



Texas Gulf Coast Summer Conference FASB/GASB Accounting & Auditing Update

Agenda

1. FASB Update
2. Impact of Current Events
3. GASB Update
 - A. GASB Statement 101 Compensated Absences
 - B. GASB Statement 102 Certain Risk Disclosures
 - C. GASB Statement 103 Financial Reporting Model Improvements
 - D. GASB Statement 104 Disclosures of Certain Capital Asset
4. GASB Technical Agenda



01

FASB Update



FASB Update

ASU 2021-08

Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

- For entities other than public business entities (“PBEs”), effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years
- Clarifies that an acquirer in a business combination should account for an acquiree’s revenue contracts as of the acquisition date under Topic 606 as if the acquirer had originated the contracts
- The acquirer may assess how the acquiree applied Topic 606 to determine what to record for the acquired revenue contracts
 - If the acquirer is unable to assess or rely on how the acquiree applied Topic 606, the acquirer should consider the terms of the acquired contracts, including timing of payment, identification of performance obligations, allocation of the transaction price, and/or whether a contract modification has occurred
- The application of the new standard should result in the consistent recognition and measurement of acquired contract assets and contract liabilities with how they were recognized and measured in the acquiree’s financial statements

FASB Update

ASU 2023-01

Common Control Lease Arrangements

- Effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years
- Issue #1 - For private companies and NFPs that are NOT conduit bond obligors, provides a practical expedient for common control leases to use written terms of agreement to determine lease accounting without regard to legal enforceability.
- The practical expedient cannot be applied if there are no written terms and conditions.
 - Original lease guidance requires common control leases to be accounted for as if they are arrangements with unrelated third parties based on legally enforceable terms and conditions.
 - Feedback to FASB indicated that determining legally enforceable terms and conditions in common control leases was difficult and costly.
- Issue #2 - Leasehold improvements to property between entities under common control can be depreciated over useful life to the group, regardless of the lease term.
 - Applies to all entities, including conduit bond obligors.

FASB Update

ASU 2022-03

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

- For entities other than PBEs, effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years
- Clarifies that if an equity security contains contractual sale restrictions, those restrictions should not be considered in the fair value of that security (i.e., are not considered part of the unit of account).
- The total fair value of securities with restrictions, along with the nature and duration of those restrictions, should be disclosed.
- Donor-imposed restrictions are not the same as contractual sale restrictions for the purposes of this standard's application.

FASB Update

ASU 2023-08

Crypto Assets

- Effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years
- Applies to assets that meet all of the following criteria:
 - Meet the definition of an intangible asset
 - Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
 - Are created or reside on a distributed ledger based on blockchain or similar technology
 - Secured through cryptography
 - Fungible
 - Are not created or issued by the reporting entity or its related parties
- Crypto assets that meet the requisite criteria would be subsequently measured at fair value each reporting period in accordance with ASC 820, *Fair Value Measurement*.

FASB Update

ASU 2023-08 – Crypto Assets, continued

Presentation

- Balance sheet: crypto assets should be presented separately from other intangible assets
- Income statement: gains and losses from crypto assets should be presented within income separately from the income statement effects of other intangibles (e.g., amortization, impairments)
- Cash flow statement: follow existing guidance in ASC 230
 - Contributed crypto assets that upon receipt are directed without any NFP-imposed limitations for sale and are converted nearly immediately into cash shall be classified as an operating activity, or as a financing activity if restricted for a long-term purpose
 - Crypto assets received as noncash consideration and converted nearly immediately to cash shall be classified as operating activities

Disclosure

- ASC 820 fair value disclosures
- Significant crypto asset holdings, including the name of the crypto asset, fair value, units held, and cost basis
- Rollforward showing activity from the beginning to end of the period for total crypto asset holdings, and disaggregated information for additions, dispositions, gains, and losses during the period
- The fair value of the crypto assets restricted from sale, nature and remaining duration of the restrictions, and what could cause a lapse in the restrictions

FASB Update

ASU 2023-09

Income Tax Disclosures

- For PBEs, effective for annual periods beginning after December 15, 2024
- For entities other than PBEs, effective for annual periods beginning after December 15, 2025
- Effective tax rate reconciliation
 - Public business entities will be required to present an expanded effective tax rate reconciliation that reconciles (1) income tax expense attributable to continuing operations to (2) the statutory federal income tax rate applied to pre-tax income from continuing operations.
 - Must further disaggregate reconciling items (by both nature/jurisdiction) that are equal to or greater than a 5% of pretax income threshold within certain categories on an annual basis.
- Income taxes paid
 - All reporting entities now required to disclose the year-to-date amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign.
 - Also requires additional disaggregated information on income taxes paid (net of refunds received) to an individual jurisdiction equal to or greater than 5% of total income taxes paid (net of refunds received)

Proposed ASU

Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities

- Includes targeted amendments to ASC 326 that would permit:
 - A practical expedient that assumes that current conditions as of the balance sheet date persist throughout the forecast period (i.e., no adjustment would be required to be made to historical loss information to reflect changes in the macroeconomic data).
 - An accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses.
- Entities would be required to disclose whether they have elected to use the practical expedient and, if so, whether they have also applied the accounting policy election.
- In redilberations, the FASB expanded the scope of the practical expedient to all entities, and expanded the scope of the policy election to all entities that elected the practical expedient, with the exception of PBEs.

FASB Update

Proposed ASU

Targeted Improvements to the Accounting for Internal-Use Software

- Proposes targeted improvements to the guidance on internal-use software, including:
 - Removing references to stages of software development in the current guidance
 - Providing guidance for assessing when a software project is not probable of being completed (and therefore has not met the capitalization threshold), including the evaluation of projects with significant development uncertainty.
- Proposal would require cash outflows for capitalized internal-use software costs, other than implementation costs of a hosting arrangement that is a service contract, to be presented separately as investing cash flows in the statement of cash flows.

FASB Update

Proposed ASU

Accounting for Government Grants by Business Entities

- Proposal includes guidance that specifically addresses the accounting for government grants received by business entities, which currently does not exist under US GAAP.
- The proposed scope of the project would:
 - Include transfers of monetary and tangible nonmonetary assets from a government to a business entity, including forgivable loans.
 - Exclude exchange transactions, items accounted for under ASC 740 (Income Taxes), below-market interest rate loans and government guarantees.
 - Leverage the accounting framework under IAS 20 while including targeted improvements to that guidance, with a focus on scope and recognition threshold.

FASB Update

Proposed ASU

Environmental credits

- Would be an enforceable right that is acquired, internally generated, granted by a regulatory agency, or received in a nonreciprocal transfer that is not a grant from a regulator – it would not include financial assets or income tax credits.
- Measurement of environmental credits would be based on intended use and how they are obtained:
 - Internally generated credits and credits granted by a regulator would be initially measured at their transaction costs.
 - Acquired credits would be initially measured at cost or by following another applicable topic.
 - Credits not probable of being transferred in an exchange transaction or used to settle an environmental credit obligation would be expensed as incurred.

Environmental credit obligations

- Arise from laws, statutes, or ordinances requested to prevent, control, reduce or remove emissions or other pollution that may be settled with environmental credits.
- Initial and subsequent measurement would depend on whether an entity holds and expects to use environmental credits to settle that obligation.

FASB Update

Proposed ASU

Accounting for Debt Exchanges

- The proposal would simplify the accounting for certain debt exchanges, eliminating the lender-by-lender analysis required by existing guidance to determine whether an exchange is an extinguishment or modification.
- The proposed guidance would apply when an existing debt obligation is contemporaneously settled using cash received from the issuance of a new debt obligation entered into with at least one of the existing creditors and multiple creditors participate in the issuance of the new debt obligation.
- The exchange of debt instruments would be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation if (1) the existing debt obligation has been repaid in accordance with its contractual terms or repurchased at market terms and (2) the new debt obligation has been issued at market terms following the issuer's customary marketing process.
- If the new debt obligation has a single creditor or the transactions do not meet those conditions, an entity would evaluate whether the existing debt instrument and the new debt instrument have substantially different terms under Subtopic 470-50 to determine whether the transactions should be accounted for as (1) a modification of the existing debt obligation or (2) the issuance of a new debt obligation and an extinguishment of the existing debt obligation.

02

Impact of Current Events



Impact of Current Events

Accounting Considerations Related to Current Events

External Impacts

Reductions in revenue due to:

- OBBBA
- Lower ACA subsidies
- Medicaid reductions
- GME reform
- 340B changes
- Terminations of/stop-work orders on federal grants
- Lowered federal indirect cost rates
- Reduced IRA credits
- Market volatility

• Increased costs due to:

- Increased supply chain costs (labor, tariffs)
- Additional compliance activities, audits, etc.
- Revocation of tax-exempt status

Internal Impacts

- Hiring freezes, layoffs, terminations, severance
- Restructuring operations, shutting down projects, and/or mothballing equipment
- Changes to compliance control processes
- Rebalancing of investment portfolio
- Issuing new debt/commercial paper
- Increased usage of donor-restricted funds
- Increased use of quasi/board-restricted endowments
- Suspending or cancelling capital projects

Impact of Current Events

Changes to estimates of implicit price concessions

ASC 606-10-32-9: An entity shall apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled. In addition, an entity shall consider all the information (historical, current, and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts.

- For many providers, the most significant implicit price concessions (IPCs) impact the 'self-pay' category of patient receivables.
- Many providers use a methodology to estimate IPCs that looks back at historical experience.
- As noted in the excerpt above, the estimate of IPCs must consider current and forecast information. Entities should consider whether there are differences between the reporting date compared to the historical look-back period from the following:
 - Composition of the self-pay portfolio
 - Payer contracts
 - Local and macro-economic business conditions
 - Regulatory and legal environment

Impact of Current Events

Government Grant Freezes and Terminations

- The accounting implications of government grant freezes and terminations depend on whether:
 - The underlying transaction was an exchange or nonexchange transaction, and
 - The entity is assessing collectibility of unpaid amounts or clawbacks of previously paid amounts

	Exchange	Nonexchange	
	ASC 606	IAS 20	ASC 958-605
Receivable in doubt	Generally, record changes in revenue (ASC 606 model), otherwise as expense under ASC 326	Dependent on type of grant and presentation elected (see IAS 20, par. 32)	Record changes as expense or loss (ASC 958-310 model)
Clawback of funds	Record changes in revenue (ASC 606 model)	Dependent on type of grant and presentation elected (see IAS 20, par. 32)	GAAP is silent; record as change in revenue by analogy to ASC 606

Impact of Current Events

Risks and Uncertainties Disclosures

ASC 275-10-50-16

Financial statements shall disclose certain concentrations if, based on information known to management before the financial statements are issued, all of the following criteria are met:

- a. The concentration exists as of the date of the financial statements
- b. The concentration makes the entity vulnerable to the risk of a near-term severe impact.
- c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

ASC 275-10-50-18

Concentrations, including known group concentrations, described below require disclosure if they meet the criteria of paragraph 275-10-50-16:

- a. Concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor. The potential for the severe impact can result, for example, from total or partial loss of the business relationship...
- b. Concentrations in revenue from particular products, services, or fund-raising events...
- 'Severe impact' means a significant financially disruptive effect on a reporting entity's normal functioning. It is a higher threshold than material, but less than catastrophic

03

GASB Update

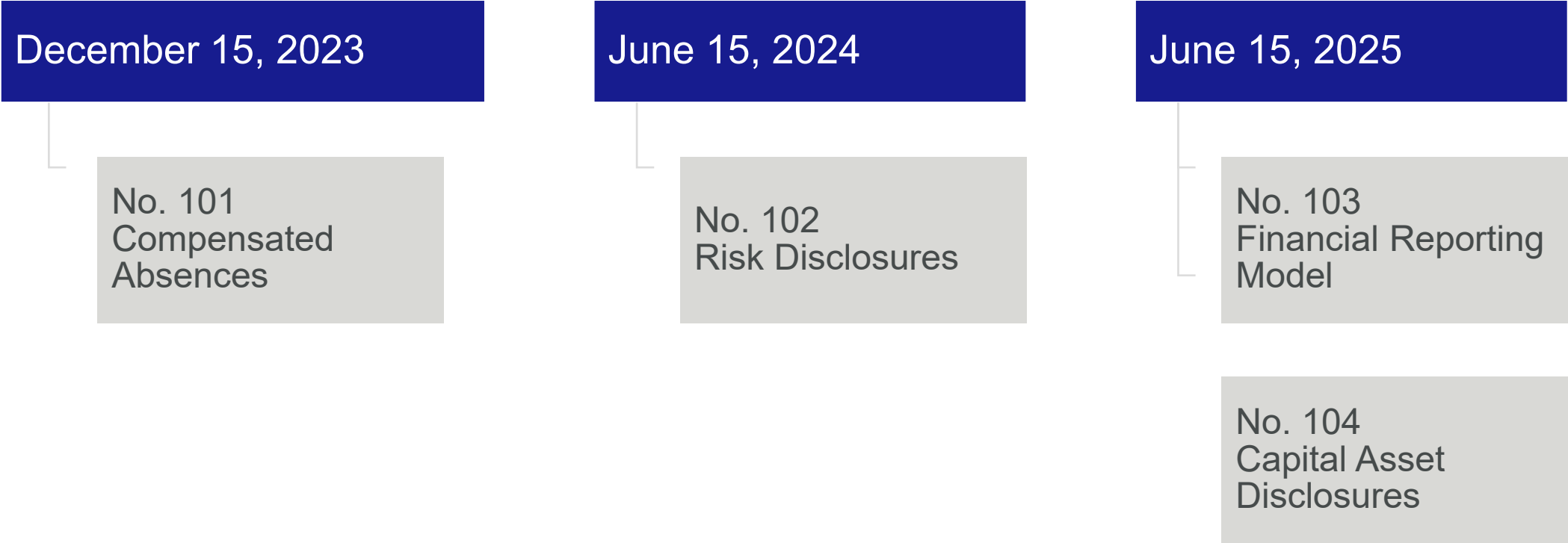


GASB Update

Upcoming GASB Effect Dates

Overview

- Fiscal Periods Beginning After (early adoption encouraged)



GASB Update

GASB 101 - Compensated Absences

Overview & Effective Date

- Creates a unified model for recognition and measurement for new leave type and eliminates certain disclosures.
- Supersedes guidance in Statement 16, Accounting for Compensated Absences
- Reduces diversity in practice



Statement 101 Effective Date

Fiscal Years Beginning After
December 15, 2023

GASB Update

GASB 101 – Compensated Absences

Scope and Applicability

Definition

Leave for which employees may receive one or more:

- Cash payments when the leave is used for time off
- Other cash payments, such as payment for unused leave upon termination of employment
- Noncash settlement, such as conversion to postemployment benefits

Examples

- Vacation and sick leave
- Paid time off
- Holidays
- Parental leave
- Certain types of sabbatical leave

GASB 101 – Compensated Absences

Recognition Criteria – Unused Leave

Leave is attributable to services already rendered

Employee has performed the services required to earn the leave

Leave accumulates

Can be carried forward from reporting period when earned to a future reporting period when it will be used or otherwise paid or settled

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

Likelihood of more than 50 percent

Exceptions to the General Recognition Criteria

Leave more likely than not to be settled through conversion to defined benefit postemployment benefits

Excluded from liability

Leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period

Recognize liability when leave commences
Parental leave, military leave, jury duty recognized when commences
Not sick leave or sabbatical leave

Unlimited leave and holiday leave taken on specific date

Recognize liability when used

GASB Update

GASB 101 Compensated Absences

Measurement

- **Pay rate**

- Generally, the employee's pay rate at the financial reporting date
- Exception: more likely than not to be paid at a different rate at the time the payment is made

- **Salary-related payments**

- Directly & incrementally related
- DC pension or OPEB recognized as related leave is earned-- not pension or OPEB liability
- DB pension or OPEB excluded

GASB Update

GASB 101 Compensated Absences

Note Disclosure

- No new note disclosures
- Exceptions to existing long-term liability disclosures for compensated absences:
 - Option to present net increase or decrease with indication that it is a net amount
 - Not required to disclose governmental fund used to liquidate

GASB Update

GASB 102 – Certain Risk Disclosures

Overview & Effective Date

The new guidance requires governments to disclose information about certain concentrations or constraints that could affect services provided or the ability to meet obligations as they come due.



Statement 102 Effective Date

Fiscal Years Beginning After June
15, 2024

GASB Update

GASB 102 – Certain Risk Disclosures - Definitions

Concentration

A lack of diversity related to an aspect of a significant inflow of resources or outflow of resources

Constraint

A limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority

GASB Update

GASB 102 – Certain Risk Disclosures – Examples (non-exhaustive)

Concentration

- Employers
- Industries
- Inflows of resources
- Workforce covered by collective bargaining agreements
- Providers of financial resources
- Suppliers of material, labor, or services

Constraint

- Limitations on raising revenue
- Limitations on spending
- Limitations on the incurrence of debt
- Mandated spending

GASB Update

GASB 102 – Certain Risk Disclosures

Disclosure Criteria

Disclosure is required if all the following criteria are met:

- It is known to the government prior to issuing the financial statements.
 - A government is not required to search for a wide range of potential events that might result from each concentration or risk it faces.
- The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact.
- An event or events associated with the concentration or constraint that could cause a substantial impact:
 - have occurred,
 - have begun to occur, or
 - is more likely than not to begin to occur within 12 months of the financial statement date.

If mitigating actions taken by the government prior to financial statement issuance cause any of the disclosure criteria not to be met, none of the disclosures in the next section are required.

GASB Update

GASB 102 – Certain Risk Disclosures

Disclosures

- The concentration or constraint.
- Each event associated with the concentration or constraint that could cause a substantial impact
 - Only disclose the event if it occurred or had begun to occur prior to the issuance of the financial statements.
- Mitigation actions taken by the government prior to financial statement issuance.
 - Planned efforts may constitute a prediction about future events & should not be included in the financial statement notes.

GASB Update

GASB 103 – Financial Reporting Model Improvements

Overview & Effective Date

The new guidance updates requirements for management's discussion & analysis (MD&A), unusual & infrequent items, **proprietary fund statement**, component unit, and other required supplementary information.

Do not underestimate the effort involved.



GASB Update

GASB 103 – Financial Reporting Model Improvements

Management's Discussion and Analysis:

Five Required Sections

Overview of
Financial
Statements

Financial
Summary

Detailed
Analyses

Significant
Capital Asset
& Long-Term
Financing
Activity

Currently
Known
Facts,
Decisions, or
Conditions

GASB Update

GASB 103 – Financial Reporting Model Improvements

Required Supplementary Information - Statistical Section

- For governments engaged only in **business-type activities** (or business-type & fiduciary activities), a new RSI schedule is required in the statistical section:
- Revenues by major source, distinguishing between operating, noncapital subsidy, & other nonoperating revenues & expenses.

GASB Update

GASB 103 – Financial Reporting Model Improvements

Statement 103 eliminates the option to report information about major component units in the reporting entity's financial statement notes

- Present each major component unit separately in the statement of net position & activities

Exception to Presentation

- If this reduces readability, combining statements of net position & activities should be presented after the fund financial statements

GASB Update

GASB 103 – Financial Reporting Model Improvements: Unusual or Infrequent Items

Presentation

- Last presented item before the net change in resource flows
- Inflows & outflows should not be netted

Disclosure

- The program, function or identifiable activity to which the item is related
- Whether the item is within control of management

GASB Update

GASB 103 – Financial Reporting Model Improvements:

Unusual or Infrequent Items

New Required Definitions of Operating and Nonoperating Activity

Operating

- Items other than nonoperating

Nonoperating

- Subsidies received & provided
- Contributions to permanent & term endowments
- Revenues & expenses related to financing
- Resources from disposal of capital assets and inventory
- Investment income & expenses

GASB Update

GASB 103 – Financial Reporting Model Improvements: Unusual or Infrequent Items

New Required Definitions of Subsidies

Resources received from another party **or fund**

- For which the proprietary reporting entity **does not provide goods or services, AND**
- That **directly or indirectly** keep the proprietary reporting entity's current or future **fees and charges lower than they otherwise would be**

Resources provided to another party or fund

- For which the other entity **does not provide goods or services, AND**
- That are **recoverable** through the proprietary reporting entity's **current or future pricing policies**

GASB Update

GASB 103 – Financial Reporting Model Improvements

Proprietary Fund Statement Presentation

New Required Presentation Format – separate noncapital subsidies caption and subtotal

Operating revenues (detailed)

Total operating revenues

Operating expenses (detailed)

Total operating expenses

Operating income (loss)

Noncapital subsidies (detailed)

Total noncapital subsidies

Operating income (loss) and noncapital subsidies

Other nonoperating revenues and expenses (detailed)

Total other nonoperating revenues and expenses

Income (loss) before unusual or infrequent items

Unusual or infrequent items (detailed)

Increase (decrease) in fund net position

Fund net position—beginning of period

Fund net position—end of period

GASB Update

GASB 104 – Disclosure of Certain Capital Assets

Overview & Effective Date

The new guidance requires capital assets held for sale, intangibles assets, lease assets & subscription assets to be broken out separately in note disclosure.

Statement 104 does not change any current recognition or measurement requirements.



GASB Update

GASB 104 – Disclosure of Certain Capital Assets: Presentation

Disclose following items separately

Lease Asserts by
Major Class
(Segment 87)

Intangible RTU
assets recognized
by an operator, by
major class of
asset (Statement
94)

Subscription assets
(Statement 96)

Other intangible
assets, by major
class of asset

Intangible assets that represent a right to use an asset should NOT be disclosed in the same major class as any owned assets of that type

GASB Update

GASB 104 – Disclosure of Certain Capital Assets Capital Assets Held for Sale

Applies to both tangible & intangible capital assets & does not require an asset to be idle to meet the criteria

Asset is held for sale if both criteria are met:

- Entity has decided to pursue the sale of the asset and
- It is probable that the sale will be finalized within one year of the financial statement date

Factors to Consider:

- Whether the asset is available for immediate sale in its present condition
- Whether an active program to locate a buyer has been initiated
- Market conditions for selling that type of asset
- Regulatory approvals needed to sell the asset

GASB Update

GASB 104 – Disclosure of Certain Capital Assets

Disclosure & Presentation

- A capital asset held for sale should continue to be reported within the appropriate major class of capital asset.

- The notes to financial statements should include for each major class of asset
 - A separate disclosure of historical cost & accumulated depreciation/amortization
 - The carrying amount of debt for which capital assets held for sale are pledged as collateral

- Disclosure should be made for both governmental and business-type activities.

04

GASB Technical Agenda



GASB Update

GASB Technical Update

Project Plan Overview (Subject to Change)

