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE TO BE SOLD, LEASED, OR OTHERWISE MARKETED (ISSUED 8/85)

Basic rules of FASB 86:

Stage 1. Preliminary

All costs incurred during the preliminary stage of a development project should be charged to expense as incurred. This stage is considered to include making decisions about the allocation of resources, determining performance requirements, conducting supplier demonstrations, evaluating technology, and supplier selection.

Stage 2. Application Development

Capitalize the costs incurred to develop internal-use software, which may include coding, hardware installation, and testing. Any costs related to data conversion, user training, administration, and overhead should be charged to expense as incurred. Only the following costs can be capitalized:

- Materials and services consumed in the development effort, such as third party development fees, software purchase costs, and travel costs related to development work.
- The payroll costs of those employees directly associated with software development.
- The capitalization of interest costs incurred to fund the project.

Stage 3. Post-Implementation

- Charge all post-implementation costs to expense as incurred. Samples of these costs are training and maintenance costs.

GASB Statement 96
Subscription-Based Information Technology Agreements

- Contracts Modifications and Terminations
  - An amendment should be considered a SBITA modification unless the government's right to use the underlying IT assets decreases, in which case the amendment should be considered a partial or full SBITA termination.

GASB Statement 96
Subscription-Based Information Technology Agreements

- SBITA Modifications
  - A government should account for an amendment during the reporting period resulting in a modification to a SBITA contract if both of the following conditions are present:
    - Gives the government an additional subscription asset by adding access to more underlying IT assets than in the initial contract.
    - The increase in subscription payments for the additional subscription asset does not appear to be unreasonable
  - If both conditions are present: remeasure the subscription liability and adjust the subscription asset.

GASB Statement 96
Subscription-Based Information Technology Agreements

- SBITA Terminations
  - A government should account for an amendment during the reporting period resulting in a decrease in the government's right to use the underlying IT assets (for example, the subscription term is shortened or the underlying IT assets are reduced) as a partial or full SBITA termination.
    - Reduce the carrying values of the subscription asset and liability > recognize a gain/loss for the difference.

GASB Statement 96
Subscription-Based Information Technology Agreements

Remeasuring the subscription asset

- Subscription assets should generally be adjusted by the same amount as subscription liabilities when they are remeasured
  - Do not reduce the asset below zero (recognize a gain)

GASB Statement 96
Subscription-Based Information Technology Agreements

- Subscription asset impairment
  - If the underlying IT asset is impaired (see GASB 42), then the subscription asset should be adjusted accordingly
    - First offset against any changes in the subscription liability
    - Then recognize an impairment

GASB Statement 96
Subscription-Based Information Technology Agreements

Accounting in governmental funds:

- *At inception:* debit expenditure (capital outlay); credit other financing source (proceeds from long-term debt)
- *Subscription payments:* debit expenditure (debt service); credit cash

GASB Statement 96
Subscription-Based Information Technology Agreements

Notes to financial statements

- Disclose:
  - General description (basis, terms, conditions)
  - Total subscription assets and accumulated depreciation (separate from other capital assets)
  - Any current year outflows (expenses) for variable payments not previously included in the subscription liability

GASB Statement 96
Subscription-Based Information Technology Agreements

Notes to financial statements

Disclose:

- Any current year outflows (expenses) for other payments not previously included in the subscription liability
- Principal and interest requirements to maturity (presented separately) for the subscription liability for the first 5 years and in 5-year increments thereafter
- Commitments under SBITA's that have not yet begun
- Components of any current year impairment loss

GASB Statement 96
Subscription-Based Information Technology Agreements

Potential for prior period restatements

- The statement should be applied for the earliest period presented (important if you are presenting comparative financials).
- Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

GASB Statement 96

Subscription-Based Information Technology Agreements
Other Observations

Never forget the 12 most important words of any GASB Statement:

The provisions of this Statement need not be applied to immaterial items.

