

Upcoming GASB Pronouncements and their impact on your organization

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1

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2

Learning Objectives

- Recognize new accounting standards that need to be applied
- Recognize the new accounting standards presented and incorporate them into the participant's daily work as well as year-end financial statement preparation
- Recognize how new accounting guidance will impact the State going forward

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3

GASB 91, *Conduit Debt Obligations*

- Effective for periods beginning after December 15, 2021 (6/30/23)
- Eliminates the existing option for issuers to report conduit debt as liabilities
- Additional commitments to support debt service payments may be recorded as liabilities
- Disclosures for issuers:
 - Type of commitments
 - Description of each type
 - Aggregate outstanding principal balance

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4

GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

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5

Objectives of GASB 94

- Guidance on Public-Private and Public-Public Partnerships (PPP) arrangements and Availability Payment Arrangements (APA)
- Guidance for types of PPP's not within GASB 87 and not a service concession arrangement (SCA)
- Supersedes GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*

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6

Effective Date

- Fiscal years beginning after June 15, 2022 (6/30/23)
- Earlier application encouraged

7

Definition of PPP

- Arrangement in which a **government** (the transferor) contracts with an **operator** to provide public services by conveying control of the **right to operate or use a nonfinancial asset**, such as infrastructure or other capital assets for a period of time in an exchange or an exchange-like transaction

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    graph LR
      Government[Government] --> NonfinancialAsset[Nonfinancial Asset]
      NonfinancialAsset --> Operator[Operator]
      Operator --> PublicServices((Public Services))
  
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8

Identifying the PPP Arrangement

- Service Concession Arrangement
- Lease (follow GASB 87)
- All other PPPs

9

Identifying the PPP Arrangement

- Service Concession Arrangement (SCA) - Arrangement between a transferor and an operator if **all** the following criteria are met:
 - Transferor conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset in exchange for significant consideration
 - The operator collects and is compensated by fees **from third parties**
 - The transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom services are provided to, and the prices or rates that are charged
 - The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the term

10

Identifying the PPP Arrangement

- PPP meets the definition of a lease - apply guidance in GASB 87 if all of the following criteria are met:
 - Existing assets of the transferor are the **only** underlying PPP assets
 - Improvements are not required to be made by the operator to those existing assets as part of the PPP arrangement
- The PPP does not meet the definition of an SCA

11

Identifying the PPP Arrangement

- All other PPP arrangements
 - Some provisions applicable to an SCA do not apply
 - Similar accounting to GASB 87

12

Definition of Availability Payment Arrangements-APA

- An APA is an arrangement in which a government compensates an operator for activities that may include **designing, constructing, financing, maintaining, or operating** an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction
 - Payments by the government are based entirely on the asset's **availability for use** rather than on tolls, fees, etc.
 - Availability for use may be based on specified criteria – physical condition of the asset, construction milestones, achievement of certain availability measures
 - Government procures the asset for service rather than receiving compensation to allow another entity to provide public services
 - The operator receives compensation from the government entirely based on **availability to perform** and not the actual performance

13

Availability Payment Arrangements-APA

- An APA may contain multiple components
- Each component should be recognized as a separate arrangement
- Example – a government enters into an agreement with an operator to design, construct, finance, operate and maintain a public toll road in exchange for
 - Fixed payments meant to provide compensation for the design, construction, financing, operation and maintenance of the toll road
 - Variable payments to the operator based on whether measures related to availability have been met

14

PPP Example

Government enters into an arrangement with a developer for a period of 50 years

- Developer/operator will finance demolition of existing structure and construction of new structure
- New structure includes housing and dining facilities which the developer will operate, including setting rates
- Compensation to the developer will be exclusively from customers

Arrangement is considered a PPP but not an SCA as the developer has control over rates that may be charged

15

SCA Example

Government enters into an arrangement with a private entity to operate their toll-collecting function on government's roadways for a period of 50 years

