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GASB Update

October 12, 2023



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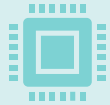
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Learning Objectives

At the end of the session, you will be able to:



Identify how to apply accounting standards that are effective in the current year.



Recall how to prepare for GASBs 99, 100, and 101



Recognize the status of current GASB projects





GASB 99, *Omnibus*

Provisions discussed on the following slide are effective for fiscal years beginning after June 15, 2023



GASB 99 Highlights

- Exchange/Exchange-like financial guarantees
 - If actual amount paid does not equal cumulative amount disclosed, disclose period over which cumulative amount was determined.
- Derivative Instruments that are neither investment derivative instruments nor hedges (“Other”)
 - Changes in FV go through income, classify separately from investment derivative income
 - Disclosure distinguish between other, investment, and hedging derivatives





GASB 100, Accounting Changes and Error Corrections

Effective for fiscal years beginning after June 15, 2023



Accounting Changes

- Accounting Principles
- Accounting Estimates
- Financial Reporting Entity

Error Corrections

- Mathematical mistakes
- Accounting principle misapplication
- Oversight/Misuse of facts
- Change from non-GAAP to GAAP



Change in accounting principle

From one generally accepted to another – justify on the basis that new principle is better

Implementation of new pronouncements



Not a change in accounting principle

Events that are clearly different in substance

Occurring for the first time

Previously insignificant



Change in Accounting Estimate



Accounting Estimates –
Outputs based on inputs

Data
Assumptions
Measurement methodologies



Change in circumstances, new information, more
experience



Change in methodology – justified based on improvement
unless required by a GASB pronouncement



Change to or Within Financial Reporting Entity



Addition or removal of a fund – movement of continuing operations in primary government



Change in fund as major or nonmajor



Addition or removal of a component unit – Exceptions for acquisitions, mergers, transfers of operations for discretely presented component units or based on GASB 90, *Majority Equity Interests*



Change between blended or discretely presented component unit presentation

Presentation Change in Estimate, Entity, or Error

Estimate

- Prospective

Principle/Error
Correction

- Retroactive

Reporting
Entity

- Adjust beginning balances of the current period



Retroactive Treatment – Single Year

Retroactively restate
beginning net position,
fund balance, fund net
position

Cumulative effect of
the change on prior
periods



Retroactive Treatment – Comparative

Retroactively restate all prior periods presented

If not practicable to restate all prior periods, restate to earliest period practicable, ***except for errors***



Notes for Change in Accounting Principle



Effects on beginning net position, fund balance, or fund net position



Nature of change

F/S line items impacted

Reason for change and why preferable

New accounting principle, if applicable

If comparative and all prior periods not restated – why not practicable



Notes for Change in Accounting Estimate



Nature of the change in accounting estimate – including financial statement line items affected



Change in measurement methodology

Reason for change

Explanation of why new measurement methodology is preferable – Exception if required by GASB pronouncement

Notes for Change within Reporting Entity



Nature of the change



The reason for the change, unless change is due to meeting requirements for major fund presentation



Effects on beginning net position, fund balance, fund net position

Notes for Error Correction



Effects on beginning net position, fund balance, or fund net position



Nature of error and correction, including f/s line items impacted

Single period – effect on the prior period’s change in net position, fund balance or net position, as if the error didn’t happen

Comparative – effect of the error correction on the prior period change in net position, fund balance or fund net position

Required Supplementary Information and SI

- Change in accounting principle and change within financial reporting entity
 - Restate prior year to be consistent with financial statements
 - If not restated – disclose why not - reference to related note disclosure
 - Do not restate the second prior period
- Error correction
 - Restate prior periods for any periods in the financial statements
 - Restate the second prior period for comparative statements
 - Identify as restated
 - If not practicable – disclose why not practicable



Polling Question

- Which accounting change do you see most often?
 - Accounting principles
 - Accounting estimates
 - Change in reporting entity





GASB 101, *Compensated Absences*

Effective for fiscal years beginning after December 15, 2023



What are Compensated Absences?

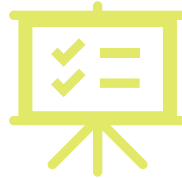
- Leave for which employees may receive one or more of the following:
 - Cash payments when the leave is used for time off
 - Other cash payments, such as payment for unused leave upon termination of employment
 - Noncash settlements, such as conversion to defined benefit postemployment benefits



The Basics



Replaces GASB Statement No. 16



Create a more consistent model that can be applied to all types of compensated absence arrangements



Attempts to address inconsistencies arising from types of leave not originally contemplated by GASB Statement No. 16.

What's changing

- GASBS 101
 - Consistent model applied to all leave types (limited exceptions)
 - “More likely than not” (MLTN) threshold for recognition
 - Removes certain disclosure requirements
 - Gross additions and deductions to the liability
 - Fund used to liquidate
- GASBS 16
 - Different rules for different leave types (for example, sick leave)
 - “Probable” threshold for recognition
 - Disclose gross additions/deductions
 - Disclose fund(s) used to liquidate



GASB 101 –What's not in scope?

