2025 GASB Update

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TENNESSEE COMPTROLLER OF THE TREASURY

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GASB Activity

- Fewer new standards issued
- Fewer current active projects
- Planned review of ALL note disclosures for *essentiality* (Concepts Statement 7)

Effective Dates

GASB 100

Reporting periods ending 6/30/2025	GASB Statement No. 101, *Compensated Absences*
Reporting periods ending 6/30/2025	GASB Statement No. 102, *Certain Risk Disclosures*
Reporting periods ending 6/30/2026	GASB Statement No. 103, *Financial Reporting Model Improvements* *GASB Statement No. 104, Disclosure of Certain Capital Assets* Implementation Guidance Update – 2025 (Question 4.16 upon issuance)

GASB Statement No. 101

Compensated Absences

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Objective & Purpose

- Updates recognition and measurement guidance for compensated absences.
- Aligns all leave types under a unified model.
- Simplifies disclosures to focus on net changes.

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Unified Recognition Criteria

- Leave attributable to services already rendered.
- Leave accumulates (can be carried forward).
- More likely than not to be used or paid/settled.

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Key Exceptions

- Parental, military, jury duty: liability recognized only when leave commences.
- Unlimited leave & fixed-date holidays: liability recognized when leave is used.
- Leave expected to convert to defined benefit postemployment benefits is excluded.

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Measurement Guidance

- Use employee's pay rate as of the financial statement date.
- Adjust if policy mandates different payout rates (e.g., 50% on termination).
- Include directly & incrementally associated salary-related payments (e.g., employer payroll taxes).

Governmental Funds Treatment

- Expenditures recognized for amounts normally liquidated with expendable available resources.
- Follow Interpretation 6 guidance for current financial resources measurement focus.

Disclosure Changes

- May report net increase/decrease in compensated absences liability (identify as net).
- No longer required to disclose typical governmental funds used to liquidate the liability.

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GASB 101

How about an example calculation?

Sample Days Paid method

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GASB 101

How about an example calculation?

Sample Days Paid method

Total Sick Days Accumulated

Apply history, policies, experience and expectations

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How about an example calculation?

Sample Days Paid method

Total Sick Days Accumulated

Sick Days expected to be taken (used)

Total Sick Days expected to be paid out (not by DB)

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How about an example calculation?

Sample Days Paid method

Total Sick Days Accumulated

Sick Days expected to be taken (used) X price per day =

Total Sick Days expected to be paid out (not by DB) X price per day =

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How about an example calculation?

Sample Days Paid method

Total Sick Days Accumulated

Sick Days expected to be taken (used) X price per day = $ Amt Days Taken

Total Sick Days expected to be paid out (not by DB) X price per day = $ Amt Days Paid Out

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How about an example calculation?

Sample Days Paid method

Total Sick Days Accumulated

Sick Days expected to be taken (used) X price per day = $ Amt Days Taken

\+

Total Sick Days expected to be paid out (not by DB) X price per day = $ Amt Days Paid Out

= Estimated Liability

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How about an example calculation?

Sure, samples are allowed to develop an estimate.

Sample 10 employees over 5 years gives an average 5.02 sick days taken per year.
The 5.02 days taken is of the 12 sick days awarded each year is 41.83%.

Note the use of a sample over 5 years.

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How about an example calculation?

GASB 101

Start with the total sick days accumulated . . .

There are 1,644 sick days accumulated for the organization.

Use the 41.83% usage rate to expect 688 days taken and,
58.17% not taken or expect 956 days not taken.

Apply the sample usage rate to the total.

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How about an example calculation?

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From a representative sample of employees . . .

Average pay at year end is $37.36/hr or $298.88/ day

Use the sample average pay at year end.

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How about an example calculation?

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Apply average pay rate per day times expected days paid.

For days expected to be taken (used)
688 days x $298.88/day = $205,629

(NOTE: This method is an option — not a requirement.)

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How about an example calculation?

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A sample of former employees gave us an 82% expected settlement rate. Settlements are limited by policy to 30% of pay.

82% of the 956 days expected to be settled = 784 days.
784 days x 298.88 per day x 30% limit = $70,297

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How about an example calculation?

GASB 101

Days taken applies FICA at 7.65% and DC contribution of 5.0% = 12.65%

Days settled applies FICA only at 7.65% by policy.

Days taken has 12.65% salary related costs = $26,012
Days settled has 7.65% salary related costs = $5,378

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How about an example calculation?

GASB 101

Expected cost of days taken is $205,629 + 26,012 = $231,641
Expected cost of days settled is $70,297 + 5,378 = $75,675

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Summary calculation

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	Salary	Related	Total
$ from days taken	205,629	26,012	231,641
$ from days settled	70,297	5,378	75,675
Total expected liability	275,926	31,390	307,316

Days taken + Days settled with salaries and benefits.

