North Carolina
Office of the State Controller

Financial Reporting Update

GASB 100 Effective for Fiscal Year 2024

May 2024

In June 2022, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 100, *Accounting Changes and Error Corrections an amendment of GASB Statement No. 62* (GASB 100). This Statement identifies accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes various transactions or events included in these changes. GASB 100 established accounting and financial reporting requirements for each type of accounting change and correction of an error in previously issued financial statements (error correction).

Prior to the issuance of GASB 100, GASB Statement No. 62, *Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62)*, paragraphs 58-89* provided guidance for prior-period adjustments, change in accounting principle, change in accounting estimate, change in the reporting entity, and correction of an error in previously issued financial statements. Except for prior-period adjustments as a category, eliminated in GASB 100, the new guidance retains the same categories under GASB 62, but it further clarifies the transactions and other events that compose those categories and the distinctions between the categories.

GASB 100 was issued to improve clarity in the accounting and financial reporting requirements for accounting changes and error corrections. As a result, there should be greater consistency in reporting, and the information provided related to accounting changes and error corrections should be more understandable, reliable, relevant, and comparable for financial statement users making decisions or assessing accountability.

GASB 100 supersedes or amends GASB 62, paragraphs 58-89, along with parts of existing statements.

GASB Statement No. 100 is effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter, and, unless otherwise specified, applies to financial reports of all state and local government entities. For the State of North Carolina, GASB 100 is effective for the fiscal year ending June 30, 2024.

This standard does not apply to the initial application of U.S. generally accepted accounting principles (GAAP) established by the GASB as a financial reporting framework in circumstances in which a government is asserting for the first time that its financial statements are prepared in accordance with U.S. GAAP established by GASB.

DEFINITIONS

I. Accounting Changes

GASB 100 identifies three (3) types of accounting changes: 1) changes in accounting principles; 2) changes in accounting estimates; and 3) changes to or within the financial reporting entity.

1. Changes in Accounting Principles

   In general, once an accounting principle has been adopted, that principle should be applied consistently going forward. Therefore, there are only a couple of instances when there should be a change in accounting principle:

   a. There may be a change from one generally accepted accounting principle to another when it can be justified that the new principle is preferable to the one previously used, using qualitative characteristics of financial reporting, which include understandability, reliability, relevance, timeliness, consistency, and comparability.

   b. A change in accounting principle may also include new authoritative accounting or financial reporting pronouncements (new pronouncements), which include implementing a new GASB standard.

   Note: Changes in accounting principles do not include instances when a new principle is being applied related to events that are clearly different or new from prior events or activities using a different accounting principle. In addition, a change in accounting principle does not include situations where a new principle is being applied because the old principle or method applied was wrong. If the old principle or method was being incorrectly applied, that is considered an error correction and not a change in accounting principle.

2. Change in Accounting Estimates

   Accounting estimates are amounts subject to measurement uncertainty that are recognized or disclosed in the basic financial statements. Estimates are outputs determined based on inputs such as data, assumptions, and measurement methodologies. A change in accounting estimate occurs when inputs change, which include a change in circumstances, new information, or more experience. When there is a change in measurement methodology for an accounting estimate, a justification must be provided that the new method is preferable, unless the new method is required by a new pronouncement.

3. Changes to, or within, the Financial Reporting Entity

   As defined in paragraph nine of GASB 100, a change to or within the financial reporting entity may result from:

   a. An addition or removal of a fund that results from the movement of continuing operations within the primary government, including its blended component units.
   b. A change in a fund's presentation as a major fund to a nonmajor fund or from a nonmajor fund to a major fund.
   c. An addition of a component unit to the financial reporting entity or the removal of a component unit from the financial reporting entity.
   d. A change in a component unit's presentation as a blended component unit to a discretely presented component unit or from discretely presented to blended.

   There are some exceptions and certain situations, as outlined in paragraph 10 of GASB 100, in which a transaction should not be classified as a change to or within a financial reporting entity, such as acquisitions, mergers, transfers of operations, component units with majority equity interests.

   If a transaction or event could be considered either a change in accounting principle or a change to or within the financial reporting entity, the change should be classified as a change to or within the financial reporting entity.

II. Error Corrections

Error corrections may result from mathematical mistakes, mistakes in the application of an accounting principle, oversights, and the misuse of facts that existed at the time the financial statements were issued. This would include facts that could reasonably be expected to have been obtained and considered at that time about conditions that existed as of the financial statement date.

ACCOUNTING AND FINANCIAL REPORTING REQUIREMENTS

For each of the four distinguished categories defined above, you will find how to account for each type, what disclosures are needed, and how to report the required supplementary information (RSI) and supplementary information (SI), when applicable in this section. For each category discussed below, note the following:

- Apply the following guidance in the absence of specific guidance provided in another pronouncement.

- For the retrospect application of comparative financial statements, the cumulative effect of the accounting change or error correction on periods prior to those presented should be reported as a restatement of the beginning net position, fund balance, or fund net position as applicable. Paragraph 16 of GASB 100 further details required information for comparative financial statements.

I. Change in Accounting Principle

1. Financial statements that present a single period
   A change in accounting principle should be reported ***retroactively*** by restating the beginning net position, fund balance, or fund net position, as applicable, for the cumulative effect, if any, of the change in the newly adopted accounting principle for prior periods.

2. Comparative financial statements
   Changes in accounting principles should be reported ***retroactively*** by restating the financial statements for all prior periods presented, if practicable.

   See paragraph 16 of GASB 100 for more information related to comparative financial statements and restatement requirements for a change in accounting principle.

3. Note disclosures for changes in accounting principle should include:

   a. The nature of the change in accounting principle, including a) identification of the financial statement line items (excluding total and subtotals) affected by the application of the new accounting principles; and b) for changes related to the implementation of a new pronouncement, identify the pronouncement that was implemented.
   b. Except for a change in accounting principle related to the implementation of a new pronouncement, a justification should be provided as to why the newly adopted principle is preferable to the old principle, using qualitative characteristics of financial reporting (understandability, reliability, relevance, timeliness, consistency, and comparability).
   c. For comparative financial statements that did not restate the prior periods presented, a justification should be provided as to why it was not practicable to restate the prior years presented.

II. Change in Accounting Estimate

1. Changes in accounting estimates (not due to oversight or error corrections) should be reported ***prospectively*** by recognizing the change in accounting estimate in the current period in which the change occurs. Changes in accounting estimates are accounted for prospectively as opposed to retroactively because a change in estimate results from a change in circumstance, new information, or more

experience.

2. Note disclosures for a change in accounting estimate.

   a. If there is a change *to an input* related to an estimate when there is a *significant effect* on the accounting estimate reported, disclosures should be provided related to the nature of the change in the accounting estimate, including identification of the financial statement line items (excluding totals and subtotals) affected.
   b. If the change in accounting estimate results from a change in measurement methodology, the reason for the change in the methodology should be disclosed, except when the change is mandated by a new pronouncement. An explanation should be provided concerning why the new measurement methodology is preferable.

   Note: A change in an input can be a change to the data, a change in assumptions, or a change in measurement methodology. There is a distinction between a "change **to** an input" verses a "change **in** an input" in the measurement of an estimate. For example, the rate of inflation may be a component in measuring an estimate. If the rate of inflation is no longer included in the measurement of an estimate that would be a ***change to an input*** and should be disclosed if the impact is significant. However, if the inflation rate simply changes from 2% to 7% and is still included as a component in the measurement of the estimate, the inflation increase would be a ***change in an input*** and does not require disclosure.

III. Change to or within the Financial Reporting Entity

1. Changes to or within the financial reporting entity should be reported by adjusting the current reporting period's beginning net position, fund balance, or fund net position, as applicable, for the ***effect of the change as if the change occurred as of the beginning of the reporting period.***

2. Note disclosures for Changes to or within the Financial Reporting Entity should include the following:

   a. The nature of the change to or within the financial reporting entity.
   b. The reason for the change to or within the financial reporting entity, except in circumstances in which a change in a fund's presentation results only from meeting or not meeting the threshold for being reported as a major fund as outlined in paragraph 76 of Statement 34, as amended.

IV. Error Corrections

1. Financial statements that report a single period
   In financial statements that present a single period, error corrections should be applied ***retroactively*** by restating net position, fund balance, or fund net position, as applicable, for the cumulative effect of the error correction on prior periods.

2. Comparative financial statements
   Error corrections should be reported ***retroactively*** by restating financial statements for all prior periods presented.

3. Note disclosures for error corrections should include:

   a. The nature of the error and the correction, including the periods affected by the error and identification of the financial statement line items (excluding totals and subtotals) impacted by the error in prior periods.
   b. For financial statements that report a single period, *the effect on the prior period's change in net position, fund balance, or fund net position, as applicable, had the error not occurred. For comparative financial statements, disclose the impact on the change in net position/fund balance for the prior period not presented.*

V. Reclassification in the Financial Statements Resulting from a Change in Accounting Principle or an Error Correction

1. If a change in accounting principle does not impact beginning net position, fund balance, or fund net position, as applicable, but results in a reclassification in a caption reported in the financial statements, the following disclosures are required:

   a. The nature of the change in accounting principle should be provided, including: a) identification of the financial statement line items (excluding totals and subtotals) affected by the application of the new accounting principles, and b) for the implementation of a new pronouncement, identification of the new pronouncement.
   b. Except when the change relates to the implementation of a new pronouncement, provide the reason for the change in accounting principle, including why the newly adopted principle is preferable.
   c. When comparative financial statements are presented, financial statement line items impacted by the change should also be reclassified in the prior periods presented if practicable. If not practicable, an explanation should be provided why the reclassification cannot be made in the prior periods presented.

2. For an error correction that does not affect beginning net position, fund balance, or fund net position, as applicable, but results in a reclassification in the financial statements, the following disclosures should be provided:

   a. The nature of the error and its correction, including the periods affected by the error and the financial statement line items impacted.

b. For comparative financial statements, the reclassifications for the impacted financial statement line items should also be reclassified in all prior periods presented.

VI. Required Supplementary Information (RSI) and Supplementary Information (SI)

1. Changes in Accounting Principle and Changes to or within the Financial Reporting Entity

   a. For those periods presented in RSI, including the Management Discussion and Analysis (MD&A) or SI, that correspond to the periods presented in the basic financial statements, RSI and SI information should be reported consistently with any restated information presented in the basic financial statements.
   b. For prior periods that are earlier than those presented in the basic financial statements, RSI, including MD&A, and SI should **not** be restated for a change in accounting principle or a change to or within the financial reporting entity.

   Note: For reporting entities that have restatements from a change in accounting principle or a change to or within the financial reporting entity, a note disclosure should be provided, stating the reason for any inconsistencies in RSI, including MD&A, and SI information with what is presented in the financial statements as a result of not restating prior year RSI and SI information.

2. Error Corrections
   a. For periods presented in the basic financial statements, RSI, including MD&A, or SI should be restated. If the error affects periods earlier than those presented in the basic financial statements, all affected information should be corrected by restating the information for those prior periods in RSI, including MD&A, or SI, if practicable.
   b. Information presented in RSI, including MD&A and SI, if practicable, should be identified as restated or not restated and an explanation about the nature of the error should be provided in RSI, including MD&A, or SI. If it is not practicable to restate RSI or SI, an explanation of why it is not practicable to restate should be provided.

VII. Financial Statements and Note Disclosure Display

1. Face of the financial statements – display requirement

The aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, should be displayed as a separate caption for each reporting unit on the face of the various statements that report changes in net position, fund balance, or fund net position. Prior to GASB 100, the aggregate adjustments and restatements could have been incorporated in the beginning balance, and the beginning balance caption title would identify the beginning balance as being restated. Previously, the aggregate amount of the restatement did not require a separate line item on the face of the financial statements to disclose the impact of the restatement on the beginning balance.

2. Notes to the financial statements

In addition to the disclosure requirements already discussed in this document for the various types of accounting changes and error corrections, GASB 100 also requires a note disclosure of the effect on beginning net position, fund balance, or fund net position for the earliest period adjusted or restated for each reporting unit for the following that occurred during the period:

a. Each change in accounting principle, including the implementation of new pronouncements;
b. Each change to or within the financial reporting entity; and
c. Each error correction.

This reconciliation should be provided in a tabular format that reports the previously reported beginning balances for each reporting unit and identifies each accounting change and/or error correction that restates or adjusts the beginning balance.

Note: GASB 100 identifies a reporting unit as each separate column presented in the basic financial statements, except for the total columns.

VIII. GASB 100 Implementation

Statement 100 is required to be implemented for fiscal year end June 30, 2024. Application of the guidance found in GASB 100 will depend on the type of accounting change or error correction involved and the facts and circumstances for the specific reporting entity.

The additional note disclosures for accounting changes and error corrections required by GASB 100 will be collected by OSC utilizing the 430 and 431 Worksheets and 430 Narratives for inclusion in the State's Annual Comprehensive Financial Report note disclosures.

For additional information please refer to the official GASB website to access the Accounting Changes and Error Corrections standard in its entirety. GASB Statement No. 100

Thank you for your time and attention to this important change. OSC will continue to provide updates as the standard is implemented. Questions regarding this specific update should be directed to Joanie Saucier at Joan.Saucier@ncosc.gov.

APPENDIX A

SUMMARY TABLE

Type of Accounting Change/Error Correction	**Accounting Application to the Financial Statements**	**Accounting Application to the RSI and/or SI**
Change in Accounting Principle (including new pronouncements)	*Retroactive* application to the financial statements for periods presented	Restate information in RSI/SI related to periods presented in the financial statements
Change in Accounting Estimate	*Prospective* application – adjustment made in current year	No adjustment required to RSI/SI
Change to or within the Financial Reporting Entity	*Adjust the beginning balances*	No restatement required to RSI or SI
Error Correction	*Retroactive* application to the financial statements for periods presented	Restate information in RSI/SI related to periods presented in the financial statements and all prior periods impacted by the error, if practicable