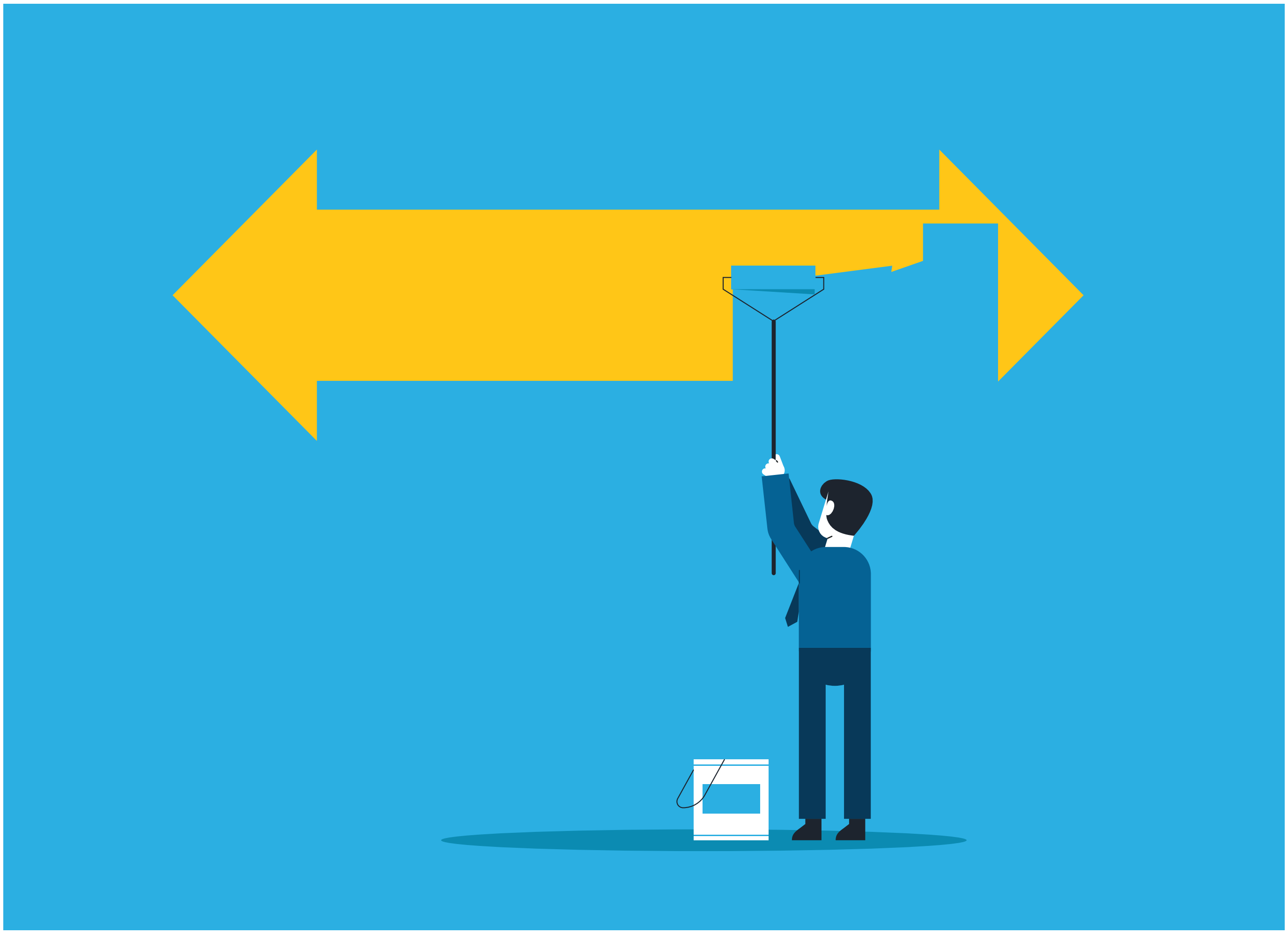

ACCOUNTING

Hindsight or Foresight?

Subsequent events can provide either

BY MICHELE MARK LEVINE

With many governments in the midst of implementing Governmental Accounting Standards Board (GASB) Statement No. 103, *Financial Reporting Model Improvements* (GASB 103), GASB Statement No. 104, *Disclosures of Certain Capital Assets* (GASB 104), and GASB Implementation Guide No. 2025-1, *Implementation Guidance Update*—2025 (GASB IG 2025)—all of which became effective for governments' first fiscal years beginning June 15, 2025, and all reporting periods thereafter[1]—August 2026 might not be the best time to bring up next year's tasks.

Or ... maybe it's the perfect time! Maybe you can implement GASB Statement No. 105, *Subsequent Events*, early—it's a much lighter lift than either GASB 103 or GASB 104—and then you can plan a vacation from GASB statement implementations for a while. (Well, notice I said *statement* implementations, not all GAAP pronouncement implementations. But more on that later.)

GASB 105 makes some significant changes, including: 1) new definitions of subsequent events and the subsequent events timeframe; 2) the addition of a list of specific items that are subsequent events; and 3) new disclosure requirements that apply to all governments. As a practical matter, however, the changes are mostly clarifications of

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existing guidance intended to improve consistency. The only completely new aspect is a requirement to let readers know specifically through which date subsequent events have been considered in the preparation of financial statements and note disclosures. Let's go through the key changes one by one.

Subsequent events are defined as "transactions or other events that occur after the date of the financial statements, but before the date the financial statements are available to be issued," and that period is defined as "the *subsequent events time frame*."[2]

The *date the financial statements are available to be issued* is "the date at which (a) the financial statements are complete in a form and format that complies with generally accepted accounting principles (GAAP) and (b) approvals necessary for issuance have been obtained."[3]

You might notice that the definition of subsequent events above (like the pre-GASB 105 definition), if read literally, includes *everything* that happens in that subsequent event time frame. However, subsequent events that require recognition or disclosure fall into one of two categories, recognized and unrecognized, the definitions of which limit the scope of the requirements, as does the always-present inclusion of a "materiality box" in GASB 105.[4]

Recognized subsequent events

A *recognized subsequent event* is one that *provides evidence of conditions that existed at the financial statement date*. Recognized subsequent events are all about *hindsight*; if at year-end we'd had the information they provide us with, then any estimates made as of year-end would have been different as a result. The concept of recognized subsequent events is unchanged from pre-GASB-105 GAAP.

The classic example here is of a bankruptcy filing shortly after the government's year-end by an entity that owes money to that government, where the filing indicates that the collectability of the receivable was already doubtful based on the debtor's facts and circumstances at that year-end (or, more doubtful than would have been assumed at the time). Just as we use a lot of data that becomes available after year end to inform and corroborate other year-end reported amounts and estimates (e.g., bank statements specifying recorded transactions and balances, financial market information about end-of-year trades informing reported fair values of investments, and invoices and claims received after year end in estimating liabilities), we are required to use this new evidence in estimating amounts that should be reported as of year end.

In summary, amounts reported as of the financial statement date should reflect the best information about the conditions that existed on that date, *including conditions substantiated by subsequent events*, that is available as of the date the financial statements are available to be issued.

Nonrecognized subsequent events

On the other hand, a subsequent event that results in a significant effect (favorable or unfavorable), but *does not provide evidence about conditions that existed at the financial statement date* and that falls into one or more specified categories, is *a nonrecognized subsequent event*. The key distinction here is that these events will affect the financial statements of the year that is already in progress when the events occur, rather than telling us more about the prior fiscal year for which financial statements are not yet available to be issued.

In contrast to our example above, if a debtor of the government were to be devastated by a natural disaster that occurs early in the government's next fiscal year and files bankruptcy as a result of that disaster, then that bankruptcy filing doesn't tell us anything new about the debtor's credit worthiness at that prior year end, only that we'll likely need to factor that bankruptcy filing and any subsequent developments in that case into our estimates of collectability of any amounts receivable from that entity as of the upcoming fiscal year end. The requirement to disclose nonrecognized subsequent events is also not new to GASB 105, but in GASB 105 we are given specific categories of events that must be disclosed as such. These are:

- Debt-related transactions (*other than* regular debt service payments, leases, SBITAs, or PPPs);[5]
- Government combinations or disposals of government operations;
- Changes to the group of legally separate entities that compose the government's financial reporting entity ("changes to the financial reporting entity"); or
- Transactions or other events that are of such a nature that the disclosures (discussed below) are essential to a user's analysis for making decisions or assessing accountability.

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Note disclosure requirements

GASB 105 will require, for the first time, that all governments disclose the date through which subsequent events have been evaluated (i.e., the date on which the financial statements are available to be issued), even if no recognized or nonrecognized subsequent events occurred. No disclosures about recognized subsequent events are required by GASB 105, since the effects of those are already incorporated into the financial statements; however, other disclosure requirements might need to be updated because of that financial statement recognition (e.g., notes pertaining to receivables, claims and judgments).

Governments with *nonrecognized* subsequent events will make the above subsequent event time period disclosure, as well as disclosing both (1) a description of the nonrecognized event and its effects and (2) an estimate of the amount of the effect or the reason why an estimate of the amount cannot be made. These disclosures should be made for each nonrecognized subsequent event *for each affected financial reporting unit*, although we are reminded to avoid unnecessary duplication when a single event affects more than one unit.

Now about that possible "vacation" hinted at earlier. Thus far, GASB 105 is the only pronouncement that has been issued by GASB with an effective date requiring implementation for fiscal years ending June 30, 2027, September 30, 2027, December 31, 2027, or March 31, 2028, which I'll call the FYE 2027 "cycle." (Apologies to the March 31 year-end governments for which this is a misnomer, but you're significantly outnumbered by June and December year-end governments!) Looking ahead to other likely implementations, GASB's technical agenda indicates that:

- An update to their *Comprehensive Implementation Guide* is expected to be issued in September 2026,[6] and the exposure draft of that proposed guide included a proposed effective date that would affect governments in that FYE 2027 cycle. Now the subject of that guide is subsidies, as defined in GASB 103, so presumably most governments that can do so will (early) implement that guidance along with GASB 103 in the current (FYE 2026) cycle.
- The next pronouncement after that guide—and the last pronouncement that is currently scheduled to be issued through the end of calendar 2027—is the statement on infrastructure assets slated to drop in March 2027. The exposure draft of that proposed statement included a proposed effective date of fiscal years beginning after June 15, 2028, which would be the FYE 2029 cycle.

There's always a chance that GASB will move quickly if an urgent matter arises (recall that they issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, only about three months after much of the world shut down from COVID-19), or that additional implementation guidance might be issued and become effective before the FYE 2029 cycle. But if your government elects to implement GASB 105 and the (anticipated) implementation guidance on subsidies now (i.e., in this FYE 2026 cycle), you may not have any new GASB pronouncements to implement for your 2027 or 2028 fiscal year-end cycles.

So now let's circle back to GASB 105. While there are substantive changes made by the statement, we'll still be looking for the same two kinds of events, recognizing the same kinds of subsequent events and disclosing the same information for fairly similar—if more clearly defined—kinds of nonrecognized subsequent events. Even with the additional requirement to disclose the date on which financial statements are available to be issued, and even for those governments with June 30, 2026, fiscal year ends, it may not be a huge lift to early implement GASB 105. Combined with the hope of a long break from such implementations, the incentives may suffice for you to implement GASB 105 now, even if you are already in your FYE 2026 subsequent event time frame, as defined in that statement.

[1] One Q&A from GASB Implementation Guide No. 2025-1 became effective upon issuance; all others become effective as noted above.

[2] GASB *Codification of Governmental Accounting and Financial Reporting Standards* as of June 30, 2025, (Cod.) Section (Sec.) 2250, "Additional Financial Reporting Considerations," paragraph .109.

[3] Cod. Sec. 2250.110.

[4] In all GASB pronouncements, at the end of the authoritative content section, there appears a statement that the requirements of the pronouncement "need not be applied to immaterial items."

[5] See GASB Cod. Sec. 2250, footnote 6, for specific exclusion language.

[6] GASB's Second Third of 2026 Technical Plan, *Project Overviews and Work Plans*, can be found on its website.

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