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Implementation Issues

- Look at the specifics in the leave policies – will affect the calculation – different employee groups?
- Hybrid pension plans – be sure to only include the DC component as a salary-related payment
- Beginning of implementation year balances

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FIFO/LIFO

Flow assumption

- FIFO (first in/first out) – Oldest accumulated leave is used first (likely earned in previous reporting period from the one it's used in)
- LIFO (last in/first out) – Leave used is the leave most recently earned (likely earned in the same reporting period it's used in)

Guidance does not require a specific flow assumption

Establish a policy if one not already in place (accounting)

Effective Date & Transition

- Effective for fiscal years beginning after December 15, 2023.
- Earlier application encouraged.
- Adopt as change in accounting principle per GASB Statement No. 100.

GASB Statement 102

Certain Risk Disclosures

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Learning Objectives

- Understand the scope and objectives of GASB 102
- Indentify concentrations, constraints, and related events
- Apply the three-part disclosure criteria
- Understand note disclosure components

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Origin and Context

COVID-19 AND USER FEEDBACK HIGHLIGHTED GAPS IN RISK DISCLOSURES

BUILDS ON FASB ASC 275 BUT IS NARROWER

COMPLEMENTS STANDARDS ON SUBSEQUENT EVENTS AND GOING CONCERN

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Scope and Applicability

- Applies to all state and local governments
- Focuses solely on disclosures – no recognition/measurement
- Amends NCGA 6

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Key Definition: Concentration

- Lack of diversity related to an aspect of a significant inflow or outflow of resources
- Examples: single employer, dominant industry, major supplier
- Judgment involves qualitative and quantitative factors

Key Definition: Constraint

- Limitation imposed by an external party or by a formal action of the government's highest authority
- Examples: statutory revenue caps, debt-limit ceilings, mandated spending, restrictive
- Note again that the constraint can be internal in that it can be imposed by the highest authority of the government

Disclosure Criteria: Overview

- A disclosure is required only if ALL three tests are met
  - 1. Known concentration/constraint exists
  - 2. It makes the reporting unit vulnerable to the risk of a substantial impact
  - 3. An associated event (or events) has occurred, begun to occur, or is more likely than not to begin within 12 months of issuance

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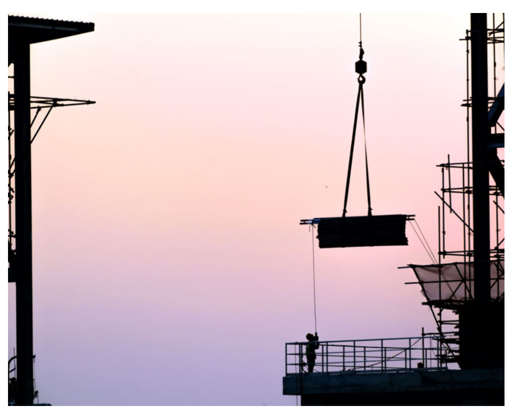
Criterion 1: Awareness and Reporting Units

- Applies to primary government and units with revenue debt liabilities
- Management is presumed to know major concentrations/constraints (B18)



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Criterion 2: Vulnerability to Substantial Impact

- Higher threshold than materiality ("significant")
- Focus on disruptions to normal functioning (services, liquidity, solvency)

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Criterion 3: Event Timing and Likelihood

- 12-month window measured from issuance date (not fiscal year-end)
- Likelihood threshold more likely than not – just about 50%

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Mitigation

- If actions taken **before issuance** fully negate any criterion, no disclosure required
- **Planned** future mitigations do not affect criteria

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General Disclosure Principles

- Current-year only – even in comparative FS (consider on-going significance)
- Combine with other notes to avoid duplication of info
- Combine identical info across reporting units
- Employ professional judgment for discretely presented component units (GASB 14, par. 63)

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Required Note Elements

For each qualifying concentration/constraint disclose:

1. Description of the concentration/constraint

2. Description of each associated event (if occurred/begun)

3. Actions taken before issuance to mitigate.

Provide sufficient detail for users to understand nature of the vulnerability

Illustration 1: Major Airline Customer

Concentration: Single airline provides XX% of charges for services

Event: Airline announced lease termination (December 31, 20X0)

Mitigation: City seeking new carriers

Qualifies because Airport Fund has revenue bonds

Illustration 2: Collective Bargaining Workforce

Concentration: 100% of transport workers under contract expiring 6/30/20X2

Event: Contract likely to lapse – service disruption

Mitigation: None yet

Qualifies because government will encounter substantial service disruption

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Illustration 3: Mandated Environmental Spending

Concentration: Proposed state regs require costly plant upgrades

Event: Regulations expected to be finalized within compliance horizon

Mitigation: First user rate increase approved

Qualifies because mitigant does not negate any of the three criteria

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Illustration 4: Employer Dependence (Air Force Base)

Concentration: Base generates ZZ% of County tax resources

Event: Congressional decision to close base

Mitigation: Economic redevelopment incentives (but no action taken)

