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GASB Issues Implementation Guidance Update—2021

In May 2021, the Governmental Accounting Standards Board (GASB) issued Implementation Guide 2021-1, *Implementation Guidance Update—2021* (Guide). This Guide adds 27 questions and answers, and supersedes, amends, or removes several questions in previous implementation guides. Keep in mind that the content of this Guide is considered Category B in the hierarchy of GAAP.

New Questions and Answers

The new questions and answers are in paragraph 4 of the Guide and cover the following topics:

- Derivative Instruments
- Fiduciary Activities
- Leases
- Nonexchange Transactions

Derivative Instruments—The question asks if a nonparticipating contract to issue forward delivery bonds at a fixed price and interest rate after the contract date should be accounted for as a derivative instrument. The answer is "no" since the contract is nonparticipating and thus does not have the ability to capture market changes.

Fiduciary Activities—One question concludes that the particular Internal Revenue Code section does not determine whether an employee benefit plan is a fiduciary activity under GASBS No. 84. Instead, the characteristics of the plan make that determination. Another question clarifies that choosing investment options in an employee benefit plan does not mean the government directs the use, exchange, or employment of the assets that provide benefits to the participants according to GASBS No. 84, paragraph 12.

Leases—The vast majority of the Guide deals with leases. That broad topic is broken down to questions in the following subtopics, which should be consulted for specific guidance:

- Definition of a Lease
- Lease Term—Reassessment

In this Issue:

- Short-Term Leases
- Contracts That Transfer Ownership
- Lessee Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts That Transfer Ownership
- Lessor Recognition and Measurement for Leases Other Than Short-Term Leases and Contracts That Transfer Ownership
- Lease Incentives
- Lease Modifications and Terminations
- Effective Date and Transition of GASBS No. 87

Nonexchange Transactions—The question clarifies that a contractual agreement is not considered a nonsubstantive eligibility requirement that would allow revenue recognition in advance of the agreement execution when allowable costs are incurred.

Amended Questions and Answers

The topics amended by this Guide relate to the basic financial statements, management's discussion and analysis, and GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. There are four new questions and answers for these topics in paragraph 5 of the Guide.

Practical Consideration:

Appendix C of the Guide shows how its content affects the *Codification of Governmental Accounting and Financial Reporting Standards*—June 2021, 2022, and 2023 updates, and the *Comprehensive Implementation Guide*—June 2021, 2022, and 2023 updates.

Effective Date and Transition

The requirements of this Guide are effective at various dates ranging from fiscal years beginning after June 15, 2021, through reporting periods beginning after June 15, 2023, depending on the question number. See paragraph 6 in the Guide. However, early implementation is encouraged if the entity has implemented the pronouncement addressed by the question and answer.

Governmental entities should apply the provisions of this Guide retroactively by restating financial statements for all prior periods presented, if practicable. If not practicable, the entity should report the cumulative effect as a restatement of the beginning net position (or fund balance or fund net position, as applicable) to the earliest period restated. In the latter case, the entity should disclose the reason for not restating prior periods. In addition, disclosures for the first period that this Guide is applied should include the nature of the restatement and its effect.

Practical Consideration:

Implementation Guide 2021-1 is available on Checkpoint at **checkpoint.riag.com** for users that subscribe to the content, or at **gasb.org**.

GASB Issues Exposure Draft to Change Name of Annual Governmental Financial Reports

In April 2021, the Governmental Accounting Standards Board (GASB) issued an exposure draft of a proposed standard, *The Annual Comprehensive Financial Report*. The proposed standard establishes the term *annual comprehensive financial report* and its acronym, *ACFR*, for use in generally accepted accounting principles for state and local governments. The term will be used in place of *comprehensive annual financial report* and its CAFR acronym.

Reason for the Change

The GASB received concerns from stakeholders about the acronym for "comprehensive annual financial report". It was reported that the pronunciation of the acronym sounds like a profoundly objectionable racial slur directed at Black South Africans. In addition, it has been reported that pronunciation of the acronym also created problems in certain Muslim communities. In the interest of promoting inclusiveness, GASB committed to changing the acronym to one that would avoid unintended meaning. The Government Finance Officers Association recently implemented this same acronym change in its popular certificate program.

The term *comprehensive annual financial report* dates to 1979, established by the National Council on Governmental Accounting (NCGA) in NCGA Statement 1, and was adopted by GASB in GASB Statement No. 1 in 1984. The proposed statement will amend several NCGA statements, interpretations, and implementation guides and GASB pronouncements.

