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Recent Accounting Pronouncement Updates and Risk Assessment for your Organization

February 13, 2025

***GASB Statement No. 104 – Disclosure of Certain
Capital Assets***

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GASB 104 – Disclosure of Certain Capital Assets

- Goal of this new standard is to provide users of government financial statements with essential information about certain types of capital assets and improve consistency and comparability between governments
- Under GASB 104, the following items should be broken out separately:
 - Lease assets (Statement 87) by major class of underlying assets
 - Intangible right to use recognized by an operator (Statement 94) by major class of underlying public-private and public-public partnership asset
 - Subscription assets (Statement 96)
 - Other intangible assets by major class of asset

GASB 104 – Disclosure of Certain Capital Assets

Capital asset activity for the year ended June 30, 20X2, was as follows (in thousands):

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 29,484	\$ 2,020	\$ (4,358)	\$ 27,146
Construction in progress	2,915	13,220	(14,846)	1,289
Total capital assets not being depreciated	32,399	15,240	(19,204)	28,435
Capital assets being depreciated:				
Buildings and improvements	40,861	334	-	41,195
Equipment	32,110	1,544	(1,514)	32,140
Road network	72,885	10,219	-	83,104
Bridge network	18,775	4,627	-	23,402
Software	2,100	548	(650)	1,998
Lease assets:				
Buildings	25,821	209	-	26,030
Equipment	20,389	2,312	(2,456)	20,245
Subscription assets	5,490	687	(743)	5,434
Total capital assets being depreciated	218,431	20,480	(5,363)	233,548
Less accumulated depreciation for:				
Buildings and improvements	(10,358)	(691)	-	(11,049)
Equipment	(9,247)	(2,676)	1,040	(10,883)
Road network	(12,405)	(823)	-	(13,228)
Bridge network	(2,896)	(197)	-	(3,093)
Software	(543)	(110)	25	(628)
Lease assets:				
Buildings	(7,456)	(596)	-	(8,052)
Equipment	(5,864)	(1,782)	823	(6,823)
Subscription assets	(1,009)	(450)	209	(1,250)
Total accumulated depreciation	(49,778)	(7,325)	2,097	(55,006)
Governmental activities capital assets, net	\$ 201,052	\$ 28,395	\$ (22,470)	\$ 206,977

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GASB 104 – Disclosure of Certain Capital Assets

- Capital assets held for sale
 - The government has decided to pursue the sale of the asset
 - It is **probable** that the sale will be finalized within one year of the financial statement date
 - Continue to be reported within the appropriate major class of capital asset
 - Disclose in notes to financial statements, with:
 - historical cost and accumulated depreciation (or amortization) by major class of asset
 - carrying amount of debt for which capital assets held for sale are pledged as collateral for each major class of asset
- Effective for fiscal years beginning after June 15, 2025
 - Should be applied retroactively to all periods presented in the financial statement
 - Early application is encouraged



GASB Statement No. 101 – Compensated Absences

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GASB 101 – Compensated Absences

- Goal of this new standard is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences
- More flexible and principle-based method
- Unified recognition and measurement model that more appropriately reflects when a government incurs an obligation
- Effective for fiscal years beginning after December 15, 2023
 - Should be applied retroactively to all periods presented in the basic financial statement
 - Early application is encouraged

GASB 101 – Compensated Absences

What is the definition of compensated absences under GASB 101?