Qualifies because the three criteria met

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Decision Flowchart

1. Identify potential concentrations/constraints
2. Assess vulnerability to substantial impact
3. Evaluate events (occurred/begun/likely within 12 months)
4. Consider pre-issuance mitigations
5. Disclose as per paragraph 9 (or document rationale for no disclosure)

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FAQs

Which reporting units need their *own* assessment? Always the primary government and any reporting unit that carries revenue debt. The Board singled out revenue-pledged debt because its cash flow risk profile can diverge sharply from the general fund. (see B17)

What about discretely presented component units? Use professional judgment. Apply guidance in GASB 14, paragraph 63. (See B39)

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FAQs

Why did the Board choose *substantial* instead of the familiar *significant*? GASB believed this threshold met the objective of focusing the info in the disclosure on risk that make the government to a heightened possibility of loss or harm. (See B23)

Why fix the event horizon at 12 months from issuance? Longer windows would demand too much speculation and shorter windows risk information coming too late.

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Time-Frame Nuances (Criterion 3)

- 12-month window applies only to the event: Criterion 3 measures whether the associated event occurs, begins to occur or is >50% likely to occur within 12 months of the issuance date
- No fixed horizon for the impact itself: the standards do not place a time limit on when the substantial impact might be felt
- No "or shortly thereafter" language as in going concern guidance. Considered too ambiguous.

Probability Assessment: Practical Challenges

- >50% likelihood test: Preparers must judge whether the event is more likely than not to begin within 12 months – often with incomplete data
- Indicators vs. onset: Distinguish between occurrences that signal increasing likelihood (e.g., legislative hearings) from the actual *start* of the event (e.g. law enacted)

Pinpointing “the Event”: Case-by-Case

Airline departure illustration: The event satisfying criterion 3 was the airlines announcement to leave, not the first reduction in flights or other activity.

Air-Force-Base closure illustration: Milestones included placement on the BRAC list, commission hearings, and the commission’s recommendation. But the “event” was Congressional approval.

Preliminary milestones may inform the probability assessment even though they do not satisfy criterion 3.

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GASBS No. 103

Financial Reporting Model Improvements

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GASB Statement No. 103

- Financial Reporting Model Improvements
- Governmental Accounting Standards Board (GASB)
- Issued April 2024

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Objective

- Improve key components of the governmental financial reporting model
- Enhance decision-usefulness and accountability
- Address application issues identified through GASB research

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Key Components Addressed

- Management's Discussion and Analysis (MD&A)
- Unusual or infrequent items
- Proprietary fund statement of revenues, expenses & changes in net position
- Major component unit information
- Budgetary comparison information

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MD&A Enhancements

- Remains required supplementary information (RSI)
- Five required sections: Overview; Financial Summary; Detailed Analyses; Capital Asset & Long-Term Financing Activity; Currently Known Facts
- Analysis must explain WHY balances changed, not just amounts
- Avoid duplication & boilerplate; focus on primary government
- Distinguish primary government vs. discretely presented component units

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Operating vs. Nonoperating

- Operating revenues/expenses = all except nonoperating
- Nonoperating includes:
- • subsidies received/provided
- • contributions to permanent & term endowments
- • financing-related revenues/expenses
- • disposal of capital assets & inventory
- • investment income & expenses

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New Subtotal & Subsidies

- Add subtotal: operating income (loss) AND noncapital subsidies
- Subsidy = resources that keep fees lower
- Covers resources received from or provided to other parties without direct exchange

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Unusual or Infrequent Items

- Transactions unusual in nature OR infrequent in occurrence
- Inflows/outflows displayed separately as the last flows before net change
- Applicable to government-wide, governmental fund & proprietary fund statements

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Budgetary Comparison Information

- Presented ONLY as RSI
- Show variances: original vs. final budget & final budget vs. actual
- Explain significant variances in notes to RSI

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Major Component Units

- Present each major component unit separately in statements of net position & activities
- If readability reduced, present combining statements after fund financials

Effective Date

- Fiscal years beginning after June 15, 2025
- Earlier application encouraged
- Primary government and component units implement together

GASB 104

Disclosure of Certain Capital Assets

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Objectives of the Statement

- Provide users with essential information about specific capital-asset categories
- Enhance consistency and comparability across governments

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Key Changes at a Glance

- New breakout requirements in the capital asset "rollforward" note by asset type
- New definition and disclosures of "capital assets held for sale"
- Retroactive application (if practicable)

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Separate Disclosure – Lease Assets

Lease assets (GASBS 87) shown by major class of underlying tangible asset

Include beginning balances, activity, and ending balances in the capital-asset note

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Separate Disclosure – PPP Right-to-Use

- Operator's intangible RTUs (GASBS 94) disclosed by major class of underlying asset

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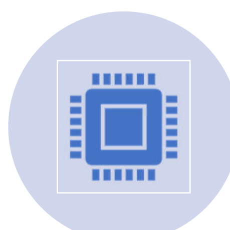
Separate Disclosure – Subscription Assets