Termination
benefits
(GASB 47)

MLTN to
convert to DB
plan

Unlimited
Leave

Sabbatical, if
performing
other duties



Compensated Absences Recognition

Leave that has not
been used

Leave that has
been used but not
paid or settled



Recognition – Leave not used

Leave is attributable to services already rendered

Leave accumulates

Leave is more likely than not to be used for time off or otherwise paid or settled



What is “More likely than not”? (MLTN)



Defined in GASBS No. 101 as a likelihood of more than 50 percent



Generally viewed as a *lower* threshold for recognition than “probable” in GASBS No. 16



MLTN – What to Consider?



The government's employment policies related to compensated absences



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



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



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



Exceptions to MLTN

- Leave that is dependent on the occurrence of an event that affects only a small proportion of employees
 - Recognize during the reporting period when leave has begun
 - Examples – Family Leave and Military Leave
- Recognize unlimited leave and holiday leave that must be used on a specific date once it has been used



Exceptions - Example

- Parental leave of three months is more likely than not to be paid, and a qualifying employee begins parental leave on June 1, a government with a June 30 fiscal year end would report a liability for the remaining two months of leave in financial statements dated June 30, because the leave had already begun
- Government would include no liability for other employees who are entitled to and may take such leave in the future

[Source: GASB 101. Literally. \(gfoa.org\)](#)



Recognize if not used

Vacation

Sick

Holiday

Sabbatical, if
unrestricted



Recognize when leave commences (sporadic)

Military

Parental

Jury duty



GASB 101 – Recognize only when leave is taken

Holiday – if based on specific date and not at discretion of employee

Unlimited Leave



Calculating the Liability

Use the rate of pay in effect as of the balance sheet date when calculating the liability, *with limited exceptions*:

- Arrangement calls for a different rate of pay at the time of payment (for example, sick pay being paid at 50% of the employee's actual pay rate)
- Shared leave pool - measure the liability using an estimated pay rate that is representative of the eligible employee population
- If MLTN to be settled through noncash means other than conversion to DB plan



Recognition – Leave used

Leave is used for time off but not yet paid in cash or settled through other means

Measure at the amount of the cash payment or noncash settlement to be made

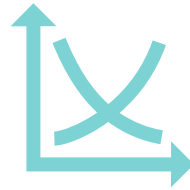
Include applicable salary-related payments



Salary Related Payments



Obligations that a government incurs related to providing leave in exchange for services rendered



May be directly associated or incrementally associated



Common example – Employer payroll taxes

DC and DB Pension Plans

- Defined contributions (DC) plan
 - Leave that has not been used- liability is recognized whenever a compensated absence liability would be recognized and reported as pension or OPEB expense
 - Leave that has been used – include in pension/OPEB liability
- Defined benefit (DB) plan
 - Payments related to a DB pension or OPEB plan should NOT be included in the measurement of the liabilities for compensated absences



Post-Employment Benefit Plans

Include in compensated absence liability if:

MLTN to be paid through distribution to individual account to be used for specified purposes (for example, payment of future premiums)

Leave has not been used

Otherwise meets criteria for recognition



Example – Vacation and Sick Leave

December 31, 2024 year end

Employment contract allows for the following:

- Maximum accumulation of 300 vacation hours
- 300 sick hours not paid upon termination
- DC pension with 10% employer contribution
- Paid holiday on 1/1/2025
- Government estimates 50% of sick leave MLTN to be used as paid leave.



Example – Vacation and Sick Leave

- Employee has the following:
 - 325 vacation hours
 - 20 sick hours
 - \$20/hour pay rate



Example – Vacation and Sick Leave Calculation

	Hours Accrued	Rate	Accrual	7.65% FICA	DC pension	Total Comp Abs
Vacation	300	20	6,000	459	600	7,059
Sick	10	20	200	15	20	235
Holiday	-	20	-	-	-	-
						7,294



Example – Vacation and Sick Leave Explanations

- Sick leave is accrued at 50% as the government has estimated it is MLTN that 50% will be used as paid leave.
- Holiday leave is not accrued because it is date specific and not at the discretion of employees.
- FICA Accrual – Directly associated with payment
- DC pension – Report as part of comp abs liability for leave not used



Preparing for the new standard

- Identify relevant documents
 - Employee handbooks and policies
 - Employment contracts
 - Collective Bargaining Agreements
- Understand systems/IT Controls used to track leave
- Identify documentation to support inputs, such as wage rates and hours earned
- Check to ensure maximums have not been exceeded



Polling Question

- What types of leave does your employer have other than sick or vacation?
 - Sabbatical
 - Unlimited
 - Leave banks
 - Other





What's on the horizon? Current GASB Projects and Practice Issues



Comprehensive Projects

Financial Reporting Framework

- Final statement targeted for April 2024

Revenue and Expense Recognition

- Final statement targeted for June 2027



Major Projects

Going Concern Uncertainties and Severe Financial Stress

- Final statement targeted for June 2027

Infrastructure Assets

- Final statement targeted for February 2027



Practice Issues

- Classification of Nonfinancial Assets
 - Final Statement targeted for June 2024
- Subsequent Events
 - Final Statement targeted or December 2025
- Risks and Uncertainties Disclosures
 - Final Statement targeted for December 2023



Thank You!

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