- A compensated absence is a leave for which employees may receive one or more:
 - 1) Cash payments when leave is used for time off, for example, paying an employee when sick day is taken
 - 2) Other cash payments, such as payment for unused leave upon termination of employment
 - 3) Noncash settlement, such as conversion to postemployment benefits

GASB 101 – Compensated Absences

There are two types of liabilities for recognition:

Leave that has NOT
been used
Example: compensated
absence accrual

Leave that has been
used but not yet paid or
settled
Example: likely included
accrued payroll

GASB 101 – Compensated Absences

Recognize a liability for leave not used if leave meets ALL 3 criteria:

Leave attributed to service rendered

- Employee has performed the services required to earn the leave

Leave accumulates; used for time off or otherwise paid in cash or settled through noncash means

- Deposits into medical spending accounts

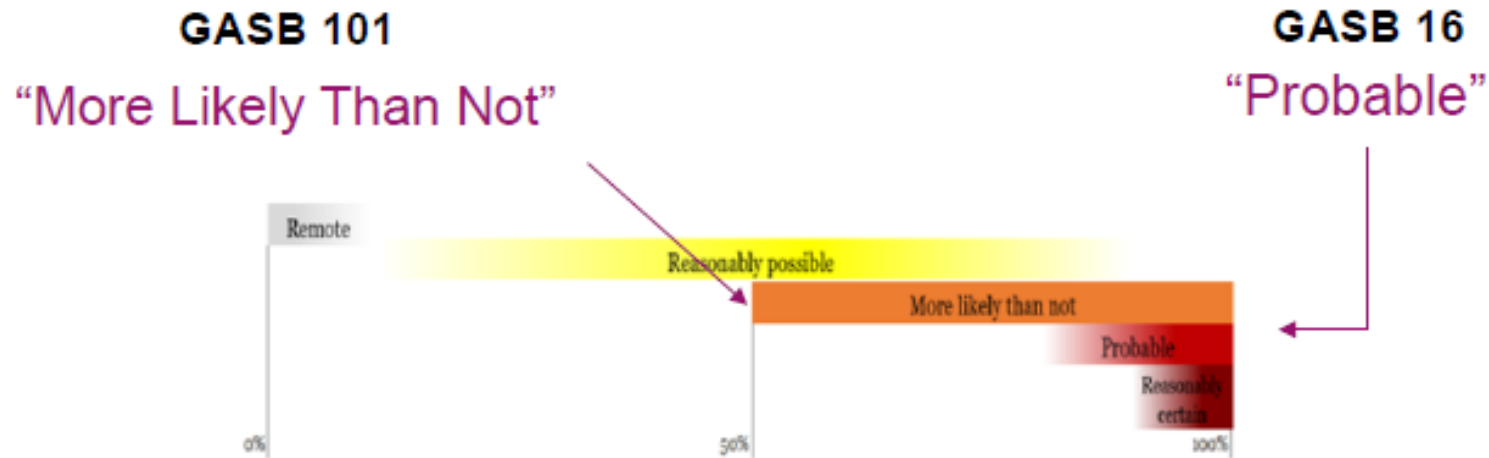
Leave is more likely than not to be used for time off or otherwise paid or settled

- Likelihood of more than 50%

GASB 101 – Compensated Absences

In determining more likely than not, governments should consider the following:

- 1) The government's employment policies related to compensated absences
- 2) Whether leave that has been earned is, or will become, eligible for use or payment in the future
- 3) Historical information/practices about the use, payment, or forfeiture of compensated absences
- 4) Information known to the government that would indicate that historical information may not be representative of future trends or patterns.



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GASB 101 – Compensated Absences

Summary of types of leave by recognition criteria:

As earned	As leave commences/used	Never accrued
• Vacation • Sick • PTO, PDO, FTO, etc.	• Maternity/Parental • Unrestricted sabbatical • Jury Duty • Holiday(s) • Military • Other sporadic event	• Unlimited leave • Restricted sabbatical • Leave more than likely than not to be settled through conversion of DB postemployment benefits

GASB 101 – Compensated Absences

Measurement of leave not used:

- 1) Number of days/leave not used x employee's pay rate as of the date of the financial statements, unless:
 - More likely than not to be paid at a different rate (such as ½ employee's pay rate upon termination of employment)
 - *Use the rate as of the date of the financial statements*
 - Leave not attributable to specific employee (such as donated leave pool)
 - *Use estimated rate representative of eligible employee population*
 - More likely than not to be settled through noncash means (such as contributions to defined contribution pension or OPEB plans or medical flexible spending account)
 - *Use amount more likely than not for which it will be settled*
- 2) Add any salary-related payments
 - Obligations incurred related to providing leave

GASB 101 – Compensated Absences

Financial Statement Presentation

- No new note disclosure
- Option to present net increase or decrease with indication that is a net amount
- No longer required to disclose governmental fund(s) used to liquidate these liabilities
- Must comply with GASB 100 if there is a material change
 - Restating financial statements for all prior periods presented
 - Cumulative effect as a restatement of beginning net position
 - Additional note disclosure about the change in principle

GASB 101 – Compensated Absences

Illustration 3—Note Disclosure—Net Change in the Liability

COUNTY OF KLAUS
NOTE X—DETAIL NOTES ON ALL FUNDS
LONG-TERM DEBT
Long-Term Liability Activity

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due within One Year
Governmental Activities					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 9,520,000	\$ 1,201,000	\$ (600,350)	\$ 10,120,650	\$ 817,200
Notes Payable	945,600	75,000	(115,000)	905,600	116,500
Total Bonds and Notes Payable	<u>10,465,600</u>	<u>1,276,000</u>	<u>(715,350)</u>	<u>11,026,250</u>	<u>933,700</u>
Other Liabilities:					
Compensated Absences	310,430	143,545*	-	453,975	382,673
Other Obligations	40,820	-	-	40,820	-
Total Other Liabilities	<u>351,250</u>	<u>143,545</u>	<u>-</u>	<u>494,795</u>	<u>382,673</u>
Governmental Activities Long-Term Liabilities	<u>\$ 10,816,850</u>	<u>\$ 1,419,545</u>	<u>\$ (715,350)</u>	<u>\$ 11,521,045</u>	<u>\$ 1,316,373</u>
Business-Type Activities					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 12,275,600	\$ 890,000	\$ (1,100,700)	\$ 12,064,900	\$ 988,700
Sales Tax-Backed Bonds	6,670,000	-	(810,000)	5,860,000	635,000
Total Bonds and Notes Payable	<u>18,945,600</u>	<u>890,000</u>	<u>(1,910,700)</u>	<u>17,924,900</u>	<u>1,623,700</u>
Other Liabilities:					
Compensated Absences	56,710	-	(24,985)*	31,725	19,570
Developer Agreements	1,920,909	87,220	(64,932)	1,943,197	-
Other Obligations	37,503	-	-	37,503	-
Total Other Liabilities	<u>2,015,122</u>	<u>87,220</u>	<u>(89,917)</u>	<u>2,012,425</u>	<u>19,570</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 20,960,722</u>	<u>\$ 977,220</u>	<u>\$ (2,000,617)</u>	<u>\$ 19,937,325</u>	<u>\$ 1,643,270</u>

*The change in the compensated absences liability is presented as a net change.

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GASB 101 – Compensated Absences

Example 1

Pay increases are effective on 1/1/2025 for the 12/31/2024 fiscal year end client. What pay rate should the GASB entity use when calculating compensated absences?

Answer: 12/31/2024 – the date of financials unless they have some exception in their policy

GASB 101 – Compensated Absences

Example 2

- Sick leave is paid out at termination/retirement at 50% after 5 years of service. No cap.
- Sick leave is attributable to services rendered and accumulates. Balances as of fiscal year end are:
 - Employees with > 5 years of service with unused sick leave = \$1.6 Million
 - Employees with < 5 years of service with unused sick leave = \$1.8 Million

GASB 101 – Compensated Absences

GASB 16 - probability of vesting

Vested portion

50% pay rate x \$1,600,000 = \$800,000

Unvested portion - *probable* that 25% of employees will remain employed and receive payout.

25% probable x 50% pay rate x \$1,800,000 = \$225,000

Total liability GASB 16 = \$1,025,000

(+salary-related payments)

GASB 101 - more than likely than not used for time off or future vesting

Vested portion based on historical trends - 80% of balance for employees with over 5 years of service will be paid out at termination/retirement (more likely than not), rather than used for sick time off. Remaining 20% of balance will be used as sick leave prior to termination/retirement.

- 80% likelihood x 50% pay rate x \$1,600,000 = \$640,000
- 20% likelihood 100% pay rate x \$1,600,000 = \$320,000

Unvested portion used x- Based on analysis of historical trends, 30% of balance will vest and eventually be paid out at termination/retirement, 40% of balance will be used for sick time, and remainder will be forfeited.

- 30% likelihood payout x 50% pay rate x \$1,800,000 = \$270,000
- 40% likelihood to use x 100% pay rate x \$1,800,000 = \$720,000
- 30% forfeited

Total liability \$1,950,000

(+salary-related payments)

GASB 101 – Compensated Absences

Example 2

- December 31, 2024 fiscal year end
- Max accumulation of 100 vacation hours
- City estimates 90% of sick hours is more likely than not to be used as paid leave

Employee	Vacation Hours	Sick Hours	Payrate	Days to Accrue
John	200	100	\$100	190 = 100+90
George	80	50	\$100	125 = 80+45
Sarah	150	350	\$100	415 = 100+315
		Total accrual	\$73,000 (\$100 x 730 Total Days)	

GASB 104 & GASB 101

GASB 104 – Disclosure of Certain Capital Assets

- Certain types of capital assets to be disclosed separately
- Additional disclosures of capital assets held for sale

GASB 101 – Compensated Absences

- More unified, principle-based method
- Two types of liabilities
- Ensure 3 criteria for recognition have been met
- Review policies

A grayscale photograph of a stethoscope resting on a smartphone and a closed book. The stethoscope is positioned diagonally across the frame, with its chest piece on the right and its tubing extending towards the top left. The smartphone is in the lower left, and the book is in the upper right.

FASB Updates

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2024-04-Debt-Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments

Current US GAAP:

- Existing guidance in FASB ASC 470-20-40-13(b) was written before convertible debt instruments with cash conversion features became prevalent in the market
- As a result of the issuance of ASU 2020-06, convertible debt instruments with CCFs became subject to the same guidance for contractual conversions as traditional convertible debt instruments
- Current US GAAP permits inducement accounting for an inducement offer only if the inducement offer includes the issuance of all the equity securities issued pursuant to the conversion privileges in the terms of the instrument

2024-04-Debt-Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments

- New standard clarifies requirements for when certain settlements of convertible debt instruments should be accounted for as an induced conversion or should follow extinguishment accounting
- To qualify for conversion accounting, the inducement offer must, at a minimum, provide the debt holder the form and amount of consideration issuable under the original instrument
- Induced conversion accounting can be applied to convertible debt instruments (that are not currently convertible) if the debt instrument contained a substantive conversion feature at the time of issuance and inducement offer acceptance date

2024-04-Debt-Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments

Effective date – fiscal years beginning after 12/15/2025

Transition

Prospective or retrospective

- Prospective – should be applied to any settlements of convertible debt instruments that occur after the effective date
- Retrospective – an entity should recast prior periods and recognize a cumulative-effect adjustment to equity as of the later of the following dates: the beginning of the earliest period presented and the date the entity adopted the amendments in ASU 2020-06

2023-08-Intangibles-Goodwill and Other-Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

Introduces fair value measurements, separate presentation requirements, and additional disclosure for certain crypto assets. Applicable to all entities that hold crypto assets.

Requires an entity to **measure crypto assets at fair value** on the balance sheet

Scope:

- The crypto assets in question are considered an intangible asset under U.S. GAAP
- The holder of the asset does not have enforceable rights to or claims on underlying goods, services, or other assets.
- The crypto asset is created or resides on a distributed ledger based on blockchain technology.
- Asset is secured by cryptography
- Asset is fungible
- Asset is not created or issued by the reporting entity or any related parties of the entity

2023-08-Intangibles-Goodwill and Other-Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

Presentation Requirements:

Crypto assets are presented separately from other intangible assets on the balance sheet

Entity is permitted to present crypto assets on a more disaggregated basis (by individual crypto holding or intangible asset class)

Key Disclosure Requirements:

- The name, cost basis, fair value, and number of units held for each crypto asset holding
- The method used to determine the cost basis of the crypto asset holdings
- Fair value disclosures required under ASC 820
- Total cumulative realized gains and losses from dispositions during the fiscal year

Effective Date – annual periods with fiscal years beginning after December 15, 2024

2023-08-Intangibles-Goodwill and Other-Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

Effective Date – annual periods with fiscal years beginning after December 15, 2024

Requires a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the annual reporting period of adoption. Adjustment to the opening balance should be calculated as the difference between the carrying amount of the crypto assets at the end of the prior annual reporting period and the fair value of those crypto assets as of the beginning of the annual period of adoption

2023-05, Business Combinations-Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement

Previously, U.S. GAAP did not provide specific guidance on how a joint venture should recognize and initially measure assets and liabilities upon formation.

- Under new amendment, FASB requires a joint venture to initially measure its assets and liabilities at fair value.
- Joint venture measures its identifiable net assets and goodwill at the formation date.
- Initial measurement of a joint ventures total net assets is equal to the fair value of 100% of the joint ventures equity

Does not apply to:

- The formation of not-for-profit entities
- Combinations between entities, businesses, or nonprofit activities under common control

Effective date: Effective prospectively for all joint ventures with formation dates on or after January 1, 2025

A grayscale photograph of a doctor's hand holding a stethoscope over a smartphone. The stethoscope is positioned diagonally across the frame, with the chest piece resting on the smartphone screen. The background is a light, textured surface.

Other Updates

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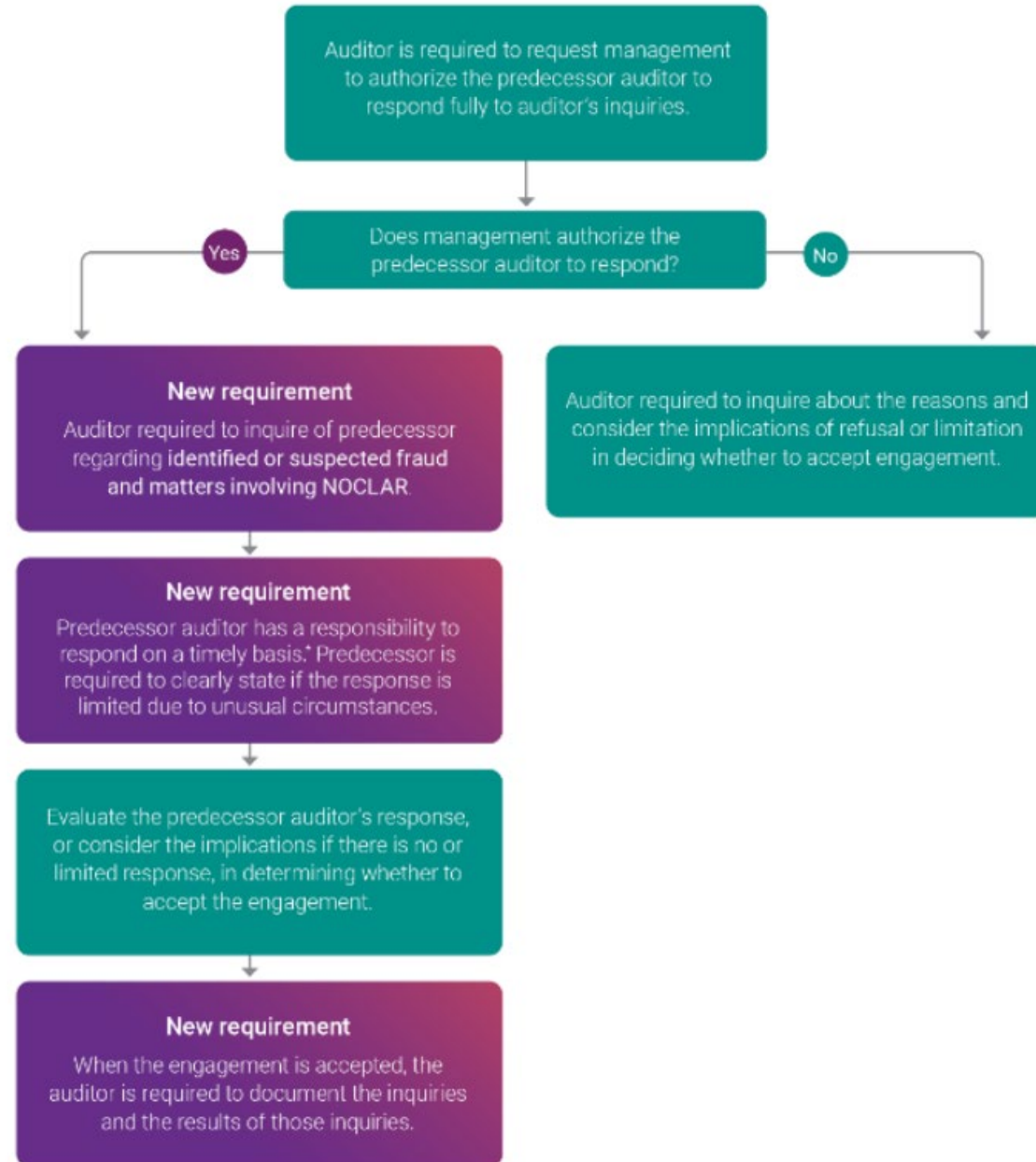


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SAS No. 147, Inquiries of the Predecessor Auditor Regarding NOCLAR (Noncompliance with a law or regulation)

- Amends AU-C Section 210
- Narrowly revises auditing standards to specifically require an auditor, once management authorizes the predecessor auditor to respond to inquiries from the auditor, to inquire of the predecessor auditor regarding identified or suspected fraud matters involving NOCLAR.
- Effective for periods beginning on or after June 30, 2023

Before engagement acceptance



A grayscale photograph of a doctor's hand holding a stethoscope over a smartphone. The stethoscope is positioned over the phone, which is lying on a surface. The background is a light, textured surface.

Risk Assessment and Internal Controls

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Risk Assessment

What are the primary risks that your entity faces from a financial reporting perspective, and how do you respond to those risks?

- What are the key areas of risk within your accounting practice?
- What internal controls have been implemented?
- Are they properly designed and operating effectively?

Risk Assessment (continued)

Best practices related to internal controls

- Is there an adequate segregation of duties (authorization, custody, and recordkeeping)?
- What key controls been developed in your financial reporting processes that ensures adequate review and supervision?
- Have policies and procedures been documented?
- Have those documented policies been approved by appropriate levels of management and/or those charged with governance?

Internal Controls Surrounding Federal Funding

Best practices related to internal controls

- Have you implemented and documented internal control policies that are specific to each federal fund?
- Is balanced billing being practiced for out-of-network patients being seen?
- Is there an adequate segregation of duties (authorization, custody, and recordkeeping?)
- What key controls have been developed in your financial reporting processes that ensures adequate review and supervision?
- Have those documented policies been approved by appropriate levels of management and/or those charged with governance?



QUESTIONS?

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THANK YOU FOR ATTENDING!

If you have any additional questions,
please contact one of today's presenters or
your local advisor.



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