SUBSCRIPTION-BASED IT ARRANGEMENT (SBITA) ASSETS (GASBS 96) DISCLOSED SEPARATELY FROM OTHER CAPITAL ASSETS



NO REQUIREMENT TO SEPARATE BY UNDERLYING ASSET (HARDWARE VERSUS SOFTWARE COMPONENT)

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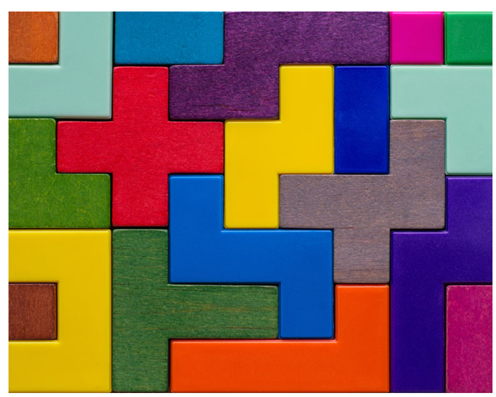
Separate Disclosure – Other Intangibles

- All other intangible capital assets disclosed by major class
- Do ***not*** mix "right-to-use" intangibles with owned intangibles in the same class

Capital Assets Held for Sale - Definition

- Government has decided to pursue a sale
- Probable sale finalization within on year of the financial statement date



Probability Factors

Immediate availability for sale

Active program to locate buyer (e.g. bid process)

Market conditions for the asset type

Required regulatory approvals

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Ongoing Evaluation

Assess criteria for “held for sale” each reporting period

If criteria lapse, remove the “held for sale” disclosure

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Disclosure Content

Held-for-sale assets remain in original major class on the capital-asset rollforward

Separate narrative disclosure of:

- Historical cost and accumulated depreciation
- Carrying amount of collateralized debt

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Impact on Liquidity Analysis

- Held-for-sale breakout highlights assets expected to convert to cash within 12 months
- Supports user assessments of near-term resources

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Effective Date and Transition

- Fiscal years beginning after June 15, 2025
- Early application encouraged
- Retroactive restatement unless impracticable (disclose why if so)

Why the new breakouts?

- User outreach showed that f/s users analyze lease and subscription assets differently from owned assets
- Right-to-use assets still meet capital-asset definition but merit separate disclosure

Intangible Viewed Differently

- Per outreach: Intangibles frequently differ in useful life, condition and service capacity from tangibles
- Separate disclosure improves transparency

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Flexibility and Judgment

- No requirement that assets held for sale be idle
- Guidance includes list of factors to consider but does not dictate determinations – professional judgment needed

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Disclosures *NOT* Required – Expected Proceeds

Past valuations not necessarily representative of what government will obtain in a sale

GASB did not want to impose the burden of obtaining a fair value determination, especially considering that might not reflect eventual proceeds

Disclosures *NOT* Required – Sales Process

Governments follow drastically differing sales processes – concerned this would invite boilerplate disclosures or confusion disclosures

Probability test already captures to-date progress of the sales process

Board did not want to try and bake in "milestone" type checkpoints – too much variety in different governments for these to be reliable signals of progress

GASB Standard Setting -- GASAC

Governmental Accounting Standards Advisory Council

GASAC

Members of the GASAC represent a diverse group of stakeholders

NASACT, AGA, GFOA, NACUBO, AICPA, bond raters, bond insurers, bond counsel, insurance industry investors, financial statement preparers for many varied types of entities….

GASAC

- *Plays key role in advising GASB what new standards should be written*
- *New projects for GASB to begin*
- *What GASB's priority projects should be*

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GASAC

- *Members of the GASAC meet with GASB several times per year to discuss priorities, recommendations for new projects, current projects and the guidance being proposed*

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GASAC

In all there are more than 30 different groups represented on the council

Many varied opinions on all topics related to establishing GAAP for state and local governments

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Per GASB's website: "It is not the role of GASAC to reach consensus or to vote on the issues…."

The council is a way to provide GASB with a window through which the GASB can understand the views of the diverse groups GAAP impacts.

Implementation Guide No. 2025-1

Implementation Guidance Update -- 2025

Purpose and Structure of the Guidance

- Objective: clarify, explain, or elaborate on existing GASB Statements
- New Q&As, Amendments to prior Q&As, effective dates
- Reminder: category B authority – no new guidance – staff clarifications – not a "Board document" – not approved by the Board – Board only clears the staff document for issuance

Cash Flows Reporting – Q4.1

- Reconciling item required when cash flow classification differs from operating income
- Aligns with existing guidance

Operating vs. Nonoperating Classification

- Interest expense always nonoperating (Q4.2) – even if connected to the acquisition of funds to make program loans (e.g. housing authority)
- Financing costs to make program loans are not operating in nature
- Lease interest revenue remains nonoperating (interest considered "incidental") – Q4.3
- Conveying a right-to-use asset generates operating inflows – implicit interest component does not