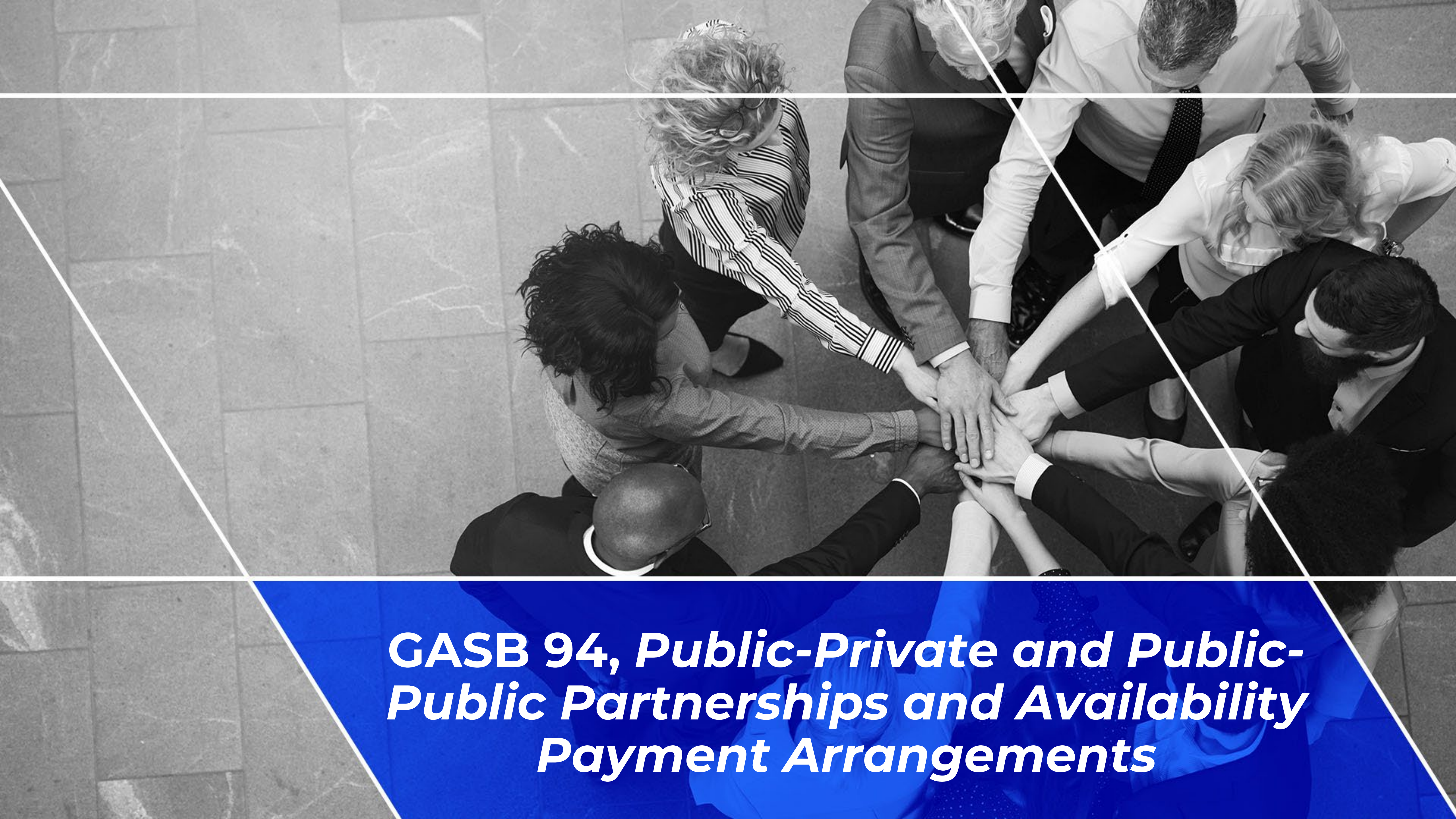
Capitalization thresholds could (should?) be set and SBITAs as well

GASB Statement 96
Subscription-Based Information Technology Agreements
Other Observations

Negotiating terms on SBITA contracts

- Consider asking the provider to provide explicit terms as to the:
  - Length of agreement
  - Interest rate applied
  - Explicit schedules of both fixed and variable payments
  - Explicit determination in the contract of costs related to components or modules

CPE Prompt 5 of 6



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

GASB Statement 94

PPP and APA Arrangements

What is a PPP arrangement?