- Operator provides an up-front payment of \$3 billion
- Operator has the right to operate the toll collection (at government determined rates) and receive and retain all revenues during the arrangement period

Arrangement is considered a PPP as well as an SCA as the government sets rates for the tolls

16

APA Example

Government enters into an arrangement with a developer to design, build and finance construction of a bridge. The developer will also collect tolls for the bridge and remit to government for a period of 40 years

- Government pays developer \$20 million at project commencement, \$20 million at completion, and \$5 million annually throughout the arrangement
- Government will pay developer \$200,000 per month for collecting tolls

Government is compensating the developer for operating the toll by paying \$200,000 per month, whereas under the SCA example revenues collected were retained by the operator as compensation

17

Common Assets Under PPP or APA Arrangements

- Infrastructure
- Hospitals
- Student services for colleges or universities
- Sports facilities
- Recreational facilities
- Jails/prisons
- Wastewater treatment plans
- Museums

18

Accounting for PPPs - Transferor

The underlying PPP asset is an **existing asset** of the transferor

- Transferor continues to report the underlying asset at carrying value
- Continue to apply other accounting and financial reporting requirements (depreciation, impairment, etc.)
- At commencement of the arrangement
 - Record a receivable at present value for installment payments to be received
 - Payments received at or prior to from the operator
 - Recognize a deferred inflow of resources
- Recognize any improvements to the underlying assets as an asset and deferred inflow – do not depreciate if asset is returned to the operator

19

Accounting for PPPs - Transferor

The underlying PPP asset is a **new asset** purchased or constructed by the operator

- At term commencement the transferor should record:
 - Underlying asset at the acquisition value when placed in service
 - Receivable for installment payments to be received at net present value
 - Recognize a deferred inflow of resources
- Apply other accounting and financial reporting requirements (depreciation, impairment, etc.)
- Do not depreciate if asset is required to be returned to the operator in its original condition

20

Accounting for PPPs - Operator

The underlying PPP asset is an **existing asset** of the transferor

- Operator recognizes an intangible right-to-use asset as the sum of the following:
 - The amount of initial measurement of the liability for installment payments
 - PPP payments made to the transferor at or before commencement of the PPP term
 - The cost of the purchased or constructed asset
 - The cost of improvements to the an existing underlying asset
 - Initial direct costs that are ancillary charges necessary to place the asset into service
- A liability for the present value of installment payments over the PPP

Treatment is the same when the underlying asset in the PPP is a **new asset** purchased or constructed by the operator as long as it is an SCA

21

Accounting for PPPs - Transferor

The underlying PPP asset is a **new asset** purchased or constructed by the operator – **PPP is not an SCA**

- At term commencement the transferor should record:
 - Receivable for the underlying asset based on the carrying value at the expected date of the asset to the transferor from the operator
 - Receivable at present value for installment payments to be received
 - Deferred inflow of resources

22

Accounting for PPPs - Operator

The underlying PPP asset is a **new asset** purchased or constructed by the operator – **PPP is not an SCA**

- At term commencement the transferor should record:
 - Underlying asset when it is place in service until transferred to the transferor
 - Liability for the underlying asset based on the carrying value at the expected date of the asset to the transferor from the operator
 - Liability for installment payments to be made
 - Deferred outflow of resources for the PPP asset to be transferred

23

Accounting for PPPs - Transferor

Total deferred inflow will include:

- The amount of the initial measurement of the receivable for installment payments
- PPP payments received at or prior to commencement of the PPP term
- The amount of the initial measurement of assets constructed or purchased by the operator
- The amount of the initial measurement for improvements made by the operator
- The amount of the initial measurement of a receivable for an underlying PPP asset constructed or purchased by the operator (if not an SCA)

24

Determining the Value of Installment Payments

The Present Value of Installment Payments includes the following (for transferor and operator):