Operating vs. Nonoperating

- Q4.4: Deferred inflow amortization
- Revenue recognized from amortizing lease deferred inflow is operating
- Only the interest component is nonoperating
- Separation of *financing* from *provision of RTU*

Subsidies

Q4.5

Classification based on donor restriction and *not* recipient usage

Restricted to capital by donor → capital subsidy

No restriction by donor but ultimately used for capital project → non-capital subsidy

Subsidies

- Q4.6: PILOTs Decision Tree
- If payment compensates another government for lost taxes → subsidy
- If payment is for goods and services received → not subsidy
- Substance of arrangement governs

Subsidies

- Q4.7: Third-party insurer payments
- Insurer paying provider on behalf on insured → **not** a subsidy
- Provider's receivable arises from services to insured, not from a donor subsidy

Leases

- Q4.8: Term limited by mileage
- Lease term = stated non-cancellable period (3 yrs in this case)
- Hitting 60,000 miles triggers *reassessment*, not initial setting of the least term

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Leases

Q4.9: Remeasurement timing

For modifications, remeasure lease liability **from modification date**, not commencement

Mirrors GASB 87 principle: adjust prospectively for changed facts and circumstances

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Conduit Debt

- Q4.10: Conduit debt in a component unit
- Characteristic 6b (issuer & obligation in different reporting entities) not met when issuer is component unit of obligor
- Result: report as regular long-term debt in component unit stand-alone f/s

Accounting Changes and Error Corrections

- Q4.11: Capitalization threshold is *not* accounting principle
- Raising or lowering dollar threshold is an application of materiality action, not a principle change
- No restatement required under Statement 100

Accounting Changes and Error Corrections

- Q4.12: Displaying beginning balance adjustments
- Present single aggregate line for all restatements/adjustments by reporting unit on f/s
- Individual items may be presented (if you put them all in the f/s) but not just a few singled out

Accounting Changes and Error Corrections

Q4.13 & 4.14: Fund reclassification scenarios

If a major fund becomes nonmajor

- Keep a mostly dormant column showing prior beginning balance and adjustment to zero – blanks (**not zeroes**) everywhere else
- "Ghost column"

Compensated Absences

Q4.15: Known future pay raises

Do **not** use approved by *future* pay rates when liability is measured

Only use different rates when leave is paid per policy at a set % of total or at a set amount

Future general salary changes recognized in period of change

Title vs. Ownership

Q5.1: Asset reporting

Holding title generally implies ownership, but assess substance of arrangement

E.g. in some circumstances, conduit debt issuer may hold title yet not report capital asset

Special Revenue Funds

- Q5.2: Not required unless
  - Blended CU's GF, or
  - Fund with restricted resources legally mandated to be included in a fund that meets the requirements to be reported as a special revenue fund per Statement 54.
- Aligns with Statement 54 fund type definitions

Effective Date and Transition

- Generally FYs beginning after 6/15/25
- Note that the "ghost column" question is not effective immediately, but GASB believes it is current guidance – but will not result in an error correction if done incorrectly in a previous year

Subsequent Events

Redeliberations of Stakeholder Feedback

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Key Drivers for Changes

- Diversity in practice defining “issuance date” and evaluating subsequent events
- User demand for clearer note disclosures about significant post-year-end events
- Need to align with modern concepts of professional judgment and materiality

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Exposure Draft Proposal: Core Definitions

- Subsequent event – transaction/event after the f/s date but before statements *available to be issued*
- Available to be issued means (1) GAAP compliant statements are complete and (2) necessary approvals obtained
- Time frame would replace multiple "issuance date" references across GASB literature

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Exposure Draft Proposal: Recognized vs. Nonrecognized

- Recognized events → inform conditions exiting at the f/s date, adjust estimates
- Nonrecognized events → significant later events having an effect on future measurement, disclose nature and effect
- Draft listed five explicit nonrecognized categories (including debt-related and tax-rate changes)

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Proposed Nonrecognized Events

- Debt-related transactions – new borrowings, refundings – can change leverage profile
- Government combinations or disposals of operations – mergers, acquisitions – structural shifts
- Changes in legally separate entities that compose the reporting entity – adding or removing CUs

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Proposed Nonrecognized Events

- Application of an enacted tax rate different from the prior rate – later removed – not clear that a change in tax rate alone would have a significant effect (also need to consider changes in tax base)
- Catch-all category – where disclosure is essential – not every important event can be enumerated in a list in guidance

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Exposure Draft Proposal: Effective Date

- Effective for fiscal years beginning after 6/15/26, earlier adoption encouraged

Respondent Feedback

- Support for new time frame (f/s date through available to be issued)
- Concern over requirement to have "all" approvals
- Mixed views on including a magnitude threshold
- Board has agreed that availability date should be in the notes