For purposes of applying this Statement, a PPP is an arrangement in which **a government (the transferor)** contracts with an **operator** 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.

GASB Statement 94

PPP and APA Arrangements

Could the government be an operator?

YES: The operator may be a governmental entity or a nongovernmental entity. References to an operator include both governmental and nongovernmental entities, except for operator accounting and financial reporting provisions, which only apply to governmental entities.

GASB Statement 94

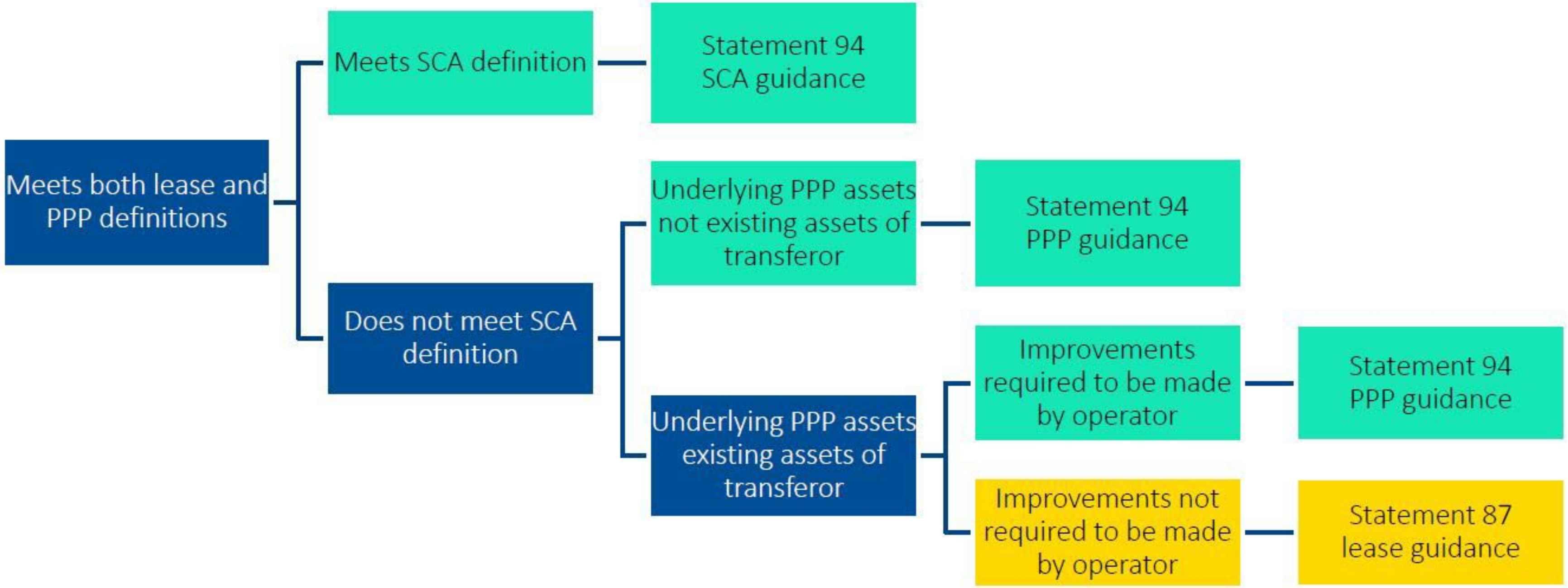
PPP and APA Arrangements

	PPPs	Leases
Parties	▪ Transferor – Always a government ▪ Operator – May be a government	▪ Lessor ▪ Lessee
Liability	PPP liability (and, in some cases, liability to transfer underlying PPP asset)	Lease liability
Intangible Right-to-Use Asset	Right-to-use asset	Lease asset
Underlying Asset	Underlying PPP asset	Underlying asset
Receivable	PPP receivable (and, in some cases, receivable for underlying PPP asset)	Lease receivable
Deferred Inflow of Resources	Deferred inflow of resources from PPP (and, in some cases, deferred inflow of resources for receipt of underlying PPP asset)	Deferred inflow of resources from lease

GASB Statement 94

PPP and APA Arrangements

What is a PPP arrangement?