- Fixed payments
- Variable payments that depend on an index or a rate, initially using the index or rate as of the commencement date of the PPP term
- Variable payments that are fixed in substance
 - Exclude payments based on future performance of operator, usage of the underlying asset or variable factors other than an index or rate
- Residual value guarantee payments that are fixed in substance

25

Determining the Value of Installment Payments

Additional elements of installment payments for the operator:

- Payments for penalties for terminating the PPP, if the PPP term reflects the operator exercising 1) an option to terminate the PPP or 2) a fiscal funding or cancellation clause
- Any other payments to the transferor associated with the PPP that are reasonably certain of being required

26

Identifying the Contract Term

The term of the arrangement includes all of the following:

- The period during which an operator has a non-cancellable right to use the underlying asset
- Includes periods covered by the transferor's or operator's option to extend the PPP if reasonably certain the option will be exercised
- Includes periods covered by the transferor's or operator's option to terminate the PPP if reasonably certain the option will **not** be exercised

27

Recording Installment Payments

- Installment payments made should be recorded appropriately reflect a reduction a liability and amortization of the discount calculated on the initial liability
- Amortization of the discount should be recorded as an outflow of resources (such as interest expense)

28

Future Recognition of Assets and Deferred Amounts

- An operator should amortize a right-to-use asset in a systematic and rational manner over the shorter of the PPP term or the useful life of the PPP asset
- Amortization should be reported as an outflow of resources such as amortization expense
- Deferred outflows of resources should be subsequently recognized as an outflow of resources in a systematic and rational manner over the remaining PPP term
- Deferred inflows of resources should be subsequently recognized as an inflow of resources in a systematic and rational manner over the remaining PPP term

29

Re-measuring the value of installment payments

- Re-measure at subsequent financial reporting dates if one or more of the following changes has occurred before the reporting date, and the changes are expected to significantly affect the liability:
 - Change in PPP term
 - Change in interest rate the transferor charges the operator
 - A contingency on which variable payments are based is resolved

30

Re-measuring the value of installment payments

- Additional events for consideration by the operator
 - There is a likelihood the residual value guarantee has changed from reasonably certain to not reasonably certain
 - There is a change in the estimated amount for payments already included in the measurement of the liability for PPP payments

31

Termination of PPP - Transferor

- Recognize a gain or loss for the reduction of deferred inflows of resources including the sum of the following:
 - Reduction of carrying value of any remaining receivable for installment payments
 - Termination penalties paid to or received from the operator
 - Amounts paid to the operator for underlying PPP asset

32

Termination of PPP - Operator

- Recognize a gain or loss for sum of the following:
 - Reduction of carrying value of any remaining liability for installment payments
 - Reduction of the carrying value of the right-to-use asset related to the liability for installment payments
 - Reduction of carrying value of right-to-use asset transferred to transferor
 - Termination penalties paid to or received from the transferor
 - Amounts received from transferor to acquire right-to-use asset

33

Re-measuring the value of installment payments

- Additional events for consideration by the operator
 - There is a likelihood the residual value guarantee has changed from reasonably certain to not reasonably certain
 - There is a change in the estimated amount for payments already included in the measurement of the liability for PPP payments

34

Other PPP Considerations

- Modification to a PPP should be treated as a separate PPP if both of the following conditions are present:
 - The modification gives the operator an additional underlying PPP asset that was not included in the original arrangement
 - The increase in PPP payments for the additional underlying PPP asset does not appear to be unreasonable based on terms of the amended PPP arrangement and professional judgement

35

Other PPP Considerations

- Modifications not treated as a separate PPP
 - Transferors should adjust deferred inflows of resources for changes in the re-measurement of receivables for installments or underlying assets.
 - To the extent the change relates to payments for the current period the change should be recognized as an inflow or outflow of resources
 - If the modification results from a debt refinancing in which the perceived economic advantage is passed through to the operator, the transferor should adjust the receivable for installment payments receivable. Any adjustment to a deferred outflow or inflow should be recognized over the remaining life of the old debt or new debt, whichever is shorter.

