

FORVIS

GASB 2023 Update: New Statements, Implementation Guides, & Projects

AGFOA Conference - July 2023

Public Sector

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Meet the Presenters



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Agenda

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- Introductions

- Effective Dates

- Final Standards & Implementation Guides

- Current Projects & Research

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Standard-Setting Activity

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- GASB standard setting is finally slowing down!

GASB Standard-Setting Activity

Year	Statements	Exposure Drafts	Total
2015	8	8	16
2016	4	6	10
2017	4	5	9
2017	3	6	9
2019	1	7	8
2020	6	7	13
2021	1	5	6
2022	3	2	5

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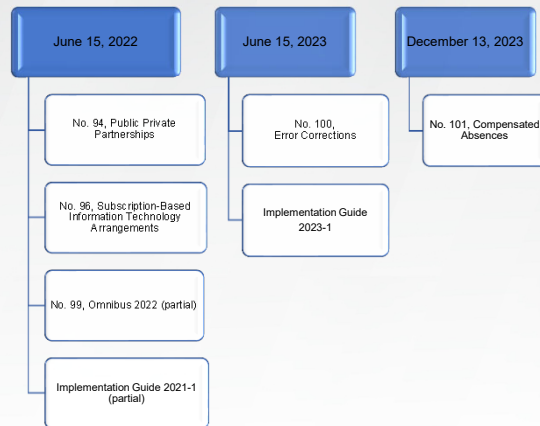
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Upcoming Effective Dates

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- Reporting Periods Beginning After (early adoption is allowed)


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No. 96, Subscription-Based Information Technology Arrangements

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Statement 96 Effective Date

Fiscal years beginning after June 15, 2022

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Definition – SBITA

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A subscription-based information technology arrangement (SBITA) “is a contract that conveys control of the right to use another party’s (a SBITA vendor’s) 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”

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature & manner of use of the underlying IT assets as specified in the contract

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Scope Exclusions

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- Statement 96 does not apply to
 - Contracts that convey control of the right to use another party’s combination of IT software & tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset
 - Governments that provide the right to use their IT software & associated tangible capital assets to other entities through SBITAs
 - Contracts that meet the definition of a P3 in Statement 94
 - Licensing arrangements that provide a **perpetual** license to governments to use a vendor’s computer software, which are subject to Statement 51

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Recognition & Measurement

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A SBITA should be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset & a subscription liability (except for short-term SBITAs)

- Relationship between Leases & SBITAs
 - All SBITAs meet definition of lease
 - Depends on what the underlying asset is
 - Tangible capital assets alone – Statement 87
 - IT software alone – Statement 96
 - IT software in combination with tangible capital assets
 - + Software component is insignificant compared to cost of underlying tangible capital asset – Statement 87
 - + Otherwise – Statement 96

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Accounting for Related Costs

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Preliminary project stage

- Outlays should be expensed as incurred

Initial implementation stage

- In general, outlays should be capitalized
- However, if no subscription asset is recognized (such as for a short-term SBITA), outlays should be expensed as incurred

Operation & additional implementation stage

- Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria

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Items to Consider

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- Capitalization threshold
- Contract with multiple components
 - Account for as separate contracts
- Disclosed separately from other capital assets in footnotes
- Variable payments based number of user seats should not be included in the measurement of the subscription liability
- Are you just paying for content/access? Think about control.
- Automatic renewals
- Get your IT department on board.

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Common Questions

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- Payments made prior to the start of the subscription term
- Subscription payments based on the number of users
- Subscription term and recognition of subscription asset
- Subscriptions to digital libraries

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How many SBITAs do you estimate your organization has?