Effective Date

The proposed effective date is for fiscal years ending after December 15, 2021, with earlier application encouraged.

Practical Consideration:

The proposed statement can be found on Checkpoint at **checkpoint.riag.com** for users that subscribe to the content, and at **gasb.org**.

GASB Exposure Draft on Accounting Changes and Error Corrections

On May 20, 2021, the Governmental Accounting Standards Board (GASB) issued an exposure draft inviting comments on *Accounting Changes and Error Corrections—An Amendment of GASB Statement No. 62* (the proposed Statement). The deadline for submitting comments is August 31, 2021.

Background

The GASB noted that accounting for this topic has been guided by Accounting Principles Board Opinion No. 20, *Accounting Changes*, and FASB Statement No. 16, *Prior Period Adjustments*, issued in 1971 and 1977, respectively. Other than when they were included in Statement No. 62 and minor changes were made to adjust for inconsistencies with GASB literature, the requirements remained essentially unchanged since their initial issuance. The proposed Statement also noted growing issues related to the classification or transaction of other events among the categories of accounting changes and error corrections and irregularity in practice regarding the disclosures in the notes to the financial statement. Accordingly, this proposed Statement's primary objective is to strengthen accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Key Provisions of the Exposure Draft

Accounting Changes. The proposed Statement continues to specify three categories of accounting changes, with additional clarification about the transactions and events in each and the broadening of the Financial Reporting Entity category to include fund changes:

- *Change in accounting principle* due to a change from one generally accepted accounting principle (GAAP) to another newly adopted GAAP that is preferable or implementation of a new pronouncement. However, the proposed Statement notes that the adoption of GAAP (for the first time) is not an accounting change or an error correction.
- *Change in accounting estimate* based on preferable changes in inputs, such as data, assumptions, and measurement methods used to support amounts included in the financial statements.
- *Change to or within the Financial Reporting Entity* due to—
  - the addition or removal of funds that move resources within the primary government and its blended component unit.
  - a change in the presentation of a fund as major or nonmajor.
  - the addition or the removal of a component unit.
  - a change in the presentation of a component unit between blended and discretely presented.

  Changes that are both a change in accounting principle and a change in Financial Reporting Entity should be reported as a change in Financial Reporting Entity.

Correction of an Error. It also addresses the correction of an error in previously issued financial statements. The following are listed as error correction examples in the proposed Statement:

- Mathematical mistakes made in the application of accounting principles or oversight or misuse of facts.
- Changes from applying an accounting principle that is not generally accepted to one that is generally accepted.
- Misuse of known facts when the financial statements were issued.

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Effects of Changes in the Financial Statements. Changes in accounting principles and correction of errors would be reported retroactively by restating the financial statements for all prior periods presented. The cumulative effect of the adjustments on prior periods would be reported as a restatement of the beginning net position or fund balance. The changes to or within the financial reporting entity would be reported by adjusting the beginning balances of the current period. Changes to accounting estimates are reported prospectively in the current period in which the changes occur.

Effects of Changes in Note Disclosures. The proposed Statement would require additional disclosure in the notes to the financial statements. Restated amounts would be disclosed in a tabular format reconciling the beginning balances as previously reported to the restated balance for each reporting unit.

- *Change in accounting principle.* The required disclosure in the notes to the financial statements would include the nature of the change in accounting principles, including the financial statement line items affected. It would also include the reason for the change in accounting principle, including why the change is preferable, and the reason why it is not practicable to restate the financial statements, if applicable.
- *Change in accounting estimate.* The required disclosure in the notes to the financial statements would include the nature of the change, including the financial statement line items, and the reason for the change in the measurement methodology and why it is preferable.
- *Change to or within the financial reporting entity.* The required disclosure in the notes to the financial statements would include the nature and the reason for the change and effect on beginning net position, fund balance, or fund net position.
- *Correction of an error in previously issued financial statements.* The required disclosure in the notes to the financial statements would include the nature of the error and its correction, the periods affected, and the line items affected. It would also include the effect of the error on the change in net position, fund balance, or fund net position of the prior period.

Effects of Changes in Required Supplementary Information (RSI) and Supplementary Information (SI). The RSI and SI for prior periods that have been restated and included in the basic financial statements would also be restated. If that information is not included in the basic financial statements, it would only be restated for error corrections.

Proposed Effective Date

The proposed Statement would be effective for reporting periods beginning after June 15, 2023. However, earlier application would be encouraged.

Practical Consideration:

The proposed Statement can be found on Checkpoint at **checkpoint.riag.com** for users that subscribe to the content, and at **gasb.org**.