Contemporary Governmental Accounting: The Good, The Bad, The Ugly

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Today’s Objectives:

- Intro to Governmental Accounting
  - 5 W’s and 1H
- Contemporary Governmental Accounting Issues
  - Emerging Topics
  - 2022 GASB Statements

The Good – It’s Just Accounting!

Who Needs to Understand Governmental Accounting?

- Career Opportunities
- Governments require external auditors
- Citizens of government(s)
  - Tax Spending
  - Charitable Donation Usage

What really makes Governmental Accounting Different?

- Accountability Focus
- Legally binding Budget
- No Competition
- Lack of Incentives?

When is Governmental Accounting Different?

- Organizational Purpose
- Revenue Sources
- Longevity - Competition/Incentive
- Stakeholders
- Budget (Legal Requirement) – Accountability Focus

Where is Governmental Accounting Different?

- Actual versus Budgeted Financial Statements
- Efficiency & Effectiveness Focus
- Financial & Nonfinancial Performance Measures

Why is Governmental Accounting Different??

- Modify “Equity” Accounts
- Focus on Budget (Income Concept???)
- Revenue Recognition Timing
- Budgetary Constraints Reflected
- Effectiveness Measurement

How Do We Address Differences?

- Government-Wide Financial Statements
  - Statement of Net Position
  - Statement of Activities
- Fund Financial Statements
  - Governmental (Current Financial Resources Measurement)
  - Proprietary (Economic Resources Measurement Focus)
  - Fiduciary (Economic Resources Measurement Focus)

The Bad?

Contemporary Governmental Issues

- Environmental, Social, and Governance Matters
- Conceptual Framework
- Tax Abatement Disclosures
- 2022 GASB Statements No. 101, 100, 99

Environmental, Social, and Governance (ESG) Matters

- Growing public concern with ESG.
- GASB rules focus on accountability and so there is major overlap with ESG concerns.
  - GASB provided a Fact Sheet on May 31, 2022.
  - Identifies areas where ESG intersect with GASB accountability standards.

Conceptual Framework

- Disclosure Framework (2022?)
  - What should be required in note disclosures?
- Recognition (2023?)
  - Whether and when information should be reported in financial statements.

Tax Abatement Disclosures

- Statement No. 77 Issued in August 2015, Effective for years starting after December 15, 2015.
- Outstanding issues:
  - Consistency of application
  - Definition of abatement
  - Omitted abatements due to legal reasons
  - Benefit for user decision-making

GASB Statements

- GASB Statement No. 101, Compensated Absences
- GASB Statement No. 100, Accounting Changes and Error Correction – An Amendment of GASB Statement No. 62
- GASB Statement No. 99, Omnibus 2022

GASB Statement No. 101, Compensated Absences (CA)

- Objective: Update the recognition and measurement guidance for CA
- Financial Reporting Improvement: more appropriate reflection of when a government incurs liabilities for CA
- Expected Benefits: More relevant, reliable, consistent, and comparable information about CA

GASB Statement No. 101 CA Scope & Application

- Scope:
  - Compensated absences
  - Associated salary-related payments
- Applicability: All state and local governments

GASB Statement No. 101 CA Recognition & Measurement

- Recognition: In financial statements using the economic resources measurement focus for:
  - Leave that has not been used
  - Leave that has been used but not yet paid or settled

GASB Statement No. 101 CA Leave That Has Not Been Used Defined

- The leave is attributable to services already rendered.
- The leave accumulates.
- The leave is *more likely than not (> 50%)* to be used for time off or otherwise paid in cash or settled through noncash means.
  - Except if settled through conversion to defined benefit plan benefits

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GASB Statement No. 101 CA Instances When Leave is Recognized When Used

- CA is dependent on sporadic events that impact a small portion of employees (parental leave, military leave, jury duty).
- Leave that employees are able to take as needed without specific limits (unlimited leave).
- Holiday leave that occurs on a specific date not at the discretion of the employee.

GASB Statement No. 101 CA Effective Date and Transition

- Effective Date: Effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- Changes adopted to conform should be reported as a change in accounting principle in accordance with Statement No. 100, Accounting Changes and Error Corrections.

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The Ugly

GASB Statement No. 100, Accounting Changes and Error Corrections (ACEC) – An Amendment of GASB Statement No. 62

- Objective: To enhance accounting and financial reporting requirements for ACEC
- Financial Reporting Improvement: Greater clarity and consistency for ACEC
- Expected Benefits: More understandable, relevant, reliable, consistent, and comparable information

GASB Statement No. 100 ACEC Scope & Application

- Scope:
  - Accounting changes
  - Correction of error in previously issued financial statement
- Applicability: All state and local governments
  - Exception: Not the first time a government asserts their statements are prepared in accordance with U.S. GAAP established by the GASB.

GASB Statement No. 100 ACEC Classification

- Accounting Changes:
  - Changes in accounting principles
  - Changes in accounting estimates
  - Changes to or within the financial reporting entity
- Error Correction

GASB Statement No. 100 ACEC Change in Accounting Principle

- Justified when a newly adopted GAAP principle is preferable to the GAAP principle applied before the change.
  - Justification determined based on the qualitative characteristics – understandability, reliability, relevance, timeliness, consistency, and comparability.
- Implementation of new authoritative accounting or financial reporting pronouncements.

GASB Statement No. 100 ACEC Not A Change in Accounting Principle

- Initial adoption or application of an accounting principle to transactions or other events that are:
  - Clearly different in substance
  - Occurring for the first time
  - Were previously insignificant in their effect

GASB Statement No. 100 ACEC Change in Accounting Estimate

- Occurs when inputs to the estimate are changed due to change in circumstances, new information, or more experience.
- Change in measurement methodology is justified when the new measurement is preferable to the old measurement.
  - Justification determined based on the qualitative characteristics – understandability, reliability, relevance, timeliness, consistency, and comparability.

GASB Statement No. 100 ACEC Change to or within the Financial Reporting Entity

- Occurs when:
  - A fund is added or removed due to the movement of continuing operations.
  - A change in a fund’s presentation as major or nonmajor.
  - Addition or removal of a component unit.
  - Change in component unit presentation as blended or discretely presented.
  - A change could be either a change in accounting principle or change to or within the financial reporting entity.

GASB Statement No. 100 ACEC Change to or within the Financial Reporting Entity

- Does not occur when:
  - Acquisition, mergers, or transfers of operations that result in the addition or removal of a discretely presented component unit.
  - A component unit is reported pursuant to Statement No. 90, Majority Equity Interests.

GASB Statement No. 100 ACEC Error Correction

- Error occurs when:
  - Mathematical mistakes
  - Application of accounting principle mistakes
  - 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.
  - A change from a non-GAAP principle to a GAAP principle.

GASB Statement No. 100 ACEC Effective Date and Transition

- Effective Date: Effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- Transition: Does not impact the transition provisions of any GASB pronouncements issued prior to this Statement.

GASB Statement No. 99, Omnibus 2022

- Objective: To enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing:
  - Practice issues that have been identified during implementation and application of certain GASB Statements
  - Accounting and financial reporting for financial guarantees

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GASB Statement No. 99, Omnibus 2022 Practice Issues Addressed

- Statements No. 53 (Derivatives), 87 (Leases), 94 (PPP), 96 (Subscription-Based IT Arrangements)
- London Interbank Offered Rate (LIBOR) Extension
- Supplemental Nutrition Assistance Program (SNAP)
- Nonmonetary Transaction Disclosures
- Pledges of Future Revenues (not yet received)

The Good, The Bad, The Ugly

Thank you for the opportunity to present today!

Questions?

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