GASB Statement 94

PPP and APA Arrangements

Type I	Type II	Type III
Underlying PPP asset is an **existing** asset of the transferor, with or without operator-made improvements	Underlying PPP asset is a **new** asset acquired or constructed by the operator and the PPP is a ***service concession arrangement***	Underlying PPP asset is a **new** asset acquired or constructed by the operator when the PPP is ***not a service concession arrangement***

*Classification into "types" is a GFOA convention, not found in the authoritative literature

GASB Statement 94

PPP and APA Arrangements

Transferor Initial Recognition

Type I and Type II

- At commencement of PPP term, recognize:
- Receivable for future PPP payments
- Deferred inflow of resources

If/when operator-made improvements (Type I) or new underlying PPP assets (Type II) are placed into service, recognize

- Addition to capital assets
- Deferred inflow of resources

GASB Statement 94
PPP and APA Arrangements

Transferor Initial Recognition

Type III

When operator's new underlying PPP asset is placed into service, recognize

- Receivable for future PPP payments
- Receivable for underlying PPP asset
- Deferred inflow of resources

GASB Statement 94

PPP and APA Arrangements

How do I calculate the PPP Term?

The PPP term is the period during which an operator has a noncancellable right to use an underlying PPP asset (referred to as the noncancellable period), plus the following periods, if applicable:

a. Periods covered by an operator's option to extend the PPP **if it is reasonably certain, based on all relevant factors, that the operator will exercise that option.**

b. Periods covered by an operator's option to terminate the PPP **if it is reasonably certain, based on all relevant factors, that the operator will not exercise that option.**

c. Periods covered by a transferor's option to extend the PPP **if it is reasonably certain, based on all relevant factors, that the transferor will exercise that option.**

d. Periods covered by a transferor's option to terminate the PPP **if it is reasonably certain, based on all relevant factors, that the transferor will not exercise that option.**

GASB Statement 94

PPP and APA Arrangements

Availability Payment Arrangement:

Components of an APA that are related to the design, construction, or financing of a nonfinancial asset in which ownership of the asset transfers to the government by the end of the contract **should be reported as a financed purchase by the government** of the underlying nonfinancial asset.

Components of an APA that are related to providing services for the operation or maintenance of a nonfinancial asset should be accounted for as outflows of resources (for example, expense) by the government in the period to which the payments relate.

GASB 101: *Compensated Absences*

GASB Statement 101

Compensated Absences

Why a new GASB standard? The GASB felt it was time to re-visit GASB 16.

Under GASB 16: Sick leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees but only to the extent it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement ("termination payments").

GASB Statement 101

Compensated Absences

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Years ending:

- December 31, 2025
- June 30, 2025
- September 30, 2025

GASB Statement 101

Compensated Absences

Under GASB 101:

A compensated absence is leave for which employees may receive one or more (a) cash payments when the leave is used for time off; (b) other cash payments, such as payment for unused leave upon termination of employment; or (c) noncash settlements, such as conversion to defined benefit postemployment benefits. The payment or settlement could occur during employment or upon termination of employment.

GASB Statement 101

Compensated Absences

What is a compensated absence?

Compensated absences generally do not have a set payment schedule. Examples of compensated absences include vacation (or annual) leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, and certain types of sabbatical leave.

> *Sabbatical leave during which an employee is not required to perform any significant duties for the government (unrestricted sabbatical leave, as used in this Statement) is a compensated absence. Sabbatical leave during which an employee is required to perform duties of a different nature for the government (for example, research instead of teaching) is not a compensated absence.*

GASB Statement 101

Compensated Absences

Termination Benefits?

Does not apply to benefits that are within the scope of Statement No. 47, Accounting for Termination Benefits, as amended.

Early retirement incentives, severance payments

GASB Statement 101

Compensated Absences

What are the rules now?