- A** / Fewer than 20
- B** / 20 to 60
- C** / More than 60
- D** / Not sure or not applicable

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No. 94, Public-Private & Public-Public Partnerships & Availability Payment Arrangements

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Statement 94 Effective Date

Reporting periods beginning after June 15, 2022

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Definition – P3

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Public-private partnerships & public-public partnerships (P3s) are arrangements “in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying P3 asset), for a period of time in an exchange or exchange-like transaction”

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Definition – Availability Payment Arrangement (APA)

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APA

1. Entity receives payments from the government based on the asset's availability for use
2. Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
3. May include design, finance, construction, or service components

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APA Provisions

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An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate

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Is a P3 a Service Concession Arrangement? Four Criteria – Must meet All

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1. The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility.
2. The operator collects and is compensated by fees from third parties.
3. The transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services
4. The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement

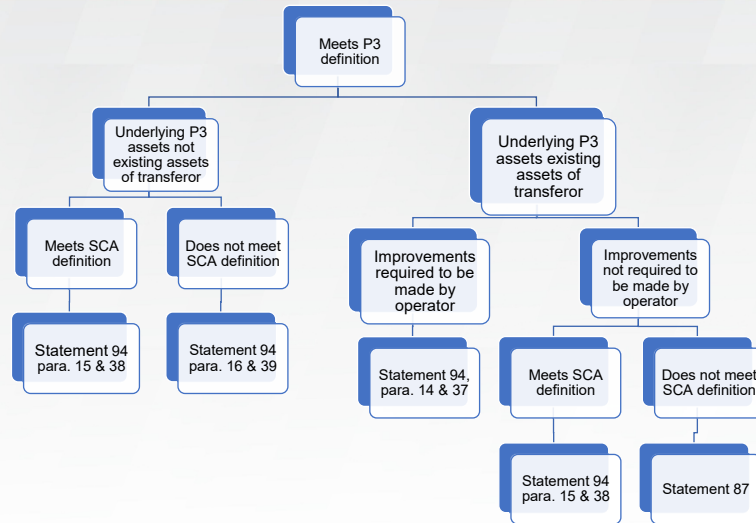
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Recognition & Measurement

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P3 Transferor Reporting

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For all P3s, recognize

- Receivable for installment payments to be received, if any
- Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term

If underlying P3 asset is a new asset or an existing asset that has been improved ...

- ... & the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation
- ... & the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

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No. 99, Omnibus 2022

Statement 99 Effective Date → Multiple

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Omnibus Items – Effective 2023

Statement 53, Derivative Instruments

As currently written, Statement 53 requires a derivative within its scope to be reported as either an investment or hedging derivative instrument. Some derivatives may not meet either definition, *e.g.*, a derivative that is no longer effective at reducing financial risk. Whether such an instrument is held primarily for income or profit is subject to debate

Changes in fair value of a derivative that is neither an investment nor hedging derivative instrument should be reported separately from investment revenue on the resource flows statement & segregated in financial note disclosures. Statement 99 also includes an update for the treatment upon termination of hedge accounting

Effective Date: Fiscal years beginning after June 15, 2023

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Implementation Guide 2021-01

Effective Date → Multiple

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Implementation Guide – Effective 2023

Capitalization Policies – Update to Previous Question

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, & library books are examples of asset types that may not meet a capitalization policy on an individual basis but could be significant collectively. In the example provided, a government purchases 100 computers costing \$1,500 each & has a \$5,000 capitalization threshold. Because the aggregate amount (\$150,000) is significant, the government should capitalize the computers

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Implementation Guide 2023-01

Effective Date

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Implementation Guide – Effective 2023

Adds New Questions on Standards Regarding

- Leases including
 - Short-term leases
 - Leases that transfer ownership
- SBITAs
 - Perpetual license
 - Software as a Service, Platform as a Service, and Infrastructure as a Service
 - Subscription term
- Changes to or within the financial reporting entity (Statement 100)

Updates Existing Q&A Guidance Related to

- Leases
 - Amendment to Question 4.16 in Implementation Guide 2019-3

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Question 4.1 – Short-Term Leases

Q—A lease contract states that it will remain in effect for three years unless terminated before then. The contract allows the lessee to terminate the lease for any reason with 60 days' notice. The contract allows the lessor to terminate the lease with 60 days' notice only if the lessee defaults on payments. Is this a short-term lease?