36

Other PPP Considerations

- Modifications not treated as a separate PPP
 - Operators should adjust the underlying asset by the difference between the initially recorded and re-measured liability
 - If the change reduces the carrying value of the right-to-use asset to zero, any remaining amount should be recognized as a gain
 - If the modification results from a debt refinancing including defeasance of debt, the operator should adjust the liability for installment payments to the present value of future PPP payments. The resulting different should be reported as a deferred inflow of resources which should be recognized as an inflow of resources over a systematic and rational manner.

37

Re-measuring the value of installment payments

- Additional events for consideration by the operator
 - There is a likelihood the residual value guarantee has changed from reasonably certain to not reasonably certain
 - There is a change in the estimated amount for payments already included in the measurement of the liability for PPP payments

38

GASB 99, Omnibus 2022

Effective dates vary:

- Requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosure of nonmonetary transactions, pledges of future revenues by pledging governments, clarifications to GASBS 34, 53, and 63 – **EFFECTIVE UPON ISSUANCE**
- Requirements related to leases, PPPs, and SBITDAs - **EFFECTIVE FOR FISCAL YEARS BEGINNING AFTER 6/15/22**
- Requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope Of GASB 53 - **EFFECTIVE FOR FISCAL YEARS BEGINNING AFTER 6/15/23**

39

GASB 99, Omnibus 2022 (Continued)

- GASB 87 – Clarification of unconditional/conditional termination options, reclassification of short-term leases, other items
- SBITDAs – Clarification of subscription terms, short term SBITDAs,
- SNAP – Clarification of applicability of GASB 33 to SNAP distributions for state governments
- Various terminology updates

40

GASB 100, Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62

Effective date is fiscal years beginning after June 15, 2023 (6/30/24)

Classifies accounting changes as:

- Changes in accounting principles
- Changes in accounting estimates
- Changes to or within the financial reporting entity

41

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

Change in Accounting Principle:

- Change from one generally accepted accounting principle to another
 - Only when new accounting principle is preferable considering qualitative characteristics of understandability, reliability, relevance, timeliness or comparability.
- Implementation of new accounting pronouncement
- Reported retroactively by restating beginning net position
- Additional note disclosures are applicable

42

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

Change in Accounting Estimate:

- Estimates are amounts subject to measurement uncertainty
- Should be justified on basis that newly adopted measurement methodology is preferable to the previous methodology used
 - Basis for determination – understandability, reliability, relevance, timeliness, consistency and comparability
- Reported prospectively by recognizing the change in accounting estimate in the reporting period in which change occurs
- Additional note disclosures are applicable



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43

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

Changes to or within the Financial Reporting Entity include:

- Addition or removal of a fund that results from the movement of continuing operations within the primary government
- A change in a fund's presentation as major or nonmajor
- Addition or removal of a component unit
- Change of presentation of component unit as blended or discretely presented
- Beginning net position/fund balance should be adjusted for the effect of the change at the beginning of the reporting period
- Additional note disclosures are applicable



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44

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

Correction of an Error:

- Mathematical mistake
- Mistake in application of accounting principle
- Oversight or misuse of facts that existed at time of financial statements were issued
 - Facts that could reasonably be expected to have been obtained and taken into account about conditions that existed as of the financial statement date
- Reported retroactively by restating beginning net position
- Additional note disclosures are applicable



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45

GASB Implementation Guide No, 2021-1, Question 5.1

Effective for periods beginning after June 15, 2023 (6/30/24)

Q – Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together?

A – A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant.



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46

GASB 101, Compensated Absences

Defines three general criteria for recognizing a liability for unused leave balances:

- The leave is attributable to services already rendered
- The leave accumulates
- The leave is more likely than not to be used for time off or otherwise paid or settled

Some types of leave, such as parental leave, military leave and jury duty are not recognized until leave commences

Effective for fiscal years beginning after December 15, 2023 (06/30/25)



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47

Thank You!

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48