Available to Be Issued

- Exposure draft defined available to be issued as GAAP f/s complete AND all approvals necessary for issuance obtained
- Stakeholder concern → word "all" implies every perfunctory signoff needed – may extend window unnecessarily
- Board decision: remove the word "all" – rely on phrase "approvals necessary"
- Need for professional judgment highlighted in BFC – who can veto release of f/s? – do not consider mere "acceptances"

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GASB Preliminary Views (PV): Severe Financial Stress & Probable Dissolution Disclosures

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Agenda

- Project Objective & Background
- Key Definitions: SFS vs. PD
- Assessing Severe Financial Stress (SFS)
- Required SFS Disclosures
- Evaluating Probable Dissolution (PD)
- Required PD Disclosures
- Benefits & Conceptual Considerations
- Timeline & Next Steps

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Project Objective & Background

- Re-examine Going Concern guidance (GASB 56) for governmental context
- Clarify triggers & disclosures for severe financial stress (SFS)
- Introduce separate disclosure model for probable dissolution (PD)
- Goal: consistency, comparability, and earlier decision-useful signals

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Working Definitions

Severe Financial Stress (SFS): Near or at insolvency at the financial-statement date (generally unable to pay liabilities as they come due).

Probable Dissolution (PD): Probable cessation of the government's legal existence within 12 months after the date the financial statements are available to be issued.

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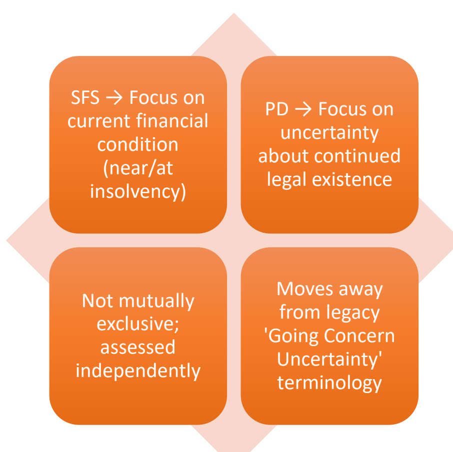
Relationship: SFS vs. PD



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Threshold & Scope

- **SFS disclosures required only when stress is near/at insolvency—a high bar, not routine fiscal stress.**
- **SFS evaluated in the aggregate for the primary government.**
- **PD assessed separately for the primary government and each blended component unit.**
- **Both models apply to governmental and business-type activities.**

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Defining Severe Financial Stress (SFS)

- Condition exists as of the F/S date when govt. is near or at insolvency
- Insolvency = generally not paying liabilities as they come due, or unable to pay
- Near insolvency = very high level of financial stress, judged via indicators

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Indicators of Near Insolvency

Purpose: To assist governments in determining whether they are experiencing SFS as of the financial statement date.

Important framing:

These are examples—not a checklist.

No minimum number of indicators must be met.

Presence of indicators is not dispositive, and their absence does not rule out SFS

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Indicators of Near Insolvency

Structural deficiencies

- (1) Recurring periods where expenditures exceed revenues
- (2) Persistent working capital deficits
- (3) Recurring inability to balance the budget without one-time funds
- (4) Loss of a critical revenue source or provider
- (5) Increased reliance on short-term borrowing to continue operations
- (6) For enterprise funds: recurring operating loss after noncapital subsidies

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Indicators of Near Insolvency

Need to take specific action

- **Reduce services**
- **Seek new sources or methods of financing**
- **Dispose of assets**
- **Restructure debt**

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Indicators of Near Insolvency

Noncompliance or legal matters

- **(1) Default on certain bonds**
- **(2) Not meeting certain obligations to vendors or employees**
- **(3) Noncompliance with debt service reserve requirements**
- **(4) Adverse legal proceedings, legislation, or similar matters**

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SFS Assessment Mechanics

- Timing: only at financial statement date (consider subsequent-events evidence)
- Level: primary government incl. blended component units (not funds)
- Judgment required; example indicators guide but are not exhaustive

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Required Disclosures – SFS

- **Description of precipitating events/conditions**
- **Management's evaluation of significance and expected duration**
- **Actions taken before issuance to mitigate SFS**
- **Known effects after the financial-statement date (e.g., rating downgrade, state oversight)**

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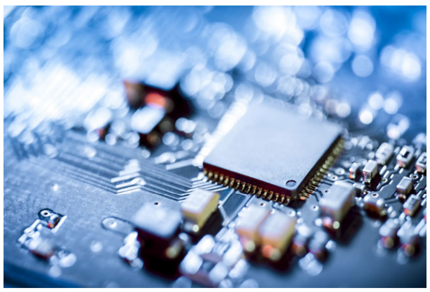
Follow-up SFS Disclosures



- If SFS persists → update prior-year disclosures
- If SFS alleviated → explain how the condition was resolved

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Defining Probable Dissolution (PD)

- Probable govt. will cease to exist as the same legal entity within 12 months of F/S availability
- Covers merger, acquisition, or dissolution without replacement
- Probable > 50% likelihood but less than 'reasonably certain' **Not the same as "more likely than not"**