A—No. The lessee has an unconditional right to terminate and, therefore, has an option to terminate. The lessor does not have an unconditional right to terminate because the lessor is allowed to terminate the lease only on the condition that the lessee defaults on payments and, therefore, does not have an option to terminate. Accordingly, there are no periods for which both the lessee and the lessor have an option to terminate and, therefore, no cancellable periods to exclude from the maximum possible term, which is three years.

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Question 4.3 – Short-Term Leases

Q—In what circumstances does a lease modification (as described in paragraph 71 of Statement 87) result in a short-term lease?

A—There are two circumstances in which a lease modification results in a short-term lease:

- a. If the lease was a short-term lease before the modification and the maximum possible term after the modification to extend the lease (reassessed from inception as described in paragraph 12 of Statement No. 99, Omnibus 2022) is 12 months or less, then the lease remains a short-term lease.
- b. Regardless of whether the lease was a short-term lease before the modification, if the modification meets the criteria in paragraph 72 of Statement 87 to be accounted for as a separate lease and the maximum possible term of that separate lease is 12 months or less, then the modification results in a separate short-term lease.

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Question 4.7 – SBITA Perpetual Licenses

Q—Is a licensing agreement for a vendor’s computer software that automatically renews until cancelled a licensing agreement that provides a perpetual license?

A—No. A provision under which a licensing agreement automatically renews until cancelled is an option to terminate the agreement at each renewal date. An agreement that includes an option to terminate is not a purchase, whereas a perpetual license is a purchase in which a government is granted a permanent right to use the vendor’s computer software. Therefore, a licensing agreement for a vendor’s computer software that automatically renews until cancelled does not provide a perpetual license.

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Question 4.7 – SBITA Subscription Term

Q—A government enters into a six-year SBITA contract with no options to extend or terminate the contract and begins making semiannual subscription payments to the SBITA vendor immediately after the contract takes effect. The initial implementation stage is not completed until the end of the second year after the contract takes effect. What is the subscription term?

A—Although the length of the contract is six years, the subscription term is four years. The initial implementation stage is completed at the end of the second year of the contract. Therefore, in accordance with paragraphs 9 and 15 of Statement 96, the subscription term commences at the beginning of the third year and ends at the conclusion of the sixth year when the SBITA contract ends.

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No. 100, Accounting Changes & Error Corrections

Statement 100 Effective Date

Reporting periods beginning after June 15, 2023

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Classification

Accounting changes

Change in accounting principle

Change in accounting estimate

Change to or within the financial reporting entity

Correction of an error in previously issued financial statements

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Change in Accounting Principle

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A change in accounting principle results from either

A **change** from one generally accepted accounting principle to another that is justified on the basis that *the newly adopted accounting principle is preferable*, based on the qualitative characteristics of financial reporting

Implementation of new pronouncements

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Accounting Estimates

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Accounting estimates are

Amounts subject to measurement uncertainty that are recognized or disclosed in basic financial statements

Outputs determined based on inputs such as data, assumptions, & measurement methodologies

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Change in Accounting Estimate

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A change in accounting estimate occurs when inputs change

Changes to inputs result from a change in circumstance, new information, or more experience

A change in measurement methodology should be justified on the basis that the new methodology is preferable, based on the qualitative characteristics of financial reporting

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Change to or Within the Financial Reporting Entity

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A change to or within the financial reporting entity results from

Addition/removal of a fund that results from movement of continuing operations within the primary government, including its blended component units

A change in the fund presentation as major or nonmajor

Addition/removal of a component unit (except for acquisitions, mergers, & transfers of operations, & Statement 90 component units)

Change in presentation (blended or discrete) of a component unit

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Correction of an Error

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An error results from mathematical mistakes, mistakes in the application of accounting principles, or 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

Facts that existed at the time the financial statements were issued are those that could reasonably be expected to have been obtained & taken into account at that time about conditions that existed as of the financial statement date