A liability should be recognized for leave that has not been used **if all of** the following are true:

a. The leave is attributable to services already rendered.

b. The leave accumulates.

c. The leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

GASB Statement 101
Compensated Absences

More likely than not? (50% rule)

A government should evaluate whether leave **is more likely than not** to be used for time off or otherwise paid in cash or settled through noncash means by assessing relevant factors, including the following:

a. The government's employment policies related to compensated absences

b. Whether leave that has been earned is, or will become, eligible for use or payment in the future

c. Historical information about the use, payment, or forfeiture of compensated absences

d. Information known to the government that would indicate that historical information may not be representative of future trends or patterns.

GASB Statement 101

Compensated Absences

What pay rate should I use to measure the liability?

The liability for leave that is recognized should be measured using an employee's pay rate as of the date of the financial statements, unless one of the criteria in paragraphs is met.

GASB Statement 101

Compensated Absences

What does the GASB mean by Salary-Related Payments?

Salary-related payments are obligations that a government incurs related to providing leave in exchange for services rendered. (The term salary in salary-related payments represents any pay provided to the employee, whether it is a fixed amount or an hourly wage.) Examples of salary-related payments include the employer share of Social Security and Medicare taxes.

GASB Statement 101

Compensated Absences

What impact will this have on my financial statements?

For the purpose of the long-term liabilities disclosure required by paragraph a government should present either (a) the separate increases and decreases or **(b) a net increase or a net decrease in its liability for compensated absences included in that disclosure.** A government that presents a net increase or a net decrease should indicate that it is a net amount.

The disclosure requirement in paragraph 119d of Statement 34 (roll-forward requirement for LTD), as amended, is not required to be applied to liabilities for compensated absences included in that disclosure.

CPE Prompt 6 of 6

GASB Upcoming Standards and Concept Statements

GASB Upcoming Standards and Concept Statements

Concepts Statements

- Nonauthoritative
- Part of a conceptual framework for governmental GAAP
- Primarily used by GASB itself as a guide to future standard setting
  - Existing GAAP standards may be inconsistent
- Should be consulted before using other nonauthoritative guidance to ensure conceptual consistency

GASB Upcoming Standards and Concept Statements

Concepts Statement No. 7

- Communication Methods in General Purpose External Financial Reports
- Users of Note Disclosures
- Purpose of Note Disclosures
- Criteria for Note Disclosures
- Essentiality

GASB Upcoming Standards and Concept Statements

Exposure Draft: Certain Risk Disclosures

Would be effective for fiscal years beginning after June 15, 2023

Certain concentrations and constraints common in government pose risks that a government may not be able to:

- Raise resources, or
- Control spending

Events may occur related to those concentrations or constraints that may ultimately affect a government's ability to:

- Provide services at the level at which they have been provided, or
- Meet obligations as they come due

GASB Upcoming Standards and Concept Statements

Exposure Draft: Certain Risk Disclosures

Concentration

- Principal employer
- Principal industry
- Principal Resource Provider

Constraint

- Limitation on raising revenue (property tax cap)
- Limitations on spending
- Limitations on the incurrence of debt

GASB Upcoming Standards and Concept Statements

Exposure Draft: Certain Risk Disclosures

A concentration or constraint is known to the government prior to financial statements being issued (no searching necessary)

An event associated with the concentration or constraint (associated event)

- Has occurred, or
- Is more likely than not to begin to occur within 12 months of the date of the financial statements or shortly thereafter (for example, three months)

It is at least reasonably possible that within three years of the financial statement date the event will cause a substantial effect on the government's ability to

- Continue to provide services at the level provided in the current reporting period, or
- Meet its obligations as they come due

Exposure Draft: Implementation Guide Update 2023

Ten question and answer sets (Q&As)

Nine new:

- Six – Leases (GASB 87)
- Two – Subscription-based information technology arrangements (GASB 96)
- One – Accounting changes and error corrections (GASB 100)

One change to existing implementation guidance

- Leases

Thank you for joining us!

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Questions?

Please contact us at:
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