

2021 NCGFOA Summer Conference

GASB Update

Gregory Allison
Teaching Professor, UNC School of Government



UNC
SCHOOL OF GOVERNMENT

www.sog.unc.edu

Today's Fun Topics

- NO Fiduciary Activities or Leases
- GASB Exposure Drafts
 - The Annual Comprehensive Financial Report
 - Compensated Absences
 - Accounting Changes and Error Corrections
 - Financial Reporting Model Improvements

Exposure Draft

The Annual Comprehensive Financial Report



UNC
SCHOOL OF GOVERNMENT

www.sog.unc.edu

Project Highlights

- Proposed statement would rename the current Comprehensive Annual Financial Report (CAFR) to Annual Comprehensive Financial Report (ACFR)
- Pronunciation of current acronym has similarities to terms that are derogatory in certain countries and societies

Practical Effects and Reactions

- GASB realized the cost to change publications, online references, etc., but believed the removal of a potentially offensive term outweighs those costs
- GFOA adopted a policy earlier this year encouraging immediate modifications of verbal references to the new terminology

Implementation Guidelines

- GASB anticipates adopting a final standard in October 2021
- Has encouraged “implementation” before that date and early implementation thereafter
- Effective for fiscal years that begin after 12/15/21 (**FYE 6/30/22**)

Exposure Draft

Compensated Absences



UNC
SCHOOL OF GOVERNMENT

www.sog.unc.edu

Compensated Absences

- Amendment to GASB Statement No. 16
- Liability recognized if the absence:
 - Accumulates (carries forward to a future reporting period)
 - Is attributable to services already rendered
 - Is more likely than not to be paid or settled through other means

Compensated Absences (cont.)

- Liability amount:
 - Based on employee's pay rate at reporting date – future pay changes recognized prospectively
 - Includes both direct and incrementally-associated salary-related payments (e.g., employer's share of SS/Medicare)
 - Includes vacation leave, sick leave, and “comp” time

Compensated Absences (cont.)

- Accumulated leave that is *more likely than not* to be paid through conversion to postemployment defined benefits would not be included (e.g., accumulated sick leave converted to service time)
- Amounts paid to individual accounts calculated and measured differently

Compensated Absences (cont.)

- FIFO assumption for estimating amount due within a year
- Current financial resources measurement focus – expenditure and liability recognized as payments come due each period – guidance from GASB Interpretation #6 carried over (will be superseded by new reporting model)

Compensated Absences (cont.)

- Note disclosure changes:
 - Net change in liability may be disclosed (previously additions/deductions disclosed separately)
 - Do not have to disclose which governmental funds were used to liquidate liability

Compensated Absences (cont.)

- Implementation Timeline:
 - Periods beginning after 12/15/22
 - FYE 6/30/24 in NC
 - Retroactive restatement required if practical

Exposure Draft

*Accounting Changes and Error Corrections –
an amendment of GASB Statement No. 62*



UNC
SCHOOL OF GOVERNMENT

www.sog.unc.edu

Definitional Modifications and Display Requirements

- Accounting changes
 - Change in accounting principles
 - Change in accounting estimates
 - Change to or within the financial reporting entity
- Correction of an error
- For all changes, display of the aggregate amount of the effect of the change on each fund/activity is required

Change in Accounting Principles

- Change from one generally accepted accounting principle to a preferable one
- New authoritative pronouncement
- Cumulative effect should be reported as a restatement of applicable beginning equity
- Retroactive implementation for all prior periods presented

Change in Accounting Estimate

- Estimates are based on various inputs (e.g., data, assumptions, methodologies)
- An estimate change occurs when changes to inputs occur
- Changes in accounting estimates should be implemented *prospectively* in the period the change occurred

Change to the Reporting Entity

- Addition or removal of a fund (includes changing fund presentation – e.g. general fund activity to an enterprise fund)
- Change major vs. nonmajor status
- Addition or removal of a component unit
- Blended vs. discrete presentation changed
- Change reported as adjustment to applicable beginning equity

Correction of an Error

- Mistakes
 - Mathematical
 - Misapplication of accounting principles
 - Misuse of facts
- Corrections made by restating applicable beginning equities in period detected
- Prior periods presented should be restated

Note Disclosures

- Note disclosures are required for each of the noted changes
 - The nature and reason for any of the changes (except implementation of a new reporting standard)
 - If applicable, the rationale for the change
 - The financial effect on the applicable equities

Implementation

- Effective for periods beginning after June 15, 2023
 - FYE 6/30/24 in NC
- Earlier application encouraged

Exposure Draft

Financial Reporting Model Improvements



UNC
SCHOOL OF GOVERNMENT

www.sog.unc.edu

Financial Reporting Model

- Encompasses review of MD&A, government-wide statements, governmental / proprietary / fiduciary funds, and budgetary considerations
- Exposure Draft issued June 2020
- Final standard anticipated June 2022
 - Elements of the project proposals in the Exposure Draft are uncertain at this time

Highlights

- MD&A
 - Some items eliminated (budgetary, modified approach)
 - Reduction in boilerplate language
 - Reduce duplication
 - Currently known facts, decisions, or conditions – more specific requirements
 - Improve on analysis discussions

Highlights (cont.)

- Changes for special & extraordinary items – unusual or infrequent items
- *New MFBA for Governmental Funds – short-term measurement focus, accrual basis of accounting – **a problem point right now***
- Governmental Fund Financial Statements – current and noncurrent activity format
- Proprietary Fund Financial Statements – presentation change to show noncapital subsidies

Highlights (cont.)

- Major component units – present in Basic Financial Statements in separate columns if readability is not impacted
- Budgetary comparisons – RSI required
- Financial trends information –revenues by major source for business-type entities

Potential Implementation Timeline

- Two-tier phased-in approach with thresholds determined by FYE 6/30/23 (NC) – first fiscal year after 6/15/22
 - \$75 million or more in revenue for governmental and business-type activities
 - Implement FYE 6/30/25
 - \$75 million or less in revenue for governmental and business-type activities
 - Implement FYE 6/30/26
 - All parts of reporting entity implement together based on primary government

Questions or prayer requests?