A change from (a) applying an accounting principle that is **not** generally accepted to transactions or other events to (b) applying a generally accepted accounting principle is an error correction

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Accounting

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Change in accounting principle

- Reported retroactively by restating prior periods presented, if practicable
- If not practicable, restate beginning balances of current period

Change in accounting estimate

- Reported prospectively
- Recognized in current-period flows

Change to/within the reporting entity

- Reported by adjusting current period beginning balances

Error correction

- Reported retroactively by restating prior periods presented

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Other Reporting Requirements

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Aggregate amount of adjustments to & restatements of beginning balances should be displayed for each reporting unit

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Disclosures

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Disclosures vary depending on the type of item, but common disclosures include

The nature of the change or error & its correction

Reason for the change

The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

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Required Supplemental Information (RSI) & Supplemental Information (SI)

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The Statement addresses how to present in RSI & SI information that is affected by an accounting change or error correction

Periods earlier than those presented in basic financial statements should **not** be restated for changes in accounting principles

Periods earlier than those presented in basic financial statements should be restated for error corrections, if practicable

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Which Standard would you get rid of?

- A** / GASB 67/68, Pensions
- B** / GASB 87, Leases & GASB 96, SBITAs
- C** / Something Else
- D** /

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No. 101, Compensated Absences

Statement 101 Effective Date

Reporting periods beginning after
December 15, 2023

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New Definition

Definition – Compensated Absence	
Statement 16	Statement 101
Absences for which employees will be paid, such as vacation, sick leave, & sabbatical leave	Leave for which employees may receive one or more <ul style="list-style-type: none"> Cash payments when the leave is used for time off Other cash payments, such as payment for unused leave upon termination of employment which includes voluntary resignation or retirement Noncash settlements, such as conversion to defined benefit postemployment benefits

Examples include: Vacation & sick leave
Paid time off (PTO)
Parental leave
Certain types of sabbatical leave

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Key Items

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- Parental leave, military leave, and jury duty leave—not be recognized until the leave commences.
- Sick leave accounting.
- Include the employer share of Social Security and Medicare taxes.
- Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be recognized as a liability for compensated absences.
- Unlimited leave is not recognized until used.
- Long-term liabilities disclosure can be net on the long-term debt rollforward. Still have current piece.

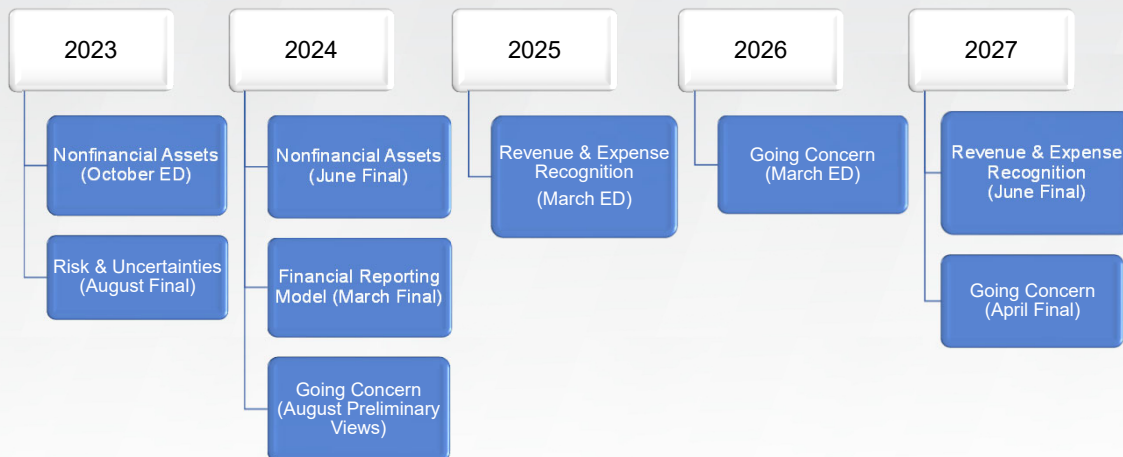
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Project Timeline

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