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Evaluating PD – Relevant Factors

- Operational inefficiencies (duplication, underutilised infrastructure)
- Financial stress (incl. SFS condition or Ch. 9 filing)
- Dissolution actions (legal proceedings, merger negotiations)
- Management plans to alleviate issues or block dissolution

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PD Evaluation Scope

- Evaluate separately for primary government AND each blended component unit
- 12-month horizon measured from date F/S are available to be issued

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Required PD Disclosures

- Statement that dissolution is probable within 12 months
- Reasons & causes, with evaluation of significance
- Actions taken before F/S are available to be issued
- Info on recoverability/classification of assets & liabilities

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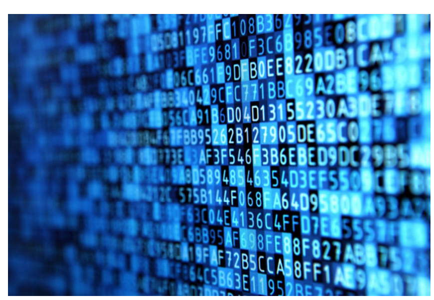
Follow-up PD Disclosures

If PD remains probable → update disclosures

If PD no longer probable → explain change in evaluation



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Exclusions & Board Debates

State monitoring programs alone are not near-insolvency indicators

Indicators exclude drawing on reserves or credit-rating downgrades unless tied to other evidence

Board wording changes: 'ongoing' ➔ 'recurring'; 'increased short-term borrowings' ➔ 'increased reliance on short-term borrowings'

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Timeline & Next Steps

PV issued Mar 19 2025; comments due Jun 30 2025

Public forums Jul – Sep 2025 (Norwalk and virtual)

Board will consider feedback → Exposure Draft → Final Statement

Exposure Draft possible end of calendar 2025

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Revenue and Expense Recognition

Redeliberations over PV Feedback

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Session Objectives

- Trace the logic of GASB's proposed model from scope → categorization → recognition → measurement
- Highlight Board decisions confirmed, refined, or reversed from Preliminary Views

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Project Context

Why a new model?

- Existing guidance over exchange and exchange-like transactions inadequate
- Conceptual inconsistency in terms like "earned" vs "available" vs "measurable"
- How to distinguish exchange from nonexchange (some cases it is not clear – one party provides 60% equal value – exchange?)

Objective it to produce a symmetrical, principle-based framework to cover all transactions within the scope

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Milestones

- 2018 Invitation to Comment
- 2020 Preliminary Views
- Redeliberations of PV Feedback
- Possible Exposure Draft late 2025 or early 2026

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Project Scope

Excludes financial instruments (also excluding leases which are financings)	Governed by standards on fair value/derivatives/leases
Excludes post-employment and similar	OPEB, pension, compensated absences
Initially excluded capital assets and inventory (purchase and donation)	During redeliberations, these were brought back in

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Postponed

- Application of the model to governmental funds
- Initially included – postponed with scope changes made to GASB Statement 103

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What is IN Scope?

- Exchange revenue
- Non-exchange revenue
- Pass-through grants
- Escheat, special assessments, service components outside 87/94/96
- Purchase of capital assets now in scope

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Foundational Principles

- Five Model Assumptions
  - Equal primacy of revenue and expenditures
  - Categorize them independently
  - Preserve non-agent presentation (avoid netting)
  - Seek symmetry where feasible
  - Viewpoint: resource-provider’s economic interest

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Categorization Framework

Category A: performance obligation as seen in a binding arrangement for distinct goods or services	Utility sales, tuition
Category B: no performance obligation – still must have a binding arrangement – grant contract or law for example	Taxes, grants, shared revenues

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Defining the Binding Arrangement

- Both Category A and Category B transactions must have a binding arrangement
- Transactions without a binding arrangement are out of scope
- This is an understanding that creates rights and obligations among parties
- May be unilateral/conditional/terminable
- Rebuttable presumption of enforceability retained

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Categorization Test

1

Identify the Binding Arrangement
- If not, out of scope

2

Identify rights and obligations
- If not, Category B

3

Determine the interdependence of rights and obligations
- If not, Category B

Determining Interdependence

Category A

- Exchange of distinct goods or services for consideration
- Each party's performance hinges on the other party's performance
- Examples: tuition payments for classes provided – utility fees for water delivered

Category B

- Obligations can be imposed unilaterally by statute, ordinance, or donor
- Resource flows not contingent on mutual exchange
- Typically driven by time requirements rather than performance
- Examples: property taxes levied by ordinance – grants conditioned on spending requirements – regulatory fees

Deeper Dive – Substantive Rights & Obligations

- Substantive: must create meaningful economic impact
- Incremental (additional): Obtained via the binding arrangement – not already existing
- Why "incremental" matters
  - Ensures categorization is based on actual economic exchange or creation of new rights and obligations – not formalizing existing ones
  - Clarifies distinctions between Category A and Category B

