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CERTIFIED PUBLIC ACCOUNTANTS

# GASB Financial Reporting Updates

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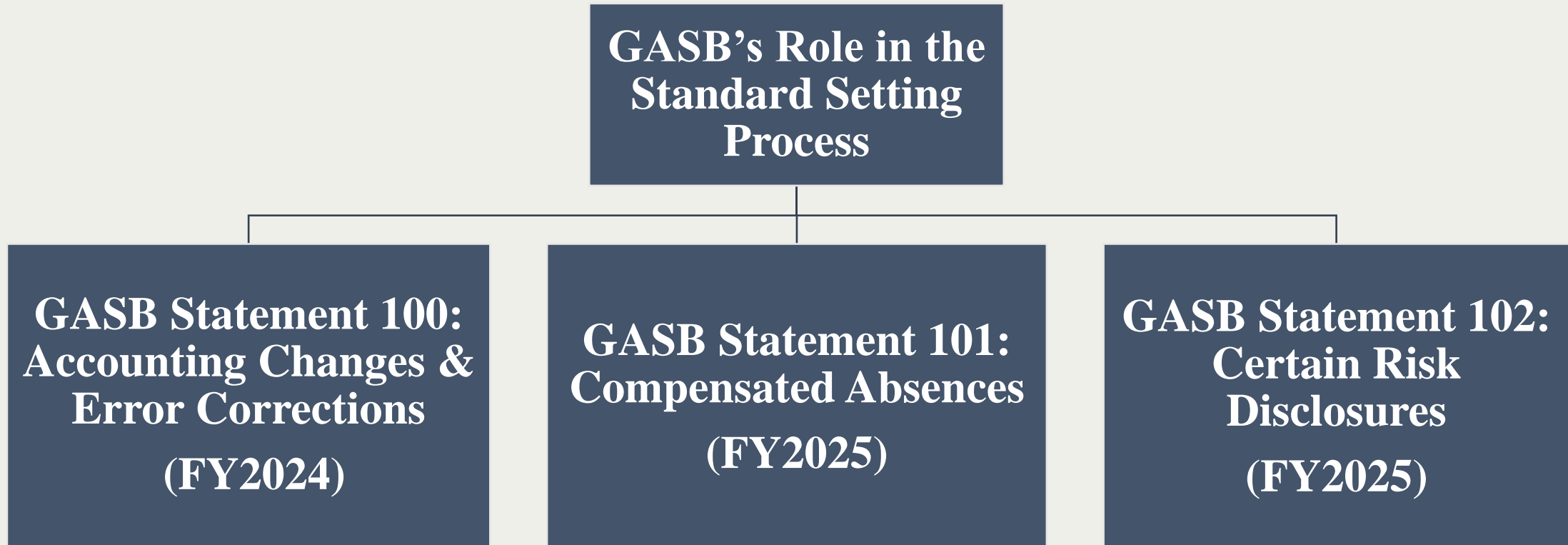
**Tax**

# Happy 100<sup>th</sup> GASB Standard!

- What better way to celebrate than three new standards coming down the pipeline?
- Good news – we have a “light” year in terms of new standards for 6/30/2024 reporting!



# Learning Objectives



# GASB Standard Setting Process

The diagram below depicts key aspects of the process the Board follows in setting standards for U.S. state, local, and tribal governments. In addition, the GASB follows an extensive [post-implementation review process](#).





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# GASB Statement No. 100

Accounting Changes and Error Corrections

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# GASB 100 Implementation Dates

GASB Statement No. 100 is effective for fiscal years beginning after June 15, 2023, so implementation will be effective for the following typical fiscal year ends:

June 30, 2024

December 31, 2024

April 30, 2025

# GASB 100 Overview

**GOAL: To establish accounting and financial reporting requirements for:**  
*(a) accounting changes and (b) the correction of an error in previously issued financial statements.*

- GASB's focus on ensuring financial statements are understandable, reliable, relevant, and comparable
- Very little that District staff will need to do – this standard has more to do with financial reporting and how your auditors report changes and adjustments
- This standard will only apply to a small group of Districts that report errors or corrections

# GASB 100 – Accounting Changes

## Types of Potential Accounting Changes Covered Under GASB 100:

1. Changes in Accounting Principle
2. Changes To or Within the Financial Reporting Entity
3. Changes in Accounting Estimates



# GASB 100 – Accounting Changes – Continued

## **1. Changes in Accounting Principle**

- A change from one generally accepted accounting principle to another generally accepted accounting principle that is justified on the basis that the newly adopted accounting principle is preferable
- The implementation of new authoritative accounting or financial reporting pronouncements

***Report retroactively by restating prior periods***

# GASB 100 – Accounting Changes – Continued

## **2. Changes To or Within the Financial Reporting Entity**

- A change in a fund's presentation as major or nonmajor
- The addition or removal of a fund that results from the movement of continuing operations within the primary government, including its blended component unit
- The addition of a component unit to the financial reporting entity or removal of a component unit from the financial reporting entity
- Change in a component unit's presentation as blended or discretely presented

***Report retroactively by restating prior periods***

# GASB 100 – Accounting Changes Continued

## **3. Changes in Accounting Estimates**

- Change in Measurement Methodology
- Depreciation Methods for fixed asset reporting
- Fair Value Measurement for investments or other assets
- Inflation-Related Estimates

*Report prospectively with changes recognized through current year's activity*

# GASB 100 Overview – Error Corrections

## Error Corrections:

- Mathematical mistakes
- Mistakes in the application of accounting principles
- Oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date
- Classification Issue (ex. an expense being classified as an Asset)
- A change from (a) applying an accounting principle that is *not* generally accepted to transactions or other events that previously were significant to (b) applying a generally accepted accounting principle to those transactions or other events is an error correction.

# GASB 100 - Changes to Note Disclosures

## **New disclosures required:**

- Required disclosure in notes to financial statements the effects on beginning net position, fund balance, or fund net position, as applicable, of the earliest period adjusted or restated for the following that occurred during the period:
  - Each change in accounting principle (including the implementation of new pronouncements that result in restatement),
  - Each change to or within the financial reporting entity, and
  - Each error correction.
- Effects of the restatements should be in tabular format
- The changes must be described and explained by change type (reporting entity, accounting principle or error correction)

# GASB 100 - Example Note Disclosures

***Change Within the Reporting Entity.*** The District made a change to report activity for food services in a special revenue fund, instead of the previously reported enterprise fund. This represents a change within the reporting entity, affecting the beginning fund balance of the governmental funds, the beginning fund net position of the enterprise funds, and the net position for both the governmental and business-type activities appearing in the government-wide statements.

***Change in Accounting Principle.*** The District is implementing the provisions of GASB Statement 101, *Compensated Absences*, in the financial statements of the current fiscal year. The Village provides two forms of employee leave (vacation and sick) but has previously only accrued vacation leave. Sick leave is earned each month and carries over without limits at the end of the fiscal year. Because unused sick leave is not paid upon termination, however, the Village did not accrue a liability in previous years. Under Statement 101, accumulated sick leave meets the first two criteria (attributable to past service and accumulates). The Village therefore examined its past experience with accumulated sick leave and estimated the amount of accumulated leave that was **more likely than not** to be used by employees. This estimate is now to be reported as a liability in the government-wide and enterprise fund financial statements. The portion of this liability that existed at the beginning of the current year (or the earliest year presented in comparative statements) is recognized as a decrease in beginning net position resulting from adoption of a new accounting standard.

***Error Correction.*** In the previous year, the District failed to accrue a grant that was related to the previous fiscal period. This error understated the fund balance of the General Fund and the net position of governmental activities in the government-wide statements.

# GASB 100 - Example Note Disclosures

	Beginning Balance	Change within Accounting Entity	Change in Accounting Principal	Error Correction	Restated Balance
<b>Net Position: Government-Wide Statements</b>					
Governmental Activities	\$ 850,000	(2,500)	10,500	950	858,950
Business-Type Activities	350,000	2,500	1,500	-	354,000
<b>Total Primary Government</b>	<b>1,200,000</b>	<b>-</b>	<b>12,000</b>	<b>950</b>	<b>1,212,950</b>
<b>Fund Balances: Governmental Funds</b>					
Major Funds	665,000	(1,350)	-	950	664,600
Nonmajor Funds	25,000	-	-	-	25,000
<b>Total Governmental Funds</b>	<b>690,000</b>	<b>(1,350)</b>	<b>-</b>	<b>950</b>	<b>689,600</b>
<b>Fund Net Position: Enterprise Funds</b>					
Major Funds	335,000	-	1,500	-	336,500
Nonmajor Funds	15,000	2,500	-	-	17,500
<b>Total Enterprise Funds</b>	<b>350,000</b>	<b>2,500</b>	<b>1,500</b>	<b>-</b>	<b>354,000</b>



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# GASB Statement No. 101

Compensated Absences

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# GASB 101 Implementation Dates

GASB Statement No. 101 is effective for fiscal years beginning after December 15, 2023, so implementation will be effective for the following typical fiscal year ends:

December 31, 2024

April 30, 2025

June 30, 2025

# GASB 101 Overview

**GOAL: Unified recognition and measurement of compensated absences liabilities that more appropriately reflects when a government incurs an obligation related to an accruable benefit**

- Replaces GASB 16, incorporating new leave types provided by governments that weren't necessarily contemplated when GASB Statement No. 16 was originally issued
- Governments have varying applications of paid leave which potentially impacts liability calculations as well

# GASB 101 - Criteria for Recording a Liability

- A liability should be recognized for any type of leave that has not been used at year-end if **all of the following are true**:
  1. The leave is attributable to *services already rendered*
  2. The leave *accumulates* (carries forward from the reporting period in which it is earned to a future reporting period in which it may be used for time off or otherwise paid in cash or settled through noncash means)
  3. The leave is *more likely than not* (more than 50%) to be used for time off, paid in cash, or settled through noncash means

When booking a liability, the government should use the current rate of pay in effect as of the balance sheet date and should include salary related components such as employer paid taxes.

# GASB 101 - Examples of Leave Subject to Measurement

- Vacation Leave
- Paid Time Off (PTO) Leave
- Holiday Leave – If the date taken is up to the discretion of the employee (i.e., floating holidays)
- Sick Leave – Only time that is accumulated and likely to be used

# GASB 101 - Examples of Leave Excluded

- Parental Leave
- Military Leave
- Holiday Leave – If required to be taken on a specific date
- Unlimited PTO – This should be recognized when taken



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# GASB Statement No. 102

Certain Risk Disclosures

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# GASB 102 Implementation Dates

GASB Statement No. 102 is effective for fiscal years beginning after June 15, 2024, so implementation will be effective for the following typical fiscal year ends:

June 30, 2025

December 31, 2025

April 30, 2026

# GASB 102 Overview

**GOAL: provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability.**

State and local governments may be vulnerable to a variety of **risks from certain concentrations or constraints** that limit its ability to acquire resources or control spending

Although existing authoritative guidance requires governments to disclose information about their exposure to some risks, information about other risks that are prevalent among state and local governments is not routinely disclosed because it has not been explicitly required.



# GASB 102 - Certain Concentrations

**Concentration**: a lack of diversity related to an aspect of a significant inflow of resources (revenues) or outflow of resources (expenses). Examples include, but are not limited to, the composition of any of the following:

- **Employers** - when a small number of employers comprise a significant portion of the total employment within the District's area of service (property tax assessed area). An employer moving to another municipality or going out of business could result in a substantial decrease in a District's income, sales, or property tax revenue. Employees who move with the business will no longer be living in the jurisdiction, contributing to its economy, or paying taxes.
- **Industries** - Some governments may rely on a principal industry that dominates their tax base, such as tourism or retail trade. Tax revenues could be lost or otherwise substantially affected if there is an industry disruption.
- **Inflows of Resources** - A government may have a concentration in its revenue composition of most of its revenue consists of property taxes, as opposed to an array of taxes, fees, and grants.

# GASB 102 - Certain Concentrations – Continued

- **Workforce Covered by Collective Bargaining Agreements** - A government may be unable to adequately control spending if a sizable portion of the government's employees are covered by a collective bargaining agreement that locks in wages, benefits, or staffing levels.
- **Providers of Financial Resources** - A sizable portion of a government's sales tax revenue may come from a small number of large retailers, or a majority of a school district's revenue may come from state aid. Some business-type activities, such as utilities, may receive a sizable portion of their revenues from user charges to a small number of customers.
- **Suppliers of Material, Labor, or Services** - A government that is reliant on a particular supplier for unique or critical materials and services may result in a spending-related concentration. This process often starts with the Board discussing strategy development and exploring efficiency opportunities.

# GASB 102 - Certain Constraints

**Constraint:** a limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority. Examples include, but are not limited to, the following:

- **Limitations on Raising Revenue** - Constraints on a government's ability to obtain resources include, but are not limited to, those imposed by creditors, grantors, or contributors; enabling legislation; and statutory or constitutional limitations such as state-government-imposed caps on the assessment or levying of property taxes.
- **Limitations on Spending** - A government's ability to control spending may be adversely affected by limitations on what costs can be incurred and in what amounts. For example, debt covenants typically stipulate the level of spending relative to pledged revenue.

# GASB 102 - Certain Constraints - Continued

- **Limitations on the Incurrence of Debt** - There may be statutory or constitutional limitations such as constraints on the total amount of debt a local government may have outstanding.
- **Mandated Spending** - Mandates to expend resources on a particular program may diminish a government's spending flexibility by prohibiting the government from reducing spending on that program or requiring that the government contribute additional resources of its own.

# GASB 102 - Disclosure Criteria

A government should disclose in notes to financial statements the information required by below if all of the following criteria are met:

1. A concentration or constraint is known to the government prior to the issuance of the financial statements.
2. The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact.
3. An event or events associated with the concentration or constraint that could cause a substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

# GASB 102 - Note Disclosure Requirements

**For each concentration or constraint that meets all the criteria governments should disclose in notes to financial statements the information below:**

1. The concentration or constraint
2. Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
3. Actions taken by the government prior to the issuance of the financial statements to mitigate the risk

A government should provide information in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact associated with the concentration or constraint.

# GASB 102 – Sample Note Disclosures

## **Concentration of Workforce Covered by Collective Bargaining Agreements**

The District depends on its workforce to deliver transportation services. All of the District's transportation workers are covered by a collective bargaining agreement with the State Association of Transport Workers that expires on June 30, 2027, and a labor disruption that decreases bus, train, and subway services could disrupt the normal functioning of the District's operations.

# GASB 102 – Sample Note Disclosures

## **Risk Due to Mandated Spending** (*Not expected to be common for Districts*)

The Authority's wastewater treatment operations are subject to environmental regulations established by the State Department of Ecology. The Department of Ecology proposed new regulations that would require reducing the allowable level of certain pollutants in the wastewater treatment plant's effluent by one third. If adopted, the Authority would be responsible for complying with the regulations by modifying the plant at a substantial cost to its ratepayers by September 2026.

On September 12, 2024, the Board approved an increase in the rates charged to private and commercial customers to partially address improvements to the wastewater treatment plant aimed at reducing pollutants.



# GASB 102 – Sample Note Disclosures

## **Concentration of Employer**

McFarland Air Force Base is a large employer in Example County that employs nearly 2,000 military personnel and 850 civilians. The various tax revenues received by the County that are directly or indirectly related to the operations of the Base represent YY percent of the County's resources for the year ending June 30, 2024. On December 1, 2025, a commission established by the United States government to coordinate the Base Realignment and Closure (BRAC) process placed the Base on its list of possible military base realignments and closures. The County's operations could be adversely affected by a decline in the revenues associated with the Base.

# Questions

## Contact Lauterbach & Amen, LLP

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