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Categorization in Action – An Instructive Example

- Expenditure-Driven Grants
  - Initial view: Grantor has the right to require spending in line with grant terms; grantee has obligation to comply – thus, Category A
  - Revised view: Grantor does not acquire an "incremental" right; already possessed the right to direct use of funds
  - Category B

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Categorization in Action – An Instructive Example

- Regulatory Fees – Driver's Licenses
  - Potential Misconception: Driver pays fee for a license, government provides "right to drive" in exchange
  - Board's Clarification: Citizens already possess the right to drive (subject to regulation) – not acquiring an "incremental" right by obtaining a license – government already has the obligation to regulate driving – not acquiring an incremental obligation
  - Fee is an offset to defray the cost of regulating the activity
  - Category B

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Recognition Basics – Category A Transactions

Recognize revenue as the government satisfies the performance obligation

Performance obligation is satisfied as the government transfers control over distinct goods and services

This can occur at a point in time or over a time span

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Recognition Basics – Category B Transactions

Imposed transactions	Recognize revenue at the imposition date (example: property taxes recognized at the date rates are approved by governing body)
Derived transactions (subset of imposed)	Recognize revenue when underlying transaction (upon which imposition is based) occurs – example: sales taxes recognized when a taxable sale occurs
Other imposed transactions	Recognize revenue for fines and fees when triggering action or inaction occurs (example: parking fines recognized at time of violation)

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Recognition Basics – Category B Transactions

- General Aid to Governments and Shared Revenue (with periodic appropriations)
  - Recognize revenue when payments become due, provided
    - Funds have been appropriated and the appropriation period has begun
    - Resource provider intends to provide resources

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Recognition Basics – Category B Transactions

- Shared Revenue (with continued appropriations
  - Recognize revenue when the underlying shared transaction has occurred, provided
    - Continuing appropriation has begun (if applicable)
    - Resource provider intends to provide resources

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Recognition Basics – Category B Transactions

- Transactions Subject to Qualifying Requirements
  - Recognize revenue when all qualifying requirements are met
    - Time requirements are not qualifying requirements but may delay revenue recognition (creating deferred inflows)
    - Purpose restrictions are not recognition criteria

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Recognition Basics – Category B Transactions

- Pledges that are not subject to qualifying requirements
  - Recognize revenue when the government receives or becomes aware of a binding arrangement
  - Term endowments treated the same as permanent endowments

Measurement Basics

The measurement principle that focuses on the most liquid item in the transaction should be retained as a principle underpinning measurement.

Revenues and expenses should be measured indirectly based on the most liquid item of the transaction; that is, revenues should be measured through receivables and expenses should be measured through payables.

Measurement Basics

When measurement uncertainty is present, develop an estimate

Note disclosure requirements should be considered for the assessment of essentiality when it is impracticable to develop estimates that are reflective of the six qualitative characteristics of financial information – GASB will conduct research

If, in a given reporting period, a government does not recognize a transaction because it is not practicable to develop a measurement estimate, the government should re-assess the practicability of an estimation for each subsequent period

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Category A Transactions – More on Recognition – Distinct Good or Service?

- Criterion 1: The customer can obtain the service capacity of the good or service on its own or together with other readily available resources.
  - A readily available resource is one that is sold separately (by the vendor or other vendors), that the customer has previously obtained, including goods or services that the customer already received in the same transaction, or that the customer obtained from other transactions or events.
  - Factors that indicate that the customer can obtain the service capacity of a good or service include:
    - The customer can use, consume, or sell the good or service for an amount that is greater than nominal
    - The vendor has the ability to sell the good or service on a stand-alone basis.

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Category A Transactions – More on Recognition – Distinct Good or Service?

- Criterion 2: The goods or services are separately identifiable from other goods or services in the context of the transaction.
  - Factors that indicate that two or more obligations are not separately identifiable:
    - Goods or services in the transaction are significantly integrated.
    - Goods or services in the transaction require significant modifications or customizations.
    - Goods or services in the transaction are highly interrelated.

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Satisfying the Performance Obligation

There are two modes for the transfer of control of goods or services—the transfer of control over time and the transfer of control at a point in time.

Governments should first determine whether the transfer of control occurs over time (by assessing the criteria). If the characteristics of the transaction fail the over-time criteria, the mode of transfer of control is at a point in time.

The assessment of the mode of transfer of control of goods or services should be made at the inception of the binding arrangement.

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"Over Span of Time" Criteria

A customer (government or counterparty) simultaneously receives and consumes the present service capacity of the asset as the seller (counterparty or government) performs

A seller's (government or counterparty) performance creates or enhances an asset that the customer (counterparty or government) controls as the asset is created or enhanced.

A seller's (government or counterparty) performance creates an asset for the customer (counterparty or government) that does not have an alternative use to the seller and the seller has a right to payment for performance completed to